Supplement 2 - Background Information for Breakout Session on Sustainability Reporting and Assurance

This supplement to the Briefing Note for the IESBA's March and April 2023 Global Sustainability Roundtables includes additional background information for the breakout session on *Ethics and Independence Standards for Sustainability Reporting and Assurance*.

I. Profession-agnostic Ethics and Independence Standards for Sustainability Assurance Practitioners

Call for Profession-agnostic Standards

1. In its September 15, 2022 statement, the International Organization of Securities Commissions (IOSCO) encouraged standard-setters' work on assurance of sustainability-related corporate reporting. IOSCO particularly welcomed the IAASB's[1] and IESBA's *"plans to work towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited, and ultimately, reasonable assurance of sustainability-related information.*" It served as a call by the international regulatory community for the IESBA to develop global ethics and independence standards for sustainability assurance engagements carried out by any assurance providers, whether they are professional accountants (PAs) or not PAs **(profession-agnostic standards)**.
2. To align with the IESBA Code's current approach, the IESBA has committed to developing ethics and independence standards for sustainability assurance irrespective of the reporting and assurance frameworks used to prepare and assure the sustainability information (**framework-neutral approach).** Nevertheless, in developing the standards, the IESBA will consider the global sustainability reporting and assurance standards being developed by the ISSB and IAASB, respectively, to ensure that the new IESBA standards are aligned and interoperable with the ISSB and IAASB standards.
3. Furthermore, the IESBA is coordinating closely with the IAASB to ensure that high-quality ethics and independence standards are available at the same time as the standards for sustainability assurance.

Applicability of an Ethics and Independence Standard for Sustainability Assurance Practitioners

4. Recognizing the heightened public interest in consistent, comparable and trustworthy sustainability information, the IESBA holds to the premise that certain sustainability assurance engagements must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information. This approach is consistent with the position taken by regulators in some major jurisdictions, such as the European Union (EU) and the United States (US).
5. Taking into account the global regulatory developments regarding sustainability reporting, the IESBA will develop ethics and independence standards for those sustainability assurance engagements where:

[1] The IAASB launched its project in September 2022 aimed at developing an overarching standard for assurance on sustainability reporting.

(a) The assurance is provided on sustainability information reported in accordance with a general-purpose reporting framework (for example, providing assurance on reports developed in accordance with the ISSB standards); and

(b) The sustainability information is widely available to the public, or the information is specifically used for decision-making.

6. For sustainability assurance engagements that do not meet these conditions, the independence standards in Part 4B of the Code will apply.

Terminology

7. The extant IESBA Code is applicable to individual PAs and, for those in public practice, their firms. For an audit engagement, the Code sets out ethics and independence requirements for a firm, its network firms and individuals within the firm with specific roles in the engagement, for example the engagement partner and key audit partners. The terminology used to refer to these firms and individuals is focused on audits performed by PAs and is consistent with terminology used in the IAASB's quality management standards.[2]

8. In line with its commitment to developing profession-agnostic ethics and independence standards for all sustainability assurance practitioners, including those who are not PAs, the IESBA aims to use terminology that is understandable by all sustainability assurance practitioners. In this regard, the IESBA will consider whether to continue to use certain existing terms with an expanded definition, or whether to use more neutral terminology. For instance, the IESBA will consider whether to continue to use the extant term "engagement partner" to denote an individual within a firm who is responsible for a sustainability assurance engagement, or whether to use a more neutral term such as "engagement leader" instead.

Ethics and Independence Considerations

9. The IESBA has been gathering information on the sustainability assurance landscape, particularly the services provided by consultants, engineers and assurance providers who are outside the accountancy profession, to better inform the development of the profession-agnostic standards.

10. In this context, the IESBA will be seeking feedback from roundtable participants regarding:

- Specific threats to compliance with the fundamental principles of ethics[3] that might arise in relation to the provision of sustainability assurance services.
- Other services provided by sustainability assurance practitioners that might create threats to independence.

