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[Submitted via IESBA website]

13 May 2024

IESBA Exposure Draft – Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and other revisions to the Code relating to Sustainability Assurance and Reporting.

Dear Mr Siong,

Introduction

We[1] appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft of the proposed IESSA and other revisions to the Code (together "the proposals" or the ED).

Overall comments

We fully support IESBA's goals in developing the IESSA and we agree that having robust, high-quality independence and other ethical standards that can be applied in relation to sustainability assurance and reporting is a clear public interest priority agenda item. We also congratulate the Board on the speed with which it has been able to address this important and substantial project.

We also agree in principle with developing a "profession agnostic" set of requirements and believe that this will enhance the confidence of stakeholders in the quality of the assurance provided over sustainability information.

We are also broadly supportive of the proposed structure of the proposed new Part 5 of the Code.

[1] This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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Assurance over sustainability information is an emerging area and we believe that the Board will need to be agile over the coming years to respond to changes in the landscape and changes in reporting and assurance. As an example, the evolution of integrated reporting and assurance, where the firm provides both the audit and the sustainability assurance, might require amendments to the Independence standards (Part 4A and Part 5), such as in relation to the PIE definition, analysis of independence threats, and fees. The Board will also need to continue to be responsive to the developing views of investors and the wider stakeholder group in sustainability reporting.

However, we do have some significant concerns regarding the implementation and practicality of some of the proposals set out in the IESSA. We have provided further details on these concerns below and in Appendix 1.

Group engagements and value chain considerations

We support the decision of the IESBA to address group sustainability assurance engagements and value chain considerations separately, as there are unique considerations that need to be taken into account with respect to value chain entities that are outside of a controlled group, from the perspective of both independence and planning and performing an assurance engagement. In addition, we support IESBA's position that the group sustainability assurance practitioner only needs to be independent of those value chain entities at which they perform assurance work. When another practitioner performs assurance procedures at the value chain entity, that practitioner will need to be independent only of their sustainability assurance client (as defined).

However, we are concerned that the approach of largely copying the audit definitions and concepts from Part 4A of the Code, with only limited further tailoring to reflect the specific characteristics of sustainability assurance engagements, may not result in requirements that are capable of consistent implementation in those engagements. Application of the independence standard for group audits would be an example of where issues may arise.

In particular, we believe there will be significant practical implementation challenges with respect to the proposals related to value chain entities that warrant further consideration by the Board. These are described in our response to Questions 12-14 and, in summary, relate to:

- A need for greater clarity around the concept of when "assurance work is performed" at a value chain entity.
- The need for provisions to recognise the practicalities around the timely and consistent identification of value chain entities from which independence might be required depending on the engagement approach to obtaining assurance on the information, recognising that assurance engagement scoping decisions can be iterative and the fact that the value chain can be complex and multi-layered.
- A need to recognise that this is an emerging issue and where and how the client gets its information will evolve, as will the approaches to obtaining the necessary assurance regarding that information.

Coordination with the IAASB

There is a need for close collaboration with the IAASB and alignment between the IESSA and ISSA 5000 (International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements*). A coherent and consistent set of standards is essential. It is important that ISSA 5000 and this proposal are finalised in tandem so that the IESSA complements clear standards for the provision of assurance.

In that regard, there are important aspects of the proposals that do not appear aligned (such as the definitions of 'components' and 'sustainability information') and we urge the IESBA and IAASB to work together to find solutions that result in consistent definitions and concepts, to enable practitioners to comply with the IESSA and ISSA 5000 without confusion or unintended consequences. Please see, in particular, our responses to Questions 3 and 10-12.

Other concerns

We recommend a refinement to the conditions in 5400.3a that address the circumstances in which the International Independence Standards in Part 5 apply to an assurance engagement (see Question 5).

We believe that Section 5700 should be removed in its entirety because the sustainability assurance practitioner is already required to apply the conceptual framework in the situation addressed in 5407.2 A1 bullet (b). If the IESBA does not agree, we have some suggestions on how this section can be amended. Please see our response to see Question 14.

We also believe that significant implementation support will be necessary to further assist sustainability assurance practitioners who are not professional accountants (non-PAs) in understanding certain long-standing terms that have been leveraged from Part 4A of the Code. Please see, in particular, our responses to Questions 1, 2, and 20.

Detailed comments

Our detailed comments set out in Appendix 1 form an integral part of our response. We have used the IAASB response template convention that we understand will assist Staff in analysing the responses, which provides our overall response to the questions posed, followed by details explaining the rationale for our overall response.

Where possible, we have provided a recommendation that would help to address any concerns we have noted. It is important to note, however, that many of our recommendations are interrelated. Therefore, in considering our recommendations, these need to be considered as a package due to the interconnectivity of the concepts and requirements. Accordingly, should the Board determine not to implement certain recommendations or implement them in a different way, our views, including some of our recommendations, might change.

Appendix 2 provides some further comments and observations for consideration.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at *samuel.l.burke@pwc.com.*

Yours sincerely

Sam Burke

Global Independence Leader

PricewaterhouseCoopers International Limited

Appendix 1: Requests for specific comments

Sustainability Assurance

Main Objectives of the IESSA

1. Do you agree that the proposals in Chapter 1 of the ED are:

(a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? [See paragraphs 19 and 20 of this document]

(b) Profession-agnostic and framework-neutral?

Overall response: Yes, with comments below

Equivalence to the standards for audit engagements

We agree that, as drafted, the standards are essentially equivalent to those for the audit of financial statements.

