

Proposed New Ethical Benchmark for Sustainability Reporting and Assurance

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Sustainability Standards Infrastructure

Sustainability Reporting and Assurance

Standardized approach for **reporting** information



Reliable, comparable and decision useful information

Reporting Standards

Standardized approach for providing independent **assurance**



Credible and trustworthy information

Assurance Standards

Ethical mindset and behaviors to guide judgments and drive actions



Trustworthy information that is factual and not misleading

IESBA – Ethics and Independence Standards

Sustainability Project



- IESBA's Sustainability Project to develop:
 - a. Revisions to the Code to address the ethics issues that might arise in sustainability reporting; and
 - b. Ethics and independence standards for use and implementation by all sustainability assurance practitioners
- Informed by series of *Global Roundtables* in 2023
- Complemented by *IESBA's Use of Experts Project*
- Close coordination with *IAASB's Sustainability Project* aiming to develop new overarching standard for sustainability assurance
- Input from sustainability reporting and assurance experts through *IESBA's Sustainability Reference Group*

In **January 2024** the IESBA issued the Sustainability Exposure Draft (ED), including:

1. Revisions to IESBA Code for use by professional accountants (PAs) involved in sustainability reporting; and
2. *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) for use by all sustainability assurance practitioners regardless of their backgrounds

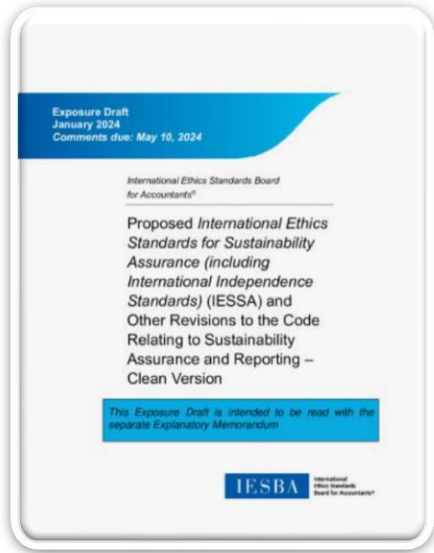
Exposure Draft
January 2024
Comments due: May 10, 2024

*International Ethics Standards Board
for Accountants®*

*Proposed International Ethics
Standards for Sustainability
Assurance (including
International Independence
Standards)* (IESSA) and
Other Revisions to the Code
Relating to Sustainability
Assurance and Reporting –
Clean Version

*This Exposure Draft is intended to be read with the
separate Explanatory Memorandum*

Supporting Material



- Global webinars and other local / regional webcasts
 - Recording of global webinars will be available on IESBA's website
- Q&A publication by mid-March
 - With practical examples and further explanation of proposals in Sustainability ED
- In-person Seminars