11. For some sustainability assurance providers, especially those that are not audit firms and with no prior experience with the Code or an equivalent set of ethics standards, it is possible that the implementation of the new ethics and independence standards could result in breaches of requirements from day one. For example, where an assurance provider has few clients, the provider

[2] International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*; International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; and ISQM 2, *Engagement Quality Reviews*

[3] For detailed information on the five fundamental principles of ethics, please refer to Part 1, Section 110, of the IESBA Code.

could easily trigger the Code's restrictions with respect to the proportion of fees from certain types of clients (Section 410).

12. The IESBA recognizes that potential practical challenges related to first time implementation could give rise to a strong disincentive for voluntary adoption. To assist first-time users of the Code, the IESBA will consider commissioning non-authoritative guidance on the application of the Code, focusing on the specific challenges arising from the implementation of the Code by sustainability assurance providers.

13. The IESBA also recognizes that some jurisdictions already require or some audit clients may wish the financial statement auditor to also undertake the assurance engagement on the sustainability information. Therefore, the IESBA would also like to understand how multidisciplinary audit firms manage the challenges related to providing the financial statement audit and sustainability assurance and other types of services to the same client.

Presentation of Profession-agnostic Ethics and Independence Standards for Sustainability Assurance

14. The IESBA is considering the three options below for presenting the profession-agnostic ethics and independence standards, having regard to the requirements of the Public Interest Framework (PIF), including that the standards are comprehensive, scalable, clear, implementable, globally operable and enforceable for all sustainability assurance providers,.

15. There are two premises underlying the options:

    (a) The use of terms that are understandable by both PAs and other sustainability assurance practitioners; and

    (b) The profession-agnostic ethics and independence provisions for sustainability assurance are drafted using the same language as for the ethics and independence provisions that apply to audits of financial statements. This is to maintain their equivalence and minimize issues such as courts interpreting differences in meaning when none was intended (i.e., there should be only a "single version of the truth").

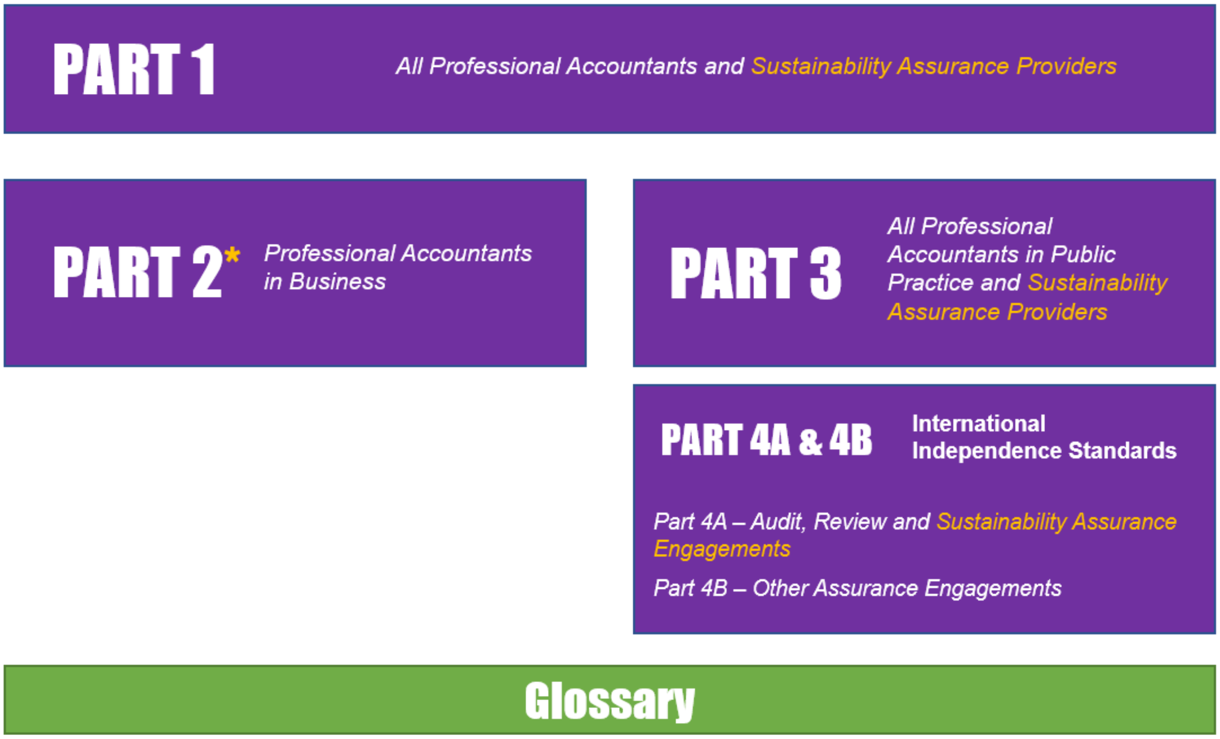
16. This supplement summarizes the main advantages and disadvantages of the three different options. The IESBA is seeking feedback from roundtable participants regarding which option would most effectively meet its objective of delivering profession-agnostic ethics and independence standards for sustainability assurance that can be readily and widely adopted and implemented.