However, while we agree that high-quality standards are needed, this does not necessarily mean that the standards need to be the same. In our view, there are characteristics unique to sustainability assurance that require further tailoring of requirements and concepts for the proposals to be appropriate and implementable.

The independence standard relating to the audit of financial statements has been established over a 20-year period, based on relatively consistent and well-established reporting frameworks. The limited tailoring that has been done by IESBA is insufficient to reflect the different nature of sustainability reporting, in particular to acknowledge the implications of how new and evolving sustainability reporting frameworks may define the reporting entity and its reporting boundary and how this relates to the concepts of the "group" and "related entities" used as the basis for the requirements in Part 5.

We believe that the approach to non-assurance services (NAS) needs to be revisited and clarified. Given the difference in what is reported compared to financial statements, we acknowledge that the proposed NAS prohibitions largely apply "if the service might create a self-review threat". However, we question the need to include the full range and scope of services that are covered in Part 4A. It might be more useful, particularly for non-PAs, to focus on those related services that are likely to be relevant in this context (such as engineering services) and apply the conceptual framework to all other NAS (akin to the approach in Section 950 of Part 4B). This would help make the standard more concise. Please see our responses to Questions 15 and 16.

We also note that sustainability reporting and assurance thereon is an emerging area and that there is therefore a lack of experience and established practice. It is important that the IESBA remains cognisant of not setting a standard that may not remain fit for purpose as sustainability reporting practices evolve. The standard cannot anticipate developments in this space which will emerge over the coming years and, therefore, should be principles based as far as possible. The IESBA can revisit the need for more specific requirements or additional guidance as those developments, including investor and regulatory expectations, evolve.

Related entities

As regards the approach to related entities we note that, depending on the scope of the report and each relevant metric or statement to be disclosed, entities over which the client has significant influence but no control might not contribute information to the sustainability information to be reported or such information might be immaterial to the report.

However, we agree from a pragmatic point of view that applying the same requirements in Part 4A related to the definition of “related entities” and application of the relevant principles makes sense, especially when the sustainability assurance provider is also the auditor of the financial statements, as certain relationships may nonetheless exist with the related entities that could have a bearing on independence.

Profession agnostic

We agree that the proposal is essentially profession-agnostic and that this approach is important. However, we observe that, at some 185 pages, Part 5 is a very long and complex standard (even for PAs). We can envisage that non-PAs who are not already familiar with the structure of the Code and the audit and assurance principles and definitions adopted from Part 4 might find it difficult to understand. To ensure the Board achieves its public interest objectives (see our response to Question 2), we believe implementation support materials will be needed to explain key concepts. In addition, we suggest that prior to finalisation, the proposed standard would benefit from a rigorous edit to ensure that it is as concise as possible. See our comments in response to Question 16 relating to NAS as an example.

We also note that the Code does not address the ethical considerations for non-PA preparers, nor do the proposals in the ED. In our view, it is important that this gap is addressed on a timely basis so that an expectation gap in terms of their ethical responsibilities does not emerge. We support IESBA’s plans to address this as part of a future project.

Framework neutral

We support the objective of developing the IESSA to be reporting and assurance framework neutral. With respect to the assurance framework, we stress the necessity of coordination between the IESBA and IAASB. While the goal of the IESBA is to be framework neutral, it is important, as the explanatory memorandum acknowledges, for the IESSA and ISSA 5000 to work coherently together and be consistent. See our responses to questions 3, 5 and 9-12 for further comments in that regard.

Use of experts

We note that the use of external experts is likely to be more relevant in sustainability reporting and assurance and support the principle of adequately addressing the objectivity of external experts. However, we urge the Board to finalise the anticipated Standard relating to objectivity of such experts in a way that does not inappropriately constrain the use of such experts. Please see our comment letter on the Board’s ED relating to the Use of External Experts.

2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?

Overall response: No, with comments below

We agree that the new Standard fits well into the overall body of the Board’s standards, and concur with the creation of a new Part 5 to the Code addressing Sustainability Reporting and Assurance.

However, the Public Interest Framework published by the Monitoring Group sets out the characteristics that should be used to assess whether a Standard is responsive to the public interest, which include:

- Clarity and conciseness, to enhance understandability and minimise the likelihood of differing interpretations, and thus supporting proper intended application and facilitating implementation;

- Implementability, and ability of being consistently applied and globally operable across entities of all sizes and regions, respectively, as well as considerations of the different conditions prevalent in different jurisdictions. Standards that cannot be adopted, or cannot be implemented by practitioners are not of much use.

We have concerns regarding achievement of both of these characteristics, as set out below.

As noted in our response to Question 1, we are concerned that the proposed standard does not meet the ambition of being clear and concise.

Furthermore, with respect to implementability, as explained in our responses to Questions 12-14 below, we have significant concerns regarding the ability of PAs and non-PAs to fully implement the standard with respect to evaluating and maintaining independence of value chain entities and to do so in a consistent manner.

Definition of Sustainability Information

3. Do you support the definition of "sustainability information" in Chapter 2 of the ED?

Overall response: No, with comments below

We consider the definition of "sustainability information" to be too broad. There is a risk that many assurance engagements would be incorrectly classified as "sustainability assurance" and therefore unintentionally fall within the purview of Part 5 of the Code as a result of the use of this defined term in the application of paragraph 5400.3a. The most problematic aspect of the definition of sustainability information is part (a)(ii) of the definition where information about "an entity's activities, services or products on the economy, the environment or the public" is considered sustainability information.