Timeline

Stakeholder Engagement and Outreach

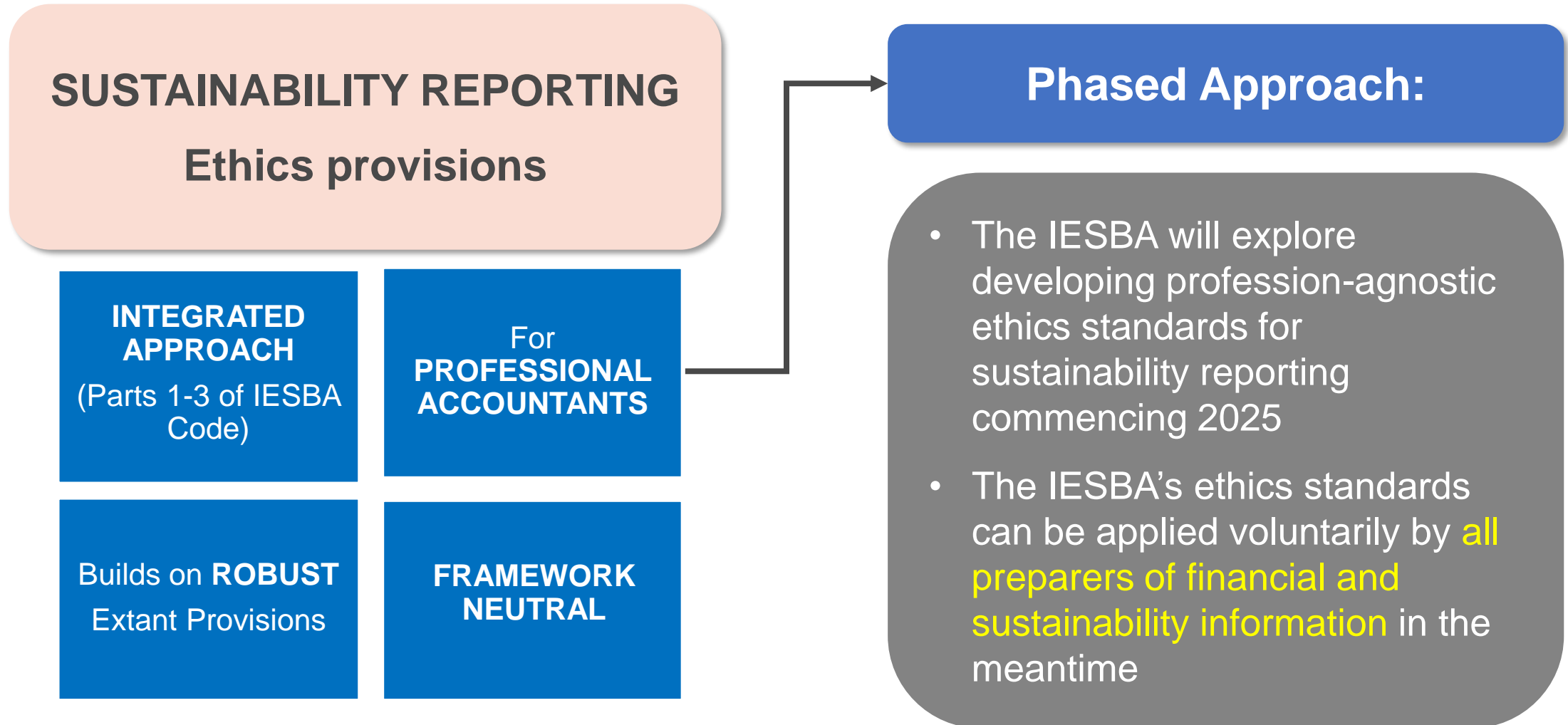


Enhanced Ethics Standards for Sustainability Reporting



IESBA

Sustainability Reporting - Approach



Sustainability Reporting – Enhanced Ethics Provisions

Reinforcing the first line of defense against “greenwashing” and other corporate malfeasance



Truthful, high-quality corporate sustainability disclosures

Applying the conceptual framework in context of sustainability reporting

Conflicts of interest

Preparation and presentation of information

Financial interests, compensation and incentives linked to sustainability reporting

Pressure

IESSA

***International Ethics Standards
for Sustainability Assurance
(including International
Independence Standards)***



IESBA

Main Characteristics of Proposed IESSA

SUSTAINABILITY ASSURANCE Ethics and Independence provisions

Designed to be understood and applied by all practitioners, including those who are not PAs

PROFESSION-AGNOSTIC
(ALL Practitioners)

FRAMEWORK NEUTRAL

Goal is also to underpin any reporting or assurance framework used to prepare or assure the sustainability information

Same high standards of ethical behavior and independence that apply to audits of financial information under the IESBA Code (in Parts 1 to 4A)

EQUIVALENT
to Audit Standards

STANDALONE
(New Part 5 of IESBA Code)

Best option to achieve profession-agnostic objective and ensure alignment with PIF characteristics

The IESBA Code

For Professional Accountants

NEW

PART 1

Complying with the Code, the Fundamental Principles, and the Conceptual Framework

(All Professional Accountants)
Section 100–199

PART 2

Professional Accountants in Business (PAIBs)

Part 2 is also applicable to individual PAPPs when performing professional activities pursuant to their relationship with the firm

Section 200–299

PART 3

Professional Accountants in Public Practice (PAPPs)