Option A – Integrated Approach 1 – Extant Code with a Single Set of Ethics and Independence Standards Applicable to Audits and Sustainability Assurance Engagements

17. Under this fully integrated approach, the IESBA would revise the current requirements and application material in the Code (in Parts 1 to 4A) so that the new ethics and independence standards for sustainability assurance engagements would be incorporated into the existing provisions applicable to audits of financial statements.

18. This approach would retain the references to professional accountants, audit clients and other audit-related terms but add references to other sustainability assurance practitioners and sustainability assurance-related terms. The IESBA would also commission non-authoritative guidance to assist assurance providers that are not audit firms in navigating the provisions of the revised Code.

19. The diagram below illustrates the structure of the Code following this approach.



Advantages	Disadvantages/Risks
• It provides a single set of standards for PAs and other sustainability assurance providers carrying out these engagements. • From a perception point of view, this approach would better demonstrate the premise that the same ethics and independence standards should apply to audits of financial statements and sustainability assurance engagements given the same level of heightened public interest. • For firms providing both financial statement audit and sustainability assurance engagements, it avoids having to implement two separate but almost identical sets of provisions.	• It would make a complex part of the Code (the International Independence Standards) potentially more complex. Those who are not PAs may find it challenging to navigate, understand and apply, potentially disincentivizing their adoption and/or implementation of the Code. • It may result in an architecture that would not be scalable if the IESBA needs to address new types of assurance engagements with the same heightened public interest as audits in the future. • Changes to extant independence standards for audits could give rise to potential unintended consequences. • The new provisions could be perceived by assurance providers other than PAs as being developed first and foremost for PAs. This

Advantages	Disadvantages/Risks
	could adversely impact the global acceptance of the Code.

Preliminary Illustrative Drafting

Revised ***Section 100 – 'Complying with the Code'****:*

100.1 A distinguishing mark of the accountancy profession and of sustainability assurance practitioners is their acceptance of the responsibility to act in the public interest.

100.2 Confidence in the accountancy profession and in sustainability assurance practitioners is a reason why businesses, governments and other organizations involve professional accountants and sustainability assurance practitioners in a broad range of areas, including financial and corporate and sustainability reporting, assurance and other professional activities. Accountants and sustainability assurance practitioners understand and acknowledge that such confidence is based on the skills and values that accountants and sustainability assurance practitioners bring to the professional activities they undertake, including:

(a) Adherence to ethical principles and professional standards;

(b) Use of business acumen;

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgment.

The application of these skills and values enables accountants and sustainability assurance practitioners to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

[There would need to be an additional paragraph either (i) catering for the specificities of sustainability assurance providers that are not PAs or (ii) acknowledging this paragraph would only apply to PAs]

Revised ***Subsection 112 – 'Objectivity'****:*

R112.1 A professional accountant and a sustainability assurance practitioner shall comply with the principle of objectivity, which requires an accountant and a sustainability assurance practitioner to exercise professional or business judgment without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

R112.2 A professional accountant and a sustainability assurance practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's or the sustainability assurance practitioner's professional judgment regarding that activity.

Revised ***Subsection 115 – 'Professional Behavior'***:

R115.1 A professional accountant and a sustainability assurance practitioner shall comply with the principle of professional behavior, which requires an accountant and a sustainability assurance practitioner to:

(a) Comply with relevant laws and regulations;

(b) Behave in a manner consistent with the profession's and the sustainability assurance practitioner's responsibility to act in the public interest in all professional activities and business relationships; and

(c) Avoid any conduct that the accountant or the sustainability assurance practitioner knows or should know might discredit the profession or the assurance service.