We believe that it is in the public interest for the Code and the IAASB standards to have common definitions. This would improve clarity, reduce the risk of confusion and result in more consistent application. We accept that the Code has been drafted to apply to a broader population than just professional accountants (PAs), however we believe that alignment is possible. This may require compromise by both Boards.

We suggest that a common definition that could be adopted across both proposals, which acknowledges the key role of the applicable criteria (reporting framework) in determining the information to be reported and addresses the concern described above, may be as follows (replacing the current proposal in the ED):

"Sustainability Information

Information about environmental, social, governance or other sustainability factors defined by law, regulation or other relevant reporting framework (the applicable criteria) as "sustainability information". Depending on the applicable criteria, such matters may address:

(i) The impacts on the entity's strategy, business model, or performance;

(ii) The impacts of the entity's activities, products and services on the environment, society, and economy; or

(iii) The entity's sustainability policies, plans, goals and targets.

Sustainability information results from measuring or evaluating sustainability subject matters against criteria. Sustainability information may be referred to using equivalent terms and may also be more specifically defined by law, regulation or the relevant reporting framework."

Scope of Proposed IESSA in Part 5

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5?

Overall response: Yes, with comments below

We agree that it is in the public interest and will enhance stakeholder confidence in assurance provided on sustainability information if the same ethical standards apply to all services provided to sustainability assurance clients.

We note that bullet (a) of 5100.2 includes mention of the application of the ethical standards (Sections 5100 to 5390) "to other professional services performed for sustainability assurance clients".

While we acknowledge that the same ethical standards should apply to all services provided to the client, we note that other than tax planning services, which are covered in proposed section 5380 and some references to other services (e.g., in the fees section), it is not clear which other services are being referred to in Sections 5100 to 5300.

5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a?

Overall response: Yes, with comments below

Our understanding of the proposals is that:

- Part 4B applies to sustainability assurance engagements for which there is no public distribution of the sustainability information and, consequently, the assurance report will be restricted for the intended use by the engaging entity and other identified stakeholders only ("private assurance");
- Part 5 applies to sustainability assurance engagements where the sustainability information is either a) required to be provided by law or regulation or b) is publicly distributed, in which case there is an expectation that the assurance report will also be made available and may be used by all stakeholders ("public assurance"); and
- Additional independence requirements in Part 5 apply to entities that meet the definition of PIEs ("public assurance - PIE entities").

The IESBA asserts in the explanatory memorandum that "the objective of the Sustainability project is to develop ethics (including independence) standards for sustainability assurance engagements that are equivalent to those that apply to audits of financial statements" and "the IESBA believes that, as a first step, the independence standards in Part 5 should focus on sustainability assurance engagements with the same level of public interest as audits of financial statements." It is unclear what "the same level of public interest as audits of financial statements" means in practice for Part 5, as Part 4A applies to all audits and does not distinguish between "levels" of public interest in the financial statements of an entity, other than defining public interest entities (PIEs) and applying differential requirements to such PIEs. Nor does Part 4A distinguish between public versus private auditor reporting. The independence requirements apply to all audits or reviews of financial statements, with certain provisions specified in section 800 of Part 4A for special purpose financial statements. We think this is a clear and logical approach and recommend that it would be easier for practitioners, in particular non-PA practitioners who are not familiar with Part 4B, if Part 5 adopted a similar approach, by describing baseline independence requirements that apply to all sustainability assurance engagements, incremental requirements applicable to PIEs and a section that describes modifications to such requirements when the sustainability reporting is not publicly issued. This could be accomplished by copying the relevant sections of Part 4B into Part 5 such that a PA does not need to refer to both sections of the Code in order to understand the requirements to be applied.

The approach proposed in Part 5 is complicated to understand and we believe there may be significant confusion about which independence requirements are to be applied based on, what is essentially, public vs private assurance and voluntary vs required assurance. We also believe some users may be interpreting 5400.3a as a proxy for defining public interest entities (PIEs). Drawing a distinction in independence requirements for different classes of sustainability assurance engagements (and applying different parts of the Code) is different from drawing a distinction between audit/review engagements (Part 4A) and other assurance engagements (Part 4B).

Furthermore, we believe there may be a perceived conflict between paragraphs R5100.6 and 5400.3a. R5100.6 states that "a practitioner shall comply with this Part" (Part 5). We understand that if a practitioner is not required to apply the independence requirements in sections 5400-5700, they are still in effect "complying with this Part", as required by R5100.6, if they comply with the other sections in Part 5. We believe this could easily be misinterpreted if R5100.6 is read too literally.

If the IESBA determines that it continues to be appropriate to differentiate the relevant independence requirements based on whether the engagement involves public vs private assurance and voluntary vs required assurance and to utilise Part 4B as set out in the ED, we believe that to address the risk for confusion described above, the clarity and applicability of the specific independence requirements that are to be applied, and related applicable sections of Part 5, would be significantly enhanced by amending paragraph 5100.6 to provide clearer signposting. This could be achieved by incorporating the conditions from 5400.3a into this requirement. Likewise the statement in 5400.3e could be elevated to follow R5100.6.