Section 300–399

PART 4A

International Independence Standards

Independence for Audits and Reviews

Section 400–899

PART 4B

International Independence Standards

Independence for Assurance Engagements other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5

Section 900–999

PART 5

International Ethics Standards for Sustainability Assurance (including international Independence Standards)

For Sustainability Assurance Engagements Scoped to Part 5

Section 5100–5700

For Sustainability Assurance Practitioners



Ethics Standards in Part 5



Scope of Ethics Standards

What is covered by Part 5

All sustainability assurance engagements
&
Any other engagements by the sustainability assurance practitioner for the same sustainability assurance client

Services/activities not covered by Part 5

If practitioner is a PA: Explicit reminder that Parts 1 to 4B of IESBA Code apply

If practitioner is a non-PA:
Encouragement to apply Parts 1 to 4B of IESBA Code (or others at least as demanding) in all situations not covered by Part 5 – because other aspects of conduct of the practitioner may contribute to (or impair) credibility and public trust in the practitioner's sustainability assurance work

Ethics Provisions

Interests, relationships and circumstances that might create threats to the fundamental principles in the context of an audit of financial statements might also create similar threats in a sustainability assurance engagement

Ethics Standards in Part 5 include specific examples tailored by and for sustainability assurance practitioners

Fundamental Principles & Conceptual Framework

Pressure to Breach the Fundamental Principles

Conflicts of Interest

Fees and Other Types of Remuneration

Inducements, Including Gifts and Hospitality

Responding to Non-Compliance with Laws and Regulations (NOCLAR)



International Independence Standards in Part 5



Scope of Independence Standards



Part 4B of the extant Code sets out independence standards for other sustainability assurance engagements

- Sustainability assurance engagements with the same level of public interest as audits of financial statements
 - **The International Independence Standards (IIS) in Part 5** apply to sustainability assurance engagement where the sustainability information:
 - a. Is reported in accordance with a general purpose framework; and**
 - b. Is required to be provided in accordance with law or regulation; or is publicly disclosed to support decision-making by investors or other stakeholders.**
- Law or regulation may require the application of the proposed IIS in IESSA to other sustainability assurance engagements

Independence Provisions

Interests, relationships and circumstances that might create threats to independence in an audit of financial statements might also create threats in a sustainability assurance engagement

International Independence Standards in Part 5 address specific characteristics of sustainability assurance engagements

Quality Management Systems of Firms

Determination of Public Interest Entities

Independence Considerations for Other Sustainability Assurance Practitioners Involved in Assurance Work

Independence Considerations for Assurance Work Performed at, or with respect to, Value Chain Entities

Specific Sustainability-related Examples

Independence Issues When a Firm Performs both Audit and Sustainability Assurance Engagements

Group Sustainability Assurance Engagements

- Sustainability reporting and assurance will be mandatory mostly for entities that operate as groups
 - Certain frameworks require reporting on a consolidated basis
- Proposed IESSA expressly addresses group sustainability assurance engagements
 - Equivalent to independence provisions for group audit engagements
 - Independence considerations for group firms, component firms and group sustainability assurance team members
- Proposed ISSA 5000 addresses group sustainability assurance engagements only in a general and overarching way
 - Specific questions in ED regarding how practice might evolve and potential issues in the application of the proposed provisions

Group sustainability information

includes information of more than one entity or business unit

Group sustainability assurance client

also includes its components at which assurance work is performed

Value chain entities are not components and not part of the group entities

Using the Work of Another SAP

SAP outside the firm performs assurance work at an entity or component within the client's organizational boundary

Is the other SAP under the firm's direction, supervision and review?