A professional accountant or a sustainability assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession or of the sustainability assurance practitioner or engagement, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession or the sustainability assurance practitioner or engagement includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession or of the sustainability assurance practitioner or engagement.

Revised ***Section 310 – 'Conflicts of Interest'***:

R310.4 A professional accountant or a sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.

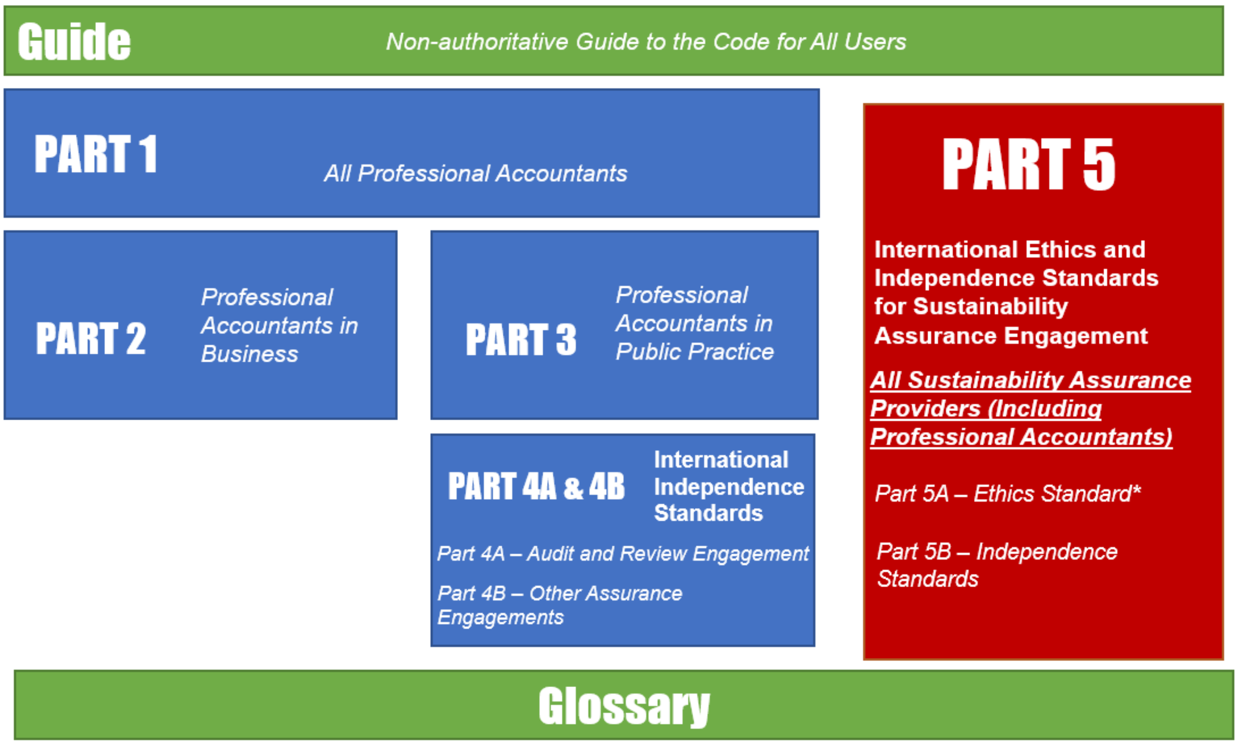
	• In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable. • Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest. • Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client. • Advising a client on acquiring a business which the firm is also interested in acquiring. • Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service. [*Add example(s) related to sustainability assurance*]
R510.4	Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit client or sustainability assurance client shall not be held by: **(a)** The firm or a network firm; **(b)** An audit team or sustainability assurance team member, or any of that individual's immediate family; **(c)** Any other partner in the office in which an engagement partner practices in connection with the audit engagement, the sustainability assurance engagement, or any of that other partner's immediate family; or **(d)** Any other partner or managerial employee who provides non-audit services or non-sustainability assurance services to the audit client or the sustainability assurance client, except for any whose involvement is minimal, or any of that individual's immediate family.
R540.4	If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team or sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not: **(a)** Be a member of the engagement team for the audit engagements or sustainability assurance engagement; **(b)** Provide quality control for the audit engagement or sustainability assurance engagement; or **(c)** Exert direct influence on the outcome of the audit engagement or sustainability assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.
R600.8	Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client or a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Option B – Integrated Approach 2 – New Part 5 Applicable to Sustainability Assurance Engagements