Our recommendation is:

R5100.6 *A sustainability assurance practitioner shall comply with:*

- *For all sustainability assurance engagements, Sections 5100-5300 of this Part; and*
- *For sustainability assurance engagements on sustainability information that is reported in accordance with a general purpose framework and where the information is either (a) required to be provided in accordance with law or regulation or (b) the sustainability information and assurance report are publicly disclosed to support decision-making by investors or other stakeholders, Sections 5400-5700 of this Part.*

R5100.6A *For sustainability assurance engagements on sustainability information that is reported in accordance with a framework designed to meet the information needs of specified users, or when the sustainability information is not publicly disclosed, a sustainability assurance practitioner shall comply with the International Independence Standards in Part 4B of the Code.*

So that the Independence Standard can be read as a stand-alone document, 5400.3a to 5400.3e can also remain within Section 5400. In doing so, we recommend our proposed simplified language, as shown in proposed R5100.6, be adopted to clarify the conditions for which the International Independence Standards apply. This contains the important concept that the assurance report should also be publicly disclosed (avoiding unintended consequences if the client published information without the related assurance report).

5400.3a *The International Independence Standards in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:*

(a) Is reported in accordance with a general purpose framework; and

(b) Is

(i) Required to be provided in accordance with law or regulation; or

(ii) The sustainability information <u>and the assurance report</u> are publicly disclosed to support decision-making by investors or other stakeholders.

Structure of Part 5

6. Do you support including Section 5270 [Pressure to breach the fundamental principles] in Chapter 1 of the ED?

Overall response: Yes, with no comments

NOCLAR

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other?

Overall response: Yes, with comments below

The requirements are drafted in a way that it is a "consideration" of the practitioner and the guidance is clear that there may be several factors that may preclude the ability to make such communication. In addition, the conforming amendment to R260.15 (see question 8 below) places responsibility on the senior professional accountant in business to determine whether disclosures of the matter to the entity's external auditor or sustainability assurance practitioners are needed. This approach seems appropriate.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED)

Overall response: Yes, with no comments

Determination of PIEs

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements?

Overall response: Yes, with comments below.

Please see our comments in response to Question 5 above.

We agree that it seems reasonable, in principle, to conclude that an entity, once determined to be a PIE for purposes of financial statement reporting, would continue to be treated as a PIE in respect of its other reporting, including sustainability reporting, not least in light of the fact that many entities will be moving ever closer to integrated reporting. This may be particularly true for listed (publicly traded entities), but perhaps less so for other categories of PIEs.

However, whilst we believe that using the determination of a PIE for purposes of the audit of the entity's financial statements is the correct approach for the time being, we also recognise that there may not always be the same level of public interest in an entity's sustainability reporting as compared to its financial statements. This means that applying the current financial driven definition and overarching objective of the existing PIE definition may not be representative of drivers of what would constitute significant public interest in an entity's sustainability reporting and may not always represent a reasonable barometer of public interest for sustainability reporting. Equally, we think it's possible that there would be entities for which there may be significant public interest due to their operations resulting in major environmental impacts, but would not be considered PIEs simply because they do not meet the financial statements - audit based definition.

Therefore, we believe that the IESBA may wish to, at some point in the future, revisit the "overarching objective" that underpins the PIE definition to determine whether it needs to more explicitly address factors that drive the extent of public interest in an entity related to its sustainability reporting, particularly given the evolving sustainability ecosystem. In doing so, it will be important for IESBA to consider the views of investors and other stakeholders who may be usefully informed by additional experience gained over time as more sustainability information and reports become available in the coming years.

In addition, we are also aware (not least from recent Board discussions) that there are going to be challenges in applying the Part 4A definition of a PIE (four mandatory categories) in relation to financial statement audits in the absence of more explicit jurisdictional tailoring of those categories or when a jurisdiction chooses to not adopt a mandatory category set out within the PIE definition. In extending the existing, or any amended, definition of PIE to apply for sustainability assurance engagements, it is critical that there is a clear and consistent understanding of the expected application of that definition by assurance practitioners; specifically, whether the categories within the definition are mandatory and are to be applied in circumstances when a jurisdiction omits one of the categories. Without this clarity it is difficult to fully form a view on this question. We encourage the Board to work with local jurisdictions to seek clarity on the appropriate definitions.

Group Sustainability Assurance Engagements

10. The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.

(a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?

Overall response: Yes, with comments below

In principle, we support the need to address "group" engagements since many reports will be in relation to aggregated information for a group of entities.

We appreciate the IESBA's rationale for seeking to use the existing audit and related entity concepts for purposes of defining independence requirements, but as noted in Question 1 we have concerns about the application of independence requirements in relation to entities in the value chain (see Questions 12-14).

Sustainability reporting frameworks will define the reporting entity and its reporting boundary. Defining an engagement as a "group engagement", while reasonable in principle, does need to reflect, therefore, that the reporting boundary for "group sustainability information" may differ from the basis of consolidation for "group financial statements".

We recognise that IESBA is proposing an approach that, for the purposes of independence, a) recognises that value chain entities are not components and that b) involves different independence requirements and considerations depending on whether an entity is a related entity or an entity in the value chain.

We support this approach for purposes of independence, however, we also understand that the IAASB in ISSA 5000 proposes to adopt a different definition of "component" than IESBA. We believe that defining the term "component" differently may lead to challenges in implementation (as referenced in our cover letter).

Please see our comments in response to question 13 in relation to value chain entities.

(b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:

(i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?

Please see our comments in response to Q10 (a) above.

(ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement?

Yes, we agree in principle with this proposal.

(iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, "group sustainability assurance engagement" and "component")?

Yes - Please see our comments in response to Question 10 (a) above.

Using the Work of Another Practitioner

11. Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former's direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406?

Overall response: No, with comments below

The principle underpinning using the work of another practitioner is that the sustainability assurance practitioner is unable to direct and supervise that other practitioner or review their work. We therefore agree with the statement in the explanatory memorandum that "the firm cannot directly require that practitioner to comply with the Code's provisions."