Standalone SAE

IESSA provisions applicable to a firm and sustainability assurance team members

Group SAE

Section 5405

(Equivalent to independence for group audits)



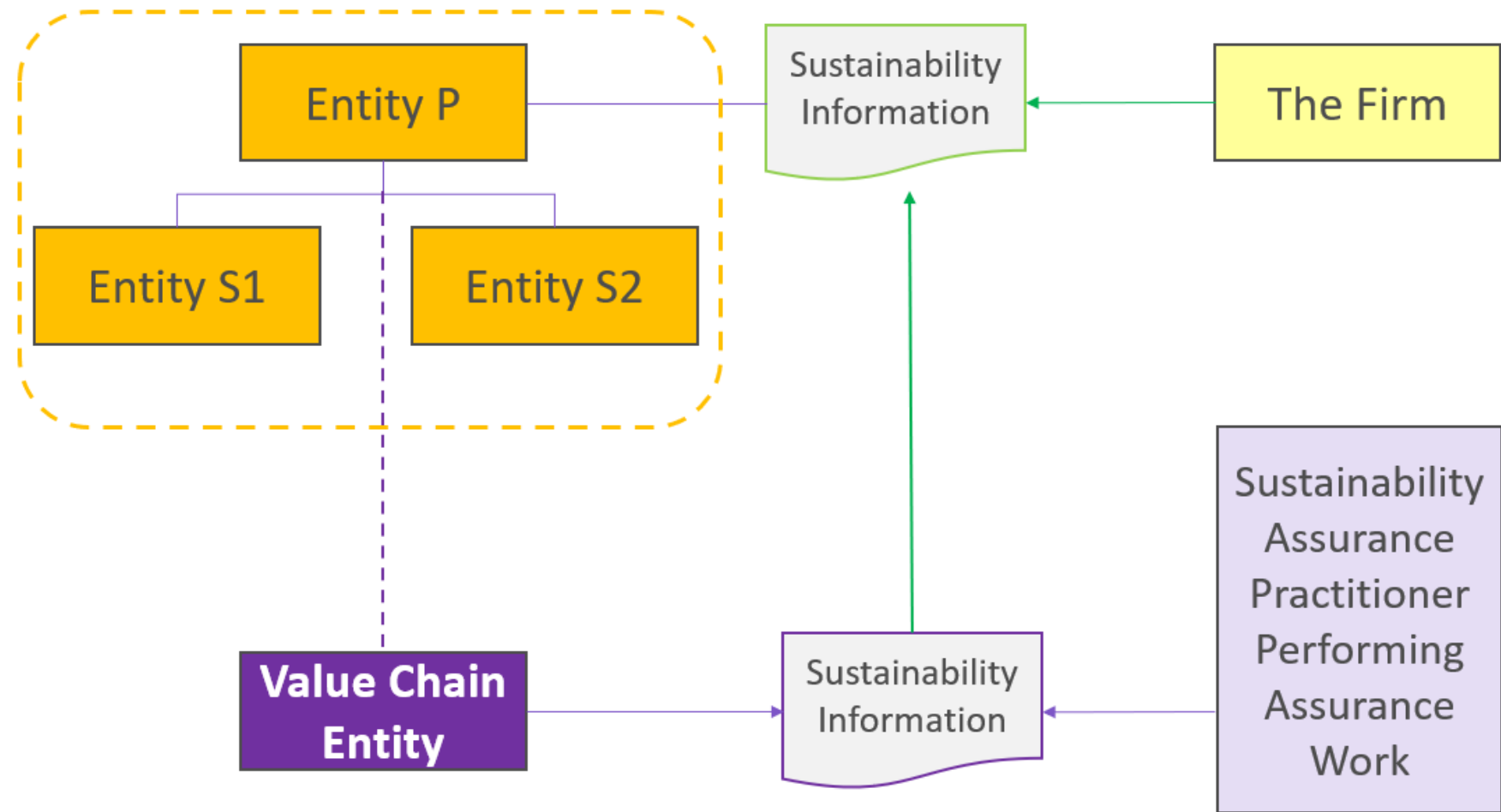
Standalone and Group SAEs

Section 5406
(Confirmation of independence)

Value Chain Entities

Code defines “*value chain entities*” (VCE) in accordance with the applicable reporting framework

VCE are not within the client’s organizational boundary and are not components

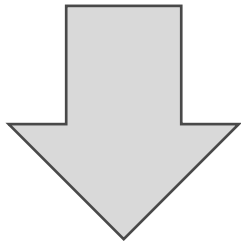


Independence Considerations – Value Chain

The firm performs assurance work at the value chain entity

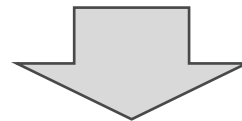
Another SAP performs assurance work at the value chain entity