20. Under this approach, the new ethics and independence standards would be integrated into the Code through a new part (Part 5) applicable only to sustainability assurance engagements. In accordance with the Code's current structure, the proposed Part 5 would comprise ethics and independence standards in separate sections (Part 5A and 5B, respectively) that mirror, as appropriate, the requirements applicable to audit engagements.

21. Part 5 would be drafted in a profession-neutral way and would only contain considerations and guidance specific to sustainability assurance (as opposed to Option A where the revised Part 4A would include examples and other guidance covering both audits and sustainability assurance).

22. The diagram below illustrates the structure of the Code with a new Part 5, including the ethics and independence standards for sustainability assurance engagements. Two sub-options are also presented below relative to the application of the ethics standards in Part 5A.



Sub-option B(i)

23. Sustainability assurance practitioners who are not PAs would need to refer only to Part 5 of the Code, which would set out the relevant ethics and independence standards for sustainability assurance in a profession-agnostic way.

24. PAs who perform sustainability assurance engagements would need to comply with:

    (a) Ethics standards in Parts 1 to 3 of the Code (which would need to be updated to also include sustainability-specific issues/considerations); and

(b) Independence standards in Part 5B.

25. Where a PA who provides sustainability assurance is also the entity's auditor (e.g., if the entity prepares an integrated report), the PA would apply the requirements and application material relevant to the audit of financial statements under Parts 1 to 4A of the Code. Part 4A would set out specific considerations for auditors if they also perform sustainability assurance engagements for the audit client.

	Ethics Standards	Independence Standards
Non-PAs	Part 5A	Part 5B
PAs who are not also the auditor	Updated Parts 1 & 3	Part 5B
PAs who are also the auditor	Updated Parts 1 & 3	Updated Part 4A

Sub-option B(ii)

26. Except for PAs who perform both the audit and sustainability assurance engagements (see next paragraph below), all sustainability assurance providers – regardless of whether or not they are PAs – would apply Part 5 of the Code in its entirety. Apart from the changes in Part 1 to provide for the specificities of sustainability reporting by PAs (see further discussion with respect to sustainability reporting in Section II below), there would be no other changes to Parts 1 to 3 of the Code.

27. Where a PA who provides sustainability assurance is also the entity's auditor (e.g., if the entity prepares an integrated report), the PA would apply the requirements and application material relevant to the audit of financial statements under Parts 1 to 4A of the Code. Part 4A would set out specific considerations for auditors if they also perform sustainability assurance engagements for the audit client.

	Ethics Standards	Independence Standards
Non-PAs	Part 5A	Part 5B
PAs who are not also the auditor	Part 5A	Part 5B
PAs who are also the auditor	Updated Parts 1&3	Updated Part 4A

Advantages	Disadvantages/Risks
• From a perception point of view, a separate Part could better convey the IESBA's intent to address the ethics and independence considerations for all sustainability assurance providers equally, irrespective of whether or not they are PAs. • Having a separate Part applicable to all providers of sustainability assurance and which is dedicated to sustainability considerations only would facilitate easier understanding of the standards and promote their wider adoption. • Greater flexibility to cater for other types of assurance engagements in the future that might require the same level of ethics and independence standards as for audits without adding to the complexity of the standards applicable to audits.	• It would create duplication since Part 5 would substantially replicate Parts 1, 3 and 4A of the extant Code. • For auditors, there may be some potential complexity in navigating standards in two different locations.

