

Proposed New Ethical Benchmark for Sustainability Reporting and Assurance

February 27, 2024 – Global Webinar

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Agenda

1) Sustainability Standards Infrastructure

- IESBA's role in promoting sustainability goals

2) IESBA Sustainability Exposure Draft

- a) Enhanced Ethics Standards for Sustainability Reporting

- b) International Ethics Standards for Sustainability Assurance (IESSA)

- Deep Dive on International Independence Standards

3) Timeline and Next Steps



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

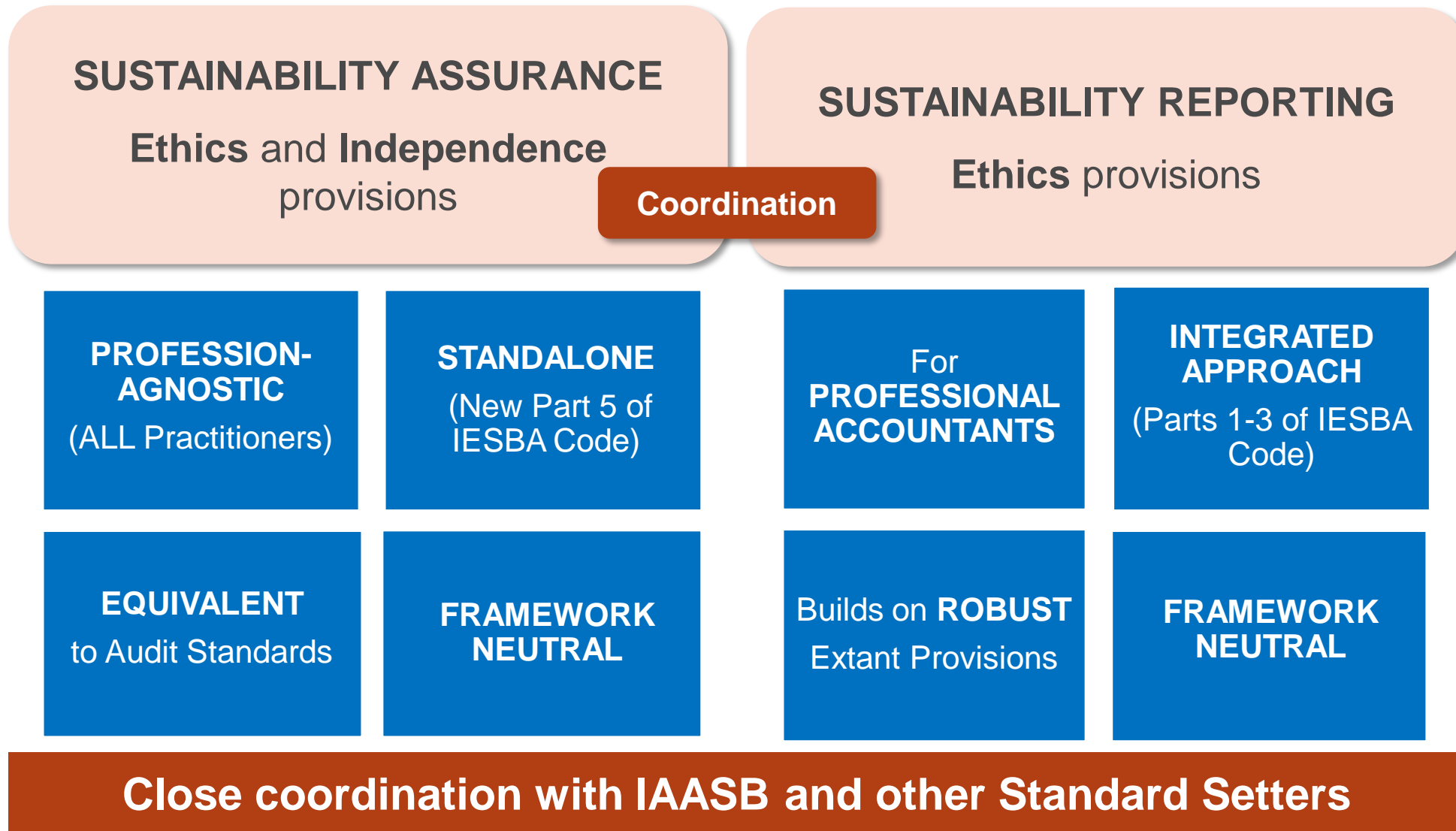
Exposure Draft
January 2024
Comments due: May 10, 2024

*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*

Sustainability Exposure Draft



Enhanced Ethics Standards for Sustainability Reporting



IESBA

Sustainability Reporting - Approach

SUSTAINABILITY REPORTING Ethics provisions

**INTEGRATED
APPROACH**
(Parts 1-3 of IESBA
Code)

For
**PROFESSIONAL
ACCOUNTANTS**

Builds on **ROBUST**
Extant Provisions

**FRAMEWORK
NEUTRAL**

Phased Approach:

- The IESBA will explore developing profession-agnostic ethics standards for sustainability reporting commencing 2025
- The IESBA's ethics standards can be applied voluntarily by **all preparers of financial and sustainability information** in the meantime

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

Sustainability Reporting – Enhanced Ethics Provisions

Revisions to Section 220 *Preparation and Presentation of Information* expand existing material to include:

- “collecting” information – such as from the value chain
- “measuring” information – such as methods, metrics and estimations
- “impacts” of business transactions and activities