The firm performs assurance work on the value chain entity's information provided by the sustainability assurance client

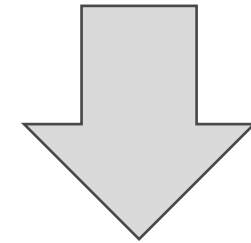


Firm and sustainability assurance team members required to be independent of VCE

All SAPs
(Irrespective of whether under the firm's direction, supervision and review)

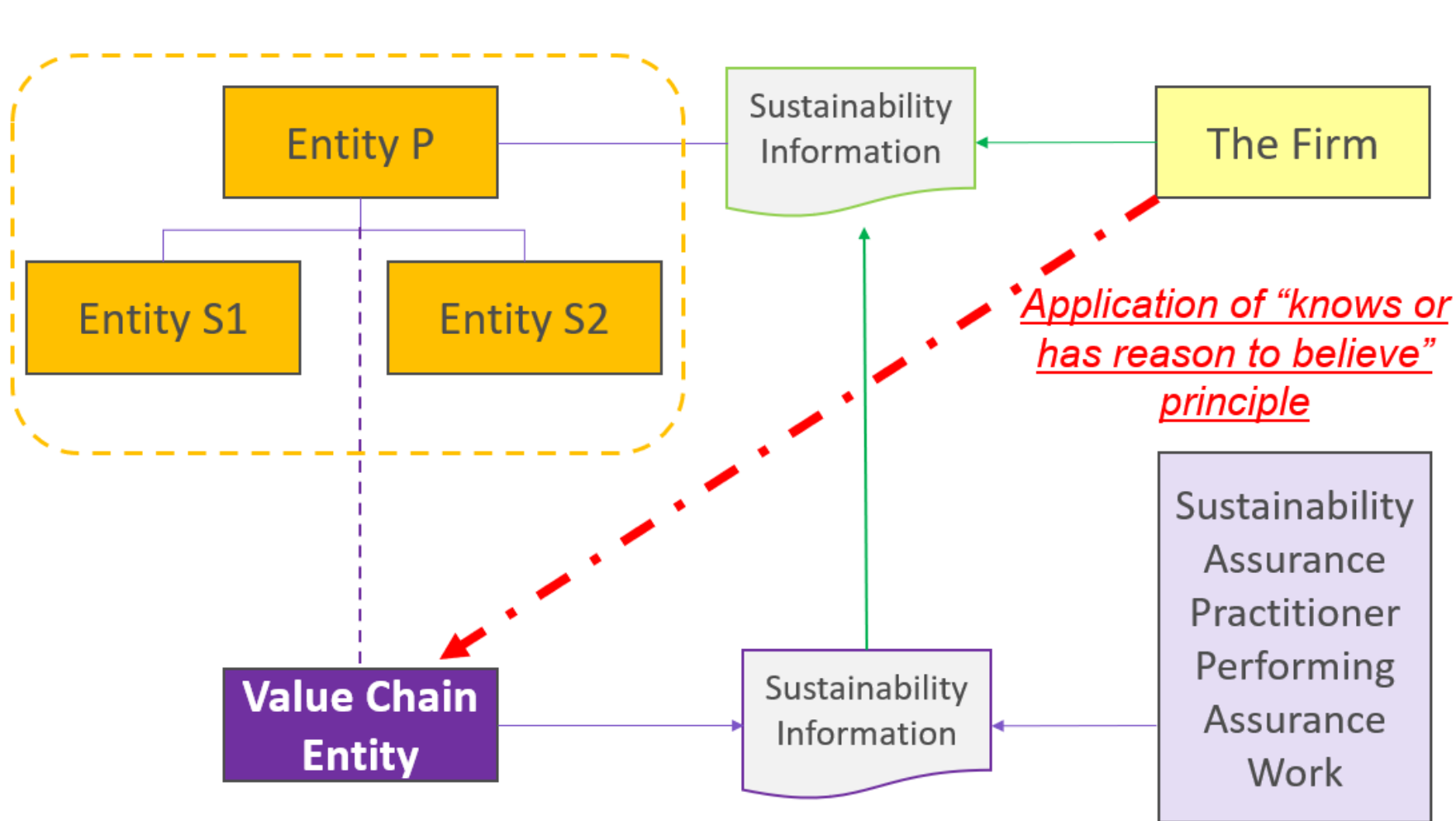


Confirmation of the other SAP's independence from VCE

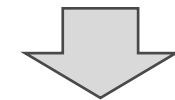


Firm and sustainability assurance team members required to be independent of sustainability assurance client