Preliminary Illustrative Drafting - Option B

Parts 1 & 3 of extant Code (for PAs)	New Part 5A (for those who are not PAs)
Revised ***Section 100 – 'Complying with the Code'****:* 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. 100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate and sustainability reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:	*When drafting the equivalent to* ***Section 100 – 'Complying with the Code'****:* *Paragraphs* ***100.1, 100.2 and 100.3*** *(which mention the public interest underlying the accountancy profession) would need to be replaced with wording about the public interest underlying the provision of assurance to sustainability information.*

(a) Adherence to ethical principles and professional standards; (b) Use of business acumen; (c) Application of expertise on technical and other matters; and (d) Exercise of professional judgment. The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output. 100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.	
Revised ***Subsection 112 – 'Objectivity'****:* **R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by: **(a)** Bias; **(b)** Conflict of interest; or **(c)** Undue influence of, or undue reliance on, individuals, organizations, technology or other factors. **R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.	*When drafting the equivalent to* ***Subsection 112 – 'Objectivity'****:* **R112.1** A practitioner shall comply with the principle of objectivity, which requires the practitioner to exercise professional or business judgment without being compromised by: **(a)** Bias; **(b)** Conflict of interest; or **(c)** Undue influence of, or undue reliance on, individuals, organizations, technology or other factors. **R112.2** A practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the practitioner's professional judgment regarding that activity.

*Revised **Subsection 115 – 'Professional Behavior'**:* **R115.1** A professional accountant shall comply with the principle of professional behavior, which requires an accountant to: **(a)** Comply with relevant laws and regulations; **(b)** Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and **(c)** Avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles. 115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.	*When drafting the equivalent to **Subsection 115 – 'Professional Behavior'**:* **R115.1** A practitioner shall comply with the principle of professional behavior, which requires a practitioner to: **(a)** Comply with relevant laws and regulations; **(b)** Behave in a manner consistent with the practitioner's responsibility to act in the public interest in all professional activities and business relationships; and **(c)** Avoid any conduct that the practitioner knows or should know might discredit the assurance service. A practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the practitioner or of the assurance engagement, and as a result would be incompatible with the fundamental principles. 115.1 A1 Conduct that might discredit the practitioner or the assurance engagement includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the practitioner or of the assurance engagement.
*Revised **Section 310 – 'Conflicts of Interest'**:* **R310.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment. 310.4 A1 Examples of circumstances that might create a conflict of interest include: • Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction. • Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.	*When drafting the equivalent to **Section 310 – 'Conflicts of Interest'**:* **R310.4** A practitioner shall not allow a conflict of interest to compromise professional or business judgment. 310.4 A1 Examples of circumstances that might create a conflict of interest include: *[Provide example(s) related to sustainability assurance].*

• Providing services to a seller and a buyer in relation to the same transaction. • Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets. • Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership. • In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable. • Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest. • Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client. • Advising a client on acquiring a business which the firm is also interested in acquiring. • Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service. • [*Add example(s) related to sustainability assurance*]	

Updated Part 4A	Part 5B
R510.4 Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit client shall not be held by: **(a)** The firm or a network firm; **(b)** An audit team member, or any of that individual's immediate family; **(c)** Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family; or **(d)** Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose	***<u>Section equivalent to Section 510, Financial Interests in Part 4A</u>*** **R510.4** Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by: **(a)** The firm or a network firm; **(b)** A sustainability assurance team member, or any of that individual's immediate family; **(c)** Any other partner in the office in which an engagement partner practices in

involvement is minimal, or any of that individual's immediate family.	connection with the sustainability assurance engagement, or any of that other partner's immediate family; or **(d)** Any other partner or managerial employee who provides non-sustainability assurance services to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual's immediate family.
R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not: **(a)** Be a member of the engagement team for the audit engagement; **(b)** Provide quality control for the audit engagement; or **(c)** Exert direct influence on the outcome of the audit engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.	*Section equivalent to* ***Section 510, Financial Interest*** **R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not: **(a)** Be a member of the engagement team for the sustainability assurance engagement; **(b)** Provide quality control for the sustainability assurance engagement; or **(c)** Exert direct influence on the outcome of the sustainability assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.
R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.	*Section equivalent to* ***Section 600, Provision of Non-Assurance Services to Audit Client*** **R600.8** Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Option C – Standalone Approach – Two Separate Codes

28. Under this approach, a separate standalone Code would be developed exclusively for sustainability assurance engagements that would be applicable to all sustainability assurance practitioners. This approach would result in two separate Codes issued by the IESBA: (i) the existing *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and (ii) a new *International Code of Ethics (including Independence) Standards for Sustainability Assurance Engagements*.