ISSA 5000 acknowledges that when the sustainability assurance practitioner is unable to direct, supervise and review the work of another practitioner, there may also be barriers to communicating with that other practitioner, including that they may refuse to engage. Therefore, we question the practicality of the requirements in Section 5406, in particular requirements R5406.3-R5406.5. For example, R5406.3 states "....shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions." The practitioner may not be able to have direct communications with another practitioner. The same challenge led to the accommodation in Section 5407 that the practitioner may rely on a statement in the other practitioner's assurance report.

We note that it is also not clear that (as we understand from the Explanatory Memorandum

(EM)) Section 5406 is limited to related entities, as it relies entirely on understanding the definition of sustainability assurance client.

The statement in paragraph 98 of the EM that “the other practitioner will need to be independent not only of the entity on whose sustainability information the other practitioner performs assurance work, but also its relevant related entities” may not be well understood. Indeed, we note that this is not clear from the drafting of R5406.5 (a) which refers to independence of the “entity”, and not sufficiently clearly “its related entities”. We recommend that this is clarified.

In addition, we suggest a reference in 5400.12c that use of the work of another practitioner at a value chain entity is addressed in 5407 (as noted in footnote 41 of the EM) - see also our response to Question 13, where this also needs to be made explicit in section 5407.

This said, given that intended scope, the application of this section itself may be expected to be relatively rare. We note that the IAASB has proposed additional guidance, to address PIOB observer concerns, to make clear that for related entities, the sustainability assurance practitioner *ordinarily* expects to be able to be sufficiently involved in the work of another firm (including directing, supervising and reviewing that work), and therefore that firm will be a component practitioner. In those circumstances Section 5405 would apply. The potential for the use of the work of another practitioner is expected to be much more common in relation to value chain components (see the proposed definition in Question 10) where direction, supervision and review by the group sustainability assurance practitioner is expected to often not be possible. See our further comments on this matter in response to Question 13.

In light of these challenges, we question whether Section 5406 is fulfilling the purpose the IESBA intended. Addressing use of another practitioner more holistically within Section 5407 may be a better solution. The IESBA could then consider what additional requirements or guidance, if any, would be appropriate to address the relatively rare circumstances when work of another practitioner is used in relation to a related entity.

Independence of another practitioner

For the reasons described above, we consider it impractical, and inconsistent with the expectation of not requiring compliance with the Code, to require the sustainability assurance practitioner to *“make the other practitioner aware of the relevant ethics, including independence, provisions and request that practitioner to confirm that they understand and will comply or, if the work has already been carried out, has complied, with such provisions”*. R5406.3-R5406.5 are drafted in a manner that implies a level of access, communication to, and direction of another practitioner that is largely consistent with the relationship with a component practitioner within the organisational boundary of the entity.

If IESBA determines to retain Section 5406, we believe there is a lack of guidance as to how the sustainability assurance practitioner evaluates whether the confirmation obtained from another practitioner is reliable, i.e., whether they have a basis for claiming to be independent (R5406.5). In our view, if the other practitioner has not implemented systems designed to capture information necessary to make this evaluation, they may not be in a position to provide such a confirmation, and it may be less clear how the sustainability assurance practitioner could then place reliance on the confirmation received.

It is also unclear if the proposals are setting a requirement that if another practitioner has, or will, not comply with the independence requirements of Part 5 (including being independent of its client and its related entities), the sustainability assurance practitioner is therefore not permitted to use their work, or what the sustainability assurance practitioner needs to consider in determining whether the work is still permitted to be used. This should be clarified. For example, how is the IESBA addressing the fact that the IAASB’s standards include the concept of “requirements that are at least as demanding as the IESBA Code”?

If the requirement in 5406.5 is retained, and recognizing that not all jurisdictions adopt the

IESBA Code, we recommend that the reference to ‘this Part’ be modified to include ‘or *other ethical requirements in relevant law, regulation or professional requirements related to assurance engagements that are at least as demanding*’.

Assurance at, or With Respect to, a Value Chain Entity

12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements?

Overall response: Yes, with comments below

As referenced in our answer to Q10, we are supportive of the approach taken by IESBA in determining the independence requirements and considerations that are relevant to value chain entities. We believe this is the right approach and appropriately reflects the different characteristics and potential for independence threats to arise. We also note that the definition of value chain, and specifically value chain components, is defined differently in the current exposure draft of ISSA 5000. As noted in our cover letter, when different definitions are used for the same or similar terms, we believe there is potential for implementation challenges, confusion and inconsistency in application to result.

13. Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity?

Overall response: No, with comments below

As referenced in our answer to Q10, we agree with IESBA that there needs to be different independence considerations for value chain entities, and we agree that it is neither practicable nor reasonable to expect practitioners to be independent of all entities in the value chain that are not related entities.

Entities at which assurance work is performed

We are concerned about the proposal to leverage, from Part 4A, the concept of “component at which audit work is performed” and include a similar concept in Part 5: *“performs assurance work at a value chain entity”* and what the intended meaning of this phrase is. This concept caused significant confusion when Section 405 of the Code became effective and required the IESBA to issue a clarifying FAQ.

Leveraging this concept would inevitably, in our view, require the issuance of further clarifying FAQs if the proposals as currently drafted were adopted without change. Instead, in order to address the risk of inconsistent understanding and application of the Code by practitioners, we strongly urge the IESBA to use alternative language that more clearly and explicitly describes the intent and scope of the requirement.