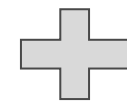
Independence Considerations – Value Chain



Another SAP performs assurance work at the value chain entity



Confirmation of the other SAP's independence from VCE



Application of "knows or has reason to believe" principle

Using the Work of External Experts



IESBA

Use of External Experts – Reason for Project

- Addresses questions about the expectations of ethics and independence for external experts
- Many different types of external experts, including those in
 - Well-established fields (actuaries, engineers, fraud examiners, forensic accountants, lawyers, valuers, tax advisors...)
 - Emerging fields (e.g., reporting of sustainability information such as biodiversity, climate, social, governance, or involvement in technologies such as crypto-related accounting)
- Project integral to, and progressed in tandem with, the sustainability project
 - Use of a broad range of external experts anticipated to increase as demand for sustainability information and assurance accelerates
 - Provisions not only cover sustainability reporting and sustainability assurance, but also covers external experts used for financial reporting and audits of financial statements

Proposed Ethical Framework and Approach

Definitions Introduced for “Expert” and “Expertise”

- Distinguish the work of experts from the work of other individuals or organizations providing information for general use

Evaluating the External Expert

- Focused on the external expert’s competence, capability and objectivity (CCO)
- Work of an external expert cannot be used if it does not meet CCO thresholds

Evaluating External Experts in Audit or Assurance

- Additional objectivity requirements to evaluate interests and relationships based on Parts 4A/4B independence attributes

Potential Threats When Using the Work of an External Expert

- Provisions to guide identifying, evaluating and addressing potential threats to compliance with the fundamental principles



HEIGHTENED
PUBLIC
INTEREST
EXPECTATIONS

Whether to Use the Work of an External Expert

Basic Premise

- (p. R390.6) “The PA shall evaluate whether the external expert has the necessary competence, capabilities, and objectivity for the accountant’s purpose.”
- (p. R390.12) “The PA **shall not** use the work of the external expert if:
 - (a) The accountant is unable to obtain the information needed for the accountant’s evaluation of the external expert’s competence, capabilities and objectivity; or
 - (b) The accountant determines that the external expert is not competent, capable or objective.”

Objectivity Evaluation (p. R390.8)

Based on
independence
attributes in
Parts 4A/4B

- PA required to request the external expert to:
 - In relation to the entity(s) at which the external expert is performing the work
 - With respect to the period covered by the audit or assurance report and the engagement period
 - Provide information about specific interests or relationships or circumstances
 - Aligned with the independence attributes set out in Parts 4A/4B of the Code
- PA **cannot simply accept** the information provided without appropriately applying the conceptual framework

Availability of Experts

Objectivity is an ethical principle, cannot be adjusted to a different threshold

- Stakeholder questions relating to circumstances or jurisdictions where there is a limited availability of external experts
- Introducing transparency as a mitigating action for using an unobjective expert would inadvertently create an “easy exit” and shift the accountability for the PA to evaluate the objectivity of an external expert to the stakeholders
- Competence, capability and objectivity of an expert cannot be less relevant or lower in jurisdictions/fields with a low number of external experts
- Where it is determined that there are no external experts available in a particular field or jurisdiction:
 - The PA could consider using an external expert from another jurisdiction, or the PA could also consider consultation with the appropriate independent regulatory body or professional body to address the issue and ascertain what are appropriate next steps
 - The PA might issue an opinion with a limitation in scope
 - IESBA to consider developing appropriate transitional provisions to accommodate the build-up of market capacity in due course if necessary



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