Advantages	Disadvantages/Risks
• A separate Code offers the option of being badged differently to make it more clearly available for everyone providing sustainability assurance services, and not just something seen to be developed for PAs. • Having a separate set of standards dealing only with sustainability considerations for everyone performing sustainability assurance engagements might facilitate easier understanding of the standards and promote their wider adoption.	• It may be difficult for some jurisdictions to adopt a standalone Code without changes to legal requirements and adoption powers. This may be the case where the ethics and independence standards are set in the context of standard-setting powers relating to the work of auditors. • It would create duplication since the new Code would substantially replicate Parts 1, 3 and 4A of the extant Code. • For auditors, there may be some potential complexity in navigating standards in two different locations.

Preliminary Illustrative Drafting

*When drafting the equivalent to **Section 100 – 'Complying with the Code'**:*

*Paragraphs **100.1, 100.2 and 100.3** (which mention the public interest underlying the accountancy profession) would need to be replaced with wording about the public interest underlying the provision of assurance to sustainability information.*

*When drafting the equivalent to **Subsection 112 – 'Objectivity'**:*

R112.1 A practitioner shall comply with the principle of objectivity, which requires the practitioner to exercise professional or business judgment without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

R112.2 A practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the practitioner's professional judgment regarding that activity.

When drafting the equivalent to ***Subsection 115 – 'Professional Behavior':***

R115.1 A practitioner shall comply with the principle of professional behavior, which requires a practitioner to:

(a) Comply with relevant laws and regulations;

(b) Behave in a manner consistent with the practitioner's responsibility to act in the public interest in all professional activities and business relationships; and

(c) Avoid any conduct that the practitioner knows or should know might discredit the assurance service.

A practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the practitioner or of the assurance engagement, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the practitioner or the assurance engagement includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the practitioner or of the assurance engagement.

When drafting the equivalent to ***Section 310 – 'Conflicts of Interest':***

R310.4 A practitioner shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

[Provide example(s) related to sustainability assurance].

Section equivalent to ***Section 510, Financial Interest***

R510.4 Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:

(a) The firm or a network firm;

(b) A sustainability assurance team member, or any of that individual's immediate family;

(c) Any other partner in the office in which an engagement partner practices in connection with the sustainability assurance engagement, or any of that other partner's immediate family; or

(d) Any other partner or managerial employee who provides non-sustainability assurance services to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual's immediate family.

Section equivalent to ***Section 540, Long Association of Personnel***

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the sustainability assurance engagement;

	(b) Provide quality control for the sustainability assurance engagement; or
	(c) Exert direct influence on the outcome of the sustainability assurance engagement.
	The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.
*Section equivalent to **Section 600, Provision of Non-Assurance Services to Audit Client***	
R600.8	Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

II. Reporting on Sustainability Information by Professional Accountants

Ethics Considerations

29. Public trust in the accountancy profession in its crucial role in the preparation and presentation of relevant, reliable, and trustworthy sustainability information must be underpinned by robust global ethics standards.

30. With the increase in market demand for sustainability information, one of the key ethical issues that has attracted much media attention recently is "greenwashing." Greenwashing (or social washing) usually refers to practices that involve misleading intended users of the information, or intentionally giving them a false impression, about how well an organization or an investment is aligned with its sustainability goals.[4] Unethical behavior such as greenwashing damages the organization's reputation and undermines public trust in the accountancy profession given its long established role in the preparation and presentation of information. It is therefore detrimental to the society as a whole.

31. The IESBA is therefore seeking feedback on specific threats to the Code's five fundamental principles of ethics that may arise when PAs prepare and present sustainability information, regardless of whether their organizations are making those disclosures voluntarily or by legal mandate.

Profession-agnostic Ethics Standards for Sustainability Reporting

32. IOSCO's statement dated September 15, 2022 (mentioned above) served as a call by the international regulatory community for the IESBA to develop global profession-agnostic ethics and independence standards for sustainability assurance.