This may, for example, include a definition of ‘assurance work’. The IESBA and the IAASB should collaborate to provide clarity on such a definition (or description). Our interpretation of ‘assurance work at the value chain entity’ when reading 5407.2 A1 (a) and (c) is:

- When the group sustainability assurance practitioner is able to obtain the evidence they require from group management, this would not be considered performing assurance work at a value chain entity.
- When the group sustainability assurance practitioner is not able to obtain the evidence they require from group management or by using the work of another practitioner, and determines that it is necessary to obtain information from the value chain entity or its management that was not used by the group management in their processes or controls to prepare the sustainability information, this would be

considered performing assurance work at a value chain entity.

A "sustainability assurance practitioner"

With respect to the supporting provisions outlined for 5407.2.A1 bullet (b), we agree in principle that if the firm intends to use the work of a sustainability assurance practitioner who performs assurance work at a value chain entity, the firm shall be satisfied that the value chain sustainability assurance practitioner is independent of the value chain entity. However, there is a lack of clarity about how a "sustainability assurance practitioner who separately performs the assurance work at the value chain entity" is to be viewed. For example, it is assumed in the majority of cases where work has to be performed in respect of the sustainability information of a value chain entity, the practitioner will be unable to direct, supervise and review the assurance work of that other practitioner. Consequently, they are "another practitioner". See our response to Question 11 regarding the need to make this explicitly clear to avoid confusion with the scope and applicability of section 5406 (if that Section is retained).

While likely to be less common, this section is silent on the implications for when the sustainability assurance provider is able to direct, supervise and review the work of the sustainability assurance practitioner of the value chain entity. In such circumstances, we believe that the other practitioner would be deemed to be included in the 'engagement team' definition and therefore subject to section 5405. If the Board agrees, it should be clear that the requirements in sections 5406 and 5407 do not apply.

If, however, the intent is that, even when direction, supervision and review is possible, Section 5405 should not apply with respect to a value chain entity (i.e., that Section 5407 applies instead), we believe this needs to be clarified, including explaining how this can be reconciled with the definition of the 'engagement team' which only excludes individuals from 'another practitioner'.

We also foresee a number of practical challenges around the timely and consistent identification of value chain entities and how the firm would decide on the applicable approach under 5407.2 A1 to obtaining assurance and, where applicable, manage compliance with the requirement in R5407.3 given that:

- Assurance engagement scoping decisions can be iterative and may need to be revised based on new information that arises during the engagement
- Management's decisions as to what is material for reporting purposes may change during the period or the practitioner's consideration of materiality may need to be revised; and
- There could be a high number of such entities, given that the scope of the value chain may be extensive, can be multi-layered and these will change depending on the metric being reported on.

In this regard, we also observe that there are no proposed provisions dealing with client-driven changes in value chain entities or in materiality considerations during the period (comparable to provisions in Section 405). There is a need for the standard to allow for changes that may occur during the engagement period such that the sustainability assurance provider is not automatically deemed not to be independent.

With respect to R5407.4, a sustainability assurance practitioner at a value chain entity may not apply the Code and therefore the firm cannot be satisfied that *"practitioner is independent of the value chain entity in accordance with the independence requirements of this Part"*. It is unclear from the proposals whether and, if so, how, the IESBA intends to address the concept addressed in ISSA 5000 of practitioners applying "other ethical requirements, including independence, that are at least as demanding as the IESBA Code".

With respect to R5407.5, please see our response to Question 11 on the challenges associated with obtaining a confirmation of independence from another practitioner.

We observe that 5407.6 seems superfluous as independence is required by other sections. If 5407.6 remains in this Part, we propose that it is clarified such that it does not inadvertently create an independence requirement with respect to the value chain.

We agree in principle to the supporting provisions outlined for 5407.2A1 bullet (c), however it is unnecessary as independence is required by other sections.

14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:

(a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?

Overall response: No, with comments below

We believe that Section 5700 should be removed in its entirety because the sustainability assurance practitioner is already required to apply the conceptual framework in the situation addressed in 5407.2 A1 bullet (b).

The proposal requires consideration of the conceptual framework, which allows for the application of safeguards to address threats to independence. An independent third-party practitioner providing assurance on value chain entity data and information acts as a safeguard for the sustainability practitioner and mitigates threats to an acceptable level under the conceptual framework. The IESBA's proposed requirements detailed in 5407 for confirming the independence of such a third-party sustainability assurance provider plays a role in strengthening and validating this as a safeguard to any threats to independence with respect to the value chain entity.

Creating a specific requirement to further assess threats that are already at an acceptable level casts doubt on the assurance work performed by the other independent sustainability practitioner, creates unnecessary costs to assurance providers and clients and potentially restricts the number of sustainability assurance providers able to perform sustainability assurance without providing appreciable public interest benefits.

In similar circumstances where an entity uses a service organisation for the processing of transactions and a service organisation auditor is engaged to provide assurance over the controls in place at the service organisation, the extant independence standard does not include any requirements for the user entity organisation's auditor to consider any threats and related safeguards to its independence. We believe this approach can be used by analogy in these circumstances and no additional independence requirements are necessary.