33. However, there is currently no similar regulatory call with respect to ethics standards for sustainability reporting. This opens the space for the IESBA to consider whether it should develop ethics standards for sustainability reporting also in a profession-agnostic way for both PAs and other sustainability preparers, or whether it should revise the Code only for PAs.

34. On the one hand, reasons for the IESBA to develop profession-agnostic ethics standards for sustainability reporting include:

    (a) Public interest considerations: Before sustainability information can be subject to assurance, it must be first prepared and reported by or on behalf of an organization. If the IESBA were to develop ethics standards for sustainability reporting also in a profession-agnostic way for all

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4 See IOSCO publication on *Sustainable Finance and the Role of Securities Regulators and IOSCO* (FR04/2020, April 2020).

sustainability preparers, then all those preparing, reporting, and providing assurance on sustainability information, regardless of their profession, could be covered by the same robust ethics (including independence) standards issued by the IESBA. This would contribute to a higher degree of integrity, quality, and reliability of the whole sustainability information supply chain.

(b) In addition, stakeholders are increasingly recognizing that preparers play a key role in safeguarding the integrity of financial and non-financial information as the "first line of defense" against improper reporting. Therefore, having high quality ethics standards would introduce strong, consistent guardrails at a critical point in the information supply chain, generating a higher level of trust in companies' sustainability (both financial and non-financial related information) disclosures.

(c) It would also ensure a level playing field on the reporting side between professional accountants and other preparers of sustainability information.

(d) Having a complete profession-agnostic framework of ethics standards applicable to sustainability information (i.e., covering both reporting and assurance) would promote consistency in the IESBA's approach to sustainability.

(e) There would be a set of robust global ethics standards that organizations, including national standard setters, regulators and professional bodies, could adopt and enforce.

35. On the other hand, factors that are part of an argument not to develop standards that are profession-agnostic, and therefore focus on standards for PAs only, include:

(a) Unlike IOSCO's call for the IESBA to develop ethics and independence standards for sustainability assurance, there has not been any equivalent regulatory call for the IESBA to develop ethics standards for all sustainability information preparers.

(b) If there is a market demand for profession-agnostic standards for sustainability reporting, jurisdictions would likely be expected to take the first step, for instance, by enacting a legal duty applicable to preparers of sustainability information by which they would all have to abide by high quality international ethics standards (or national standards equivalent to or based on those international ethics standards).

(c) To assess the level of market demand and the corporate governance implications, and to establish the public interest for profession-agnostic ethics standards for sustainability reporting, the IESBA should carry out the necessary research and consultation with a broad range of stakeholders, including regulators and oversight bodies, investors, international policy-making organizations, national standard setters, the business community including public sector and non-profit organizations, professional accountancy organizations, other preparers of sustainability information, and academics.

(d) There would be a risk that the IESBA developed ethics standards that would not ultimately be used, which may undermine the IESBA's credibility as a global standard-setter.

(e) There is no consistent or universal regulatory or professional regime that applies to those preparers who are not PAs for monitoring, supervising, and enforcing compliance with the IESBA standards. Without such a regime:

- Any new IESBA standards meant to be applicable to these other preparers would likely be unenforceable or otherwise ineffective.
- It would be difficult to clearly identify the preparers to whom the IESBA standards should apply, which could affect the adoption rate and implementation of the standards.

(f) There is more than one route for regulators to address the challenges posed by sustainability reporting – i.e., approving legislation applicable to preparers (i.e., "hard law") vs through the corporate governance regime (i.e., "soft law"). It would be important to understand which approach regulators around the world would use since they have different enforcement regimes.

(g) Finally, as this option would cater to the traditional target users of the Code, i.e., PAs, it would be a more time-effective option as the scope of work for the IESBA would be more limited.

36. The IESBA is seeking stakeholder feedback to assess the level of market demand for ethics standards applicable to sustainability preparers who are not PAs and whether there is an interest that the IESBA meets that demand. As part of this assessment, the IESBA is also interested in understanding the approach that local legislators intend to pursue – i.e., through legislation or via the corporate governance regime – in terms of requiring preparers of sustainability information to comply with ethics requirements.