If the Board determines to keep this section:

- We believe that it should be combined with section 5407.
- It should be clear that the Section only applies when a firm uses the work of another sustainability assurance practitioner at the value chain entity (as per 5700.2, the scenario in 5407.2 A1 (b))
- We recommend that the Standard recognises that independence considerations will depend on what is being reported and assured and whether it is a related entity.
- While we recognise that the proposal allows for the application of the conceptual framework approach, which inherently allows for the application of

safeguards to address any known threats to independence, we recommend that the text specifically details safeguards that would be deemed effective. This should include the notion of a separate reviewer and/or the concept of a “cleansing audit” where, for example, a NAS has been provided by the group sustainability assurance practitioner which impacts the sustainability data or information at a value chain entity which has subsequently been subject to assurance by a sustainability assurance provider at the value chain entity.

- We believe that the Standard should provide for actions and safeguards if there are changes in the value chain or materiality considerations during the year. As noted above in the response to Q13 there are a number of reasons why the scope of value chain entities subject to assurance may change during the year.

We also have concerns regarding the application of the “knows or has reason to believe” test in this context. There is a risk of a range of different interpretations by practitioners, and between practitioners and regulators and other stakeholders as to what might reasonably have been known (despite the clarification in the explanatory memorandum that this does not establish a monitoring requirement). We suggest that this clarification might usefully be included in the standard as application material.

b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide?

Overall response: Not applicable

Providing NAS to Sustainability Assurance Clients

15. The International Independence Standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)?

Overall response: Yes, but with comments

In general we support the principle that threats to independence should be identified and addressed. We agree that, if a NAS might create a self-review threat in relation to the assurance engagement, there should be an evaluation of threats and safeguards.

We agree that materiality of the service and the impact of the sustainability information would be a relevant factor in the evaluation of any self-review or other threat.

Given that the term “sustainability information” is used throughout this section, it is important that there is clarity on the scope of that definition as it would impact the application of the provisions in section 5600. Please refer to Question 3.

In section 5601.3 A1, "sustainability data and information services" (i.e., the 'replacement' for bookkeeping) lacks clarity and poses a potential hindrance to benchmarking services that would otherwise be permissible as a "data and information service". It is suggested that the term "sustainability information recordkeeping or sustainability information preparation" be considered as an alternative.

We agree with the position taken in R5601.6 that whether a “sustainability data and information service” might create a self-review threat is dependent on whether the service "might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity". This provides clear guidance that the relevant self-review threat is in relation to the assurance report provided to the sustainability assurance client that is a public interest entity (and not, for example, in relation to services to upstream and sister entities of that client where there is no self-review threat in relation to the client itself). We recommend, as an aside to comments on this ED, that the IESBA considers making a revision to the accounting and bookkeeping paragraph 601.6 in Part 4A to also reflect this clarity.

Please see related comments in response to Question 16.

16. Subsections 5601 to 5610 address specific types of NAS.

(a) Do you agree with the coverage of such services and the provisions in the Subsections?

(b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

Overall response: No, with comments below

We acknowledge that there has been some limited tailoring of Section 600 in Part 4A for this purpose.

However, as noted in our response to Q1, we question the need to include the full range and scope of services that are covered in Part 4A. Many of these relate to services that might underpin financial information and may not be relevant in this context and what is being reported (largely non-financial information). Corporate finance services and litigation support services are good examples.

Conversely, and referring to our earlier comments about the importance of accessibility of the IESSA to non-PA assurers, we recommend that the NAS provisions should be more profession-agnostic, include services provided by other practitioners and focus on those non-assurance services that are more likely to be relevant in this context. The sustainability reporting requirements drive a new and varied range of reporting topics and will give rise to new and novel services. Examples would include engineering/decarbonisation consulting, since the measures taken by the company to reduce CO_2 emissions need to be reported within the sustainability report. The conceptual framework would then apply to the evaluation of other NAS.

An additional benefit of this approach would be to also help reduce the complexity and length of the standard, again supporting improved accessibility of the standard on a profession agnostic basis

Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client

17. Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)?

Overall response: Yes, with comments below

As a general principle we agree that it is important, when considering any public interest assurance engagement, to have considered the potential for self-interest threats and the proportion of fees earned from other services, and to have considered familiarity threats arising from long association.

However, we express a general concern that, despite a minor proposed amendment to 410.11, the proposal (see 5410.11 A1) implies that there is an additional threat to independence arising from the fact that one firm may be conducting both the audit of financial statements and the sustainability assurance work. We do not believe that this is appropriate and goes against the fundamental goal of equivalence to the audit independence standards. In substance it is “one” independent relationship with an entity. This seems to conflict with the comment in the EM, which says “In circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level, especially if the auditor’s performance of the sustainability assurance engagement is required by law or regulation”.

The interconnectedness of the financial and sustainability information may even suggest a public interest benefit in the same firm performing both assurance engagements. Indeed, some jurisdictions are contemplating that statutory auditors may be required to also perform the sustainability assurance. Furthermore, many frameworks are viewing these as an integrated report thus strengthening a view that independence considerations should be looked at collectively.

Please see appendix 2 for comments on fees.

Other Matters

18. Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

Overall response: Yes, with no comments

19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

Overall response: No further comments

<u>Sustainability Reporting</u>

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information?

Overall response: Yes with comments

We believe that it will be important for the Board to seek and consider the views and needs of non-PAs to make sure that requirements of equal rigour can be applied and maintained, but in a manner that will be workable for preparers who may be less familiar with the IESBA Code of Ethics.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?

Overall response: Yes, with no further comment

Proposed Revisions to the Extant Code

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including: (a) Proposed revisions to Section 220? (b) Proposed examples of conduct to mislead in sustainability reporting, value chain and forward-looking information? (c) Other proposed revisions?

Overall response: Yes, with no further comment

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

Overall response: No further comment

Effective Date

24. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

Overall Response: Yes, with comments

We note that no effective date is proposed. Given mandatory assurance requirements being imposed in jurisdictions applicable to December 2024 period-ends for certain entities, for example in Europe, we agree that there is a clear and pressing need for a final pronouncement.

Notwithstanding the fact that the ED is grounded in Part 4A of the Code, this is a significant new set of requirements with an expanded intended user base. The IESBA needs to balance the perceived urgency for a final pronouncement with a sufficient implementation period, recognising the scale of the proposals and expectations that it will be used by non-professional accounting assurance practitioners, who may have a much greater implementation burden.

We agree that the effective date should be aligned with that of ISSA 5000. As noted herein, it is important that there is interoperability of both standards and we believe that this should be prioritised when considering the effective date.

In accordance with its due process, based on an expected finalisation of the standard in Q4 2024, the earliest feasible effective date the IESBA could consider would be June 2026 ("point in time" information reported as at or after 15 June 2026 or for reports covering periods beginning on or after 15 June 2026).

However, in recognition of demand in Europe and other jurisdictions where mandatory assurance will be required earlier than the effective date, we recommend the IESBA, as part of its package of materials published with the final pronouncement, provide clear guidance that the provisions may be early adopted, when firms are in a position to do so.

Appendix 2

We provide some other detailed comments below for consideration by IESBA.

Para Ref.	**Comments**
5100.2a	We believe it could be clearer for sustainability assurance engagements not within the scope of the International Independence Standards in Part 5 (applying paragraphs 5400.3a and 5400.3b), that Sections 5100 to 5390 of Part 5 still apply. This is easily missed. See our comments regarding the drafting of 5100.6.
R5360.16/18	It is not immediately apparent that the group engagement leader referred to in paragraph R5390.16 is the sustainability group engagement leader. This might usefully be clarified so that the contrast with proposed R5360.18a is clear. In paragraph 5360.18a, there is reference to the client's external auditor. This is not a defined term in the Code or IIS and may not be a term that is used in all jurisdictions. There is no mention that this is in relation to the audit of the financial statements. We recommend that the term is either defined or explained.
R5360.31 and suite	The heading above the sub-section refers to Communication with the External Auditor. In fact only para .33 deals with communications with the External auditor, so we recommend that the header is amended.
5406.5	Bullet a) states: "The practitioner is independent of the entity on whose sustainability information the other practitioner performs assurance work in accordance with the independence requirements of this Part that are applicable to a firm with respect to a sustainability assurance client". We understand this to mean that the practitioner is independent of the "entity"; however the words "in accordance with…" could be read to suggest that this means independence of the group sustainability assurance client and its related entities. Clarity would be helpful.
5407.3	We note that this paragraph states that the firm (and team) *shall be independent of the value chain entity in accordance with the independence requirements of this Part that are applicable to a firm and a sustainability assurance team member, as applicable, with respect to a sustainability assurance client.* The reference to "in accordance with" could be read that this extends to related entities of the value chain entity. We do not believe this is the intent and recommend that this is clarified.
5410.11A1	Proportion of fees The introductory sentence leads the reader to Part 4A of the Code when the firm also undertakes the financial statement audit. The effect of this is that the firm considers the audit fee compared to the fees from both the sustainability assurance engagement bucketed with other non-assurance fees. Given the nature of the sustainability assurance engagement we do not believe this is appropriate and recommend that Part 4A is amended, in such situations, to recognise three categories of

	fees (financial statement audit; sustainability assurance fees; and NAS), and that the evaluation of threats should reflect this and the nature of the different engagement types. Part 5 should be aligned. This would be more consistent with the proposed provisions where the sustainability assurance practitioner is not undertaking an audit and evaluates any threat created by the proportion of the sustainability assurance fees compared to other NAS fees.
5410.12 A1 to 5410.21 A1	Unlike 5410.11 A1, these subsections do not recognise that the sustainability assurance practitioner might also be performing an audit engagement. There is an inconsistency. There is a need to address this scenario particularly in the case of fee dependency, when clearly the overall evaluation of threats would need to take into account the level of audit fees to the firm and relevant individuals. We recommend that 5410.12-5410.21 also point back to the relevant section of 4A.
R5410.30 and .31	Similarly, these paragraphs do not recognise that the sustainability assurance practitioner might also be performing an audit engagement. The public fee disclosure requirements when the sustainability assurance practitioner is also the financial statement auditor will be misleading if they are not further refined. For the audit fee disclosure, sustainability assurance engagement fees will be included with other services (such as advisory services) (see R5410.31 (b)). The evaluation of threats to independence for audit, sustainability and non-assurance services are different and as noted above we believe that there should be three categories of fee analysis. (See above).
5603.2 A2	In relation to valuation, forecasting, or similar services, we believe we have identified a drafting error in section 5603.2.A2, which may lead to unintended consequences. The current wording states that there will be "...no effect on the records underlying the sustainability information or the sustainability information on which the firm will express an opinion." However, the first usage of ‘sustainability information’ in this sentence is separated from the information on which the firm will express an opinion. This separation implies that there is consideration for sustainability information other than the information on which the firm is providing an opinion. The first reference to “sustainability information” should be removed.
900.1	Following the introduction of the group audit standard (Section 405) it should probably be clarified here that if “an audit of specific elements, accounts or items of a financial statement” are requested to be performed as part of a group audit (whereby the entity is a component at which audit work is performed) that the firm and individuals are subject to the requirements in Section 405, and not Part 4B. This is a common question.