New proposed examples to address matters relating to:



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

Applicability

Proposed IESSA applies when a **sustainability assurance practitioner** performs an **assurance engagement** on **sustainability information**

IESSA consists of ethics and independence standards

New defined terms in the Glossary of the Code

❖ **Sustainability Assurance Practitioner**

- Includes all practitioners, including PAs and non-PAs

❖ **Sustainability Information**

- Broad and sufficiently generic to be perennial and interoperable with various reporting and assurance standards (including proposed ISSA 5000)
- **Also relevant for sustainability reporting**

❖ **Sustainability Assurance Engagement**

- An engagement designed to enhance the degree of confidence of the intended users about the sustainability information
- Can be either limited or reasonable assurance



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

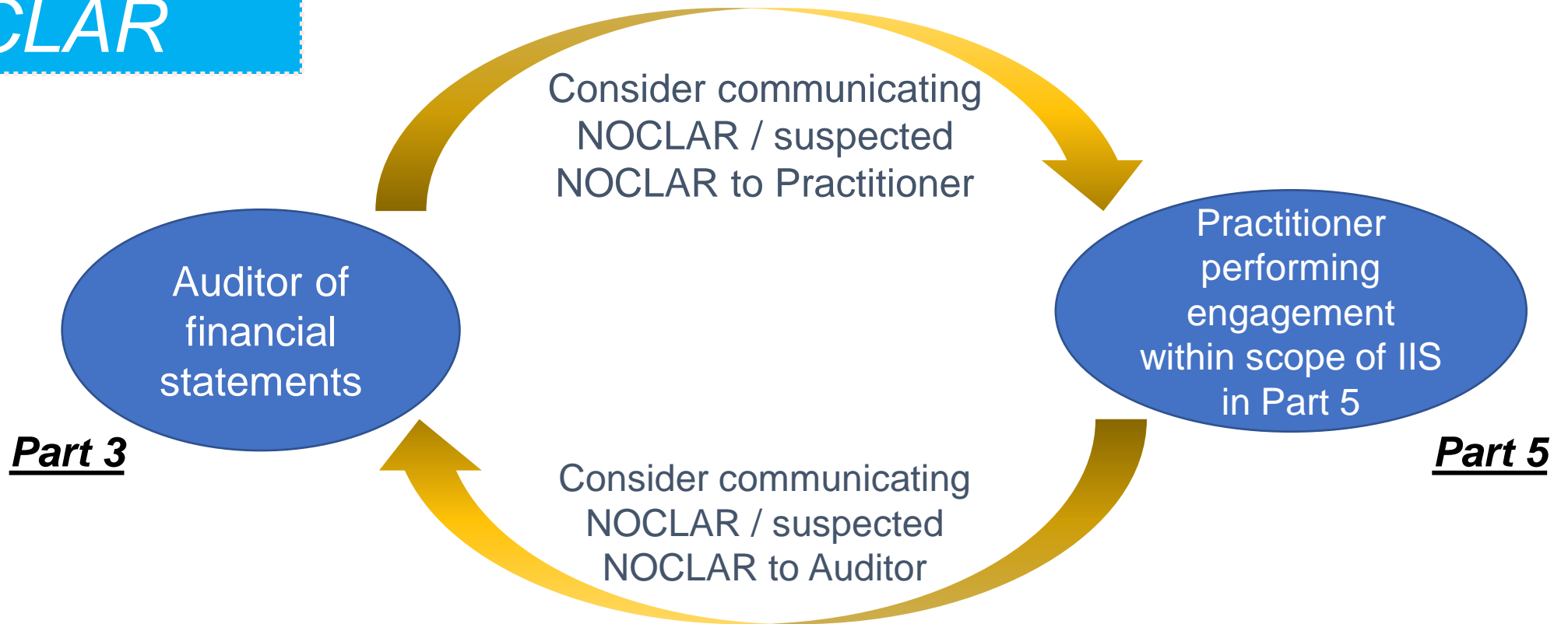
Conflicts of Interest

Fees and Other Types of Remuneration

Inducements, Including Gifts and Hospitality

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

Communicating NOCLAR



Rationale:

Audit of financial statements

same public interest

Sustainability assurance engagement within scope of IIS in Part 5



International Independence Standards in Part 5



A deep dive

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


Quality Management Systems

- Proposed IESSA does not prescribe compliance with a specific quality management (QM) standard
- Sustainability assurance standards are based on an expectation that SAPs have appropriate QM systems in place to effectively comply with the relevant requirements, such as ethical (including independence) requirements
 - For example, proposed ISSA 5000 requires compliance with ISQM 1
- Proposed IESSA does not specify the responsibility of individuals within the firm for compliance with relevant ethical (including independence) requirements

Framework-
neutral approach

Determination of Public Interest Entities (PIE)

Revised PIE definition for audit engagements will come into effect in December 2024



- (a) Publicly traded entity;
- (b) Entity with a main function to take deposits from the public;
- (c) Entity with a main function to provide insurance to the public; or
- (d) Entity specified as such by law, regulation or professional standards.

- Same approach for determination of **sustainability assurance client** as for audit client
 - It also includes certain or all related entities
- Different independence regime in Part 5 for **clients that are public interest entities (PIEs)**
 - No specific determination of PIEs on the basis of sustainability information
- Provisions for PIEs in Part 5 will be applicable if:
 - The entity is a PIE for purposes of the audit of its financial statements, or
 - The specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagement

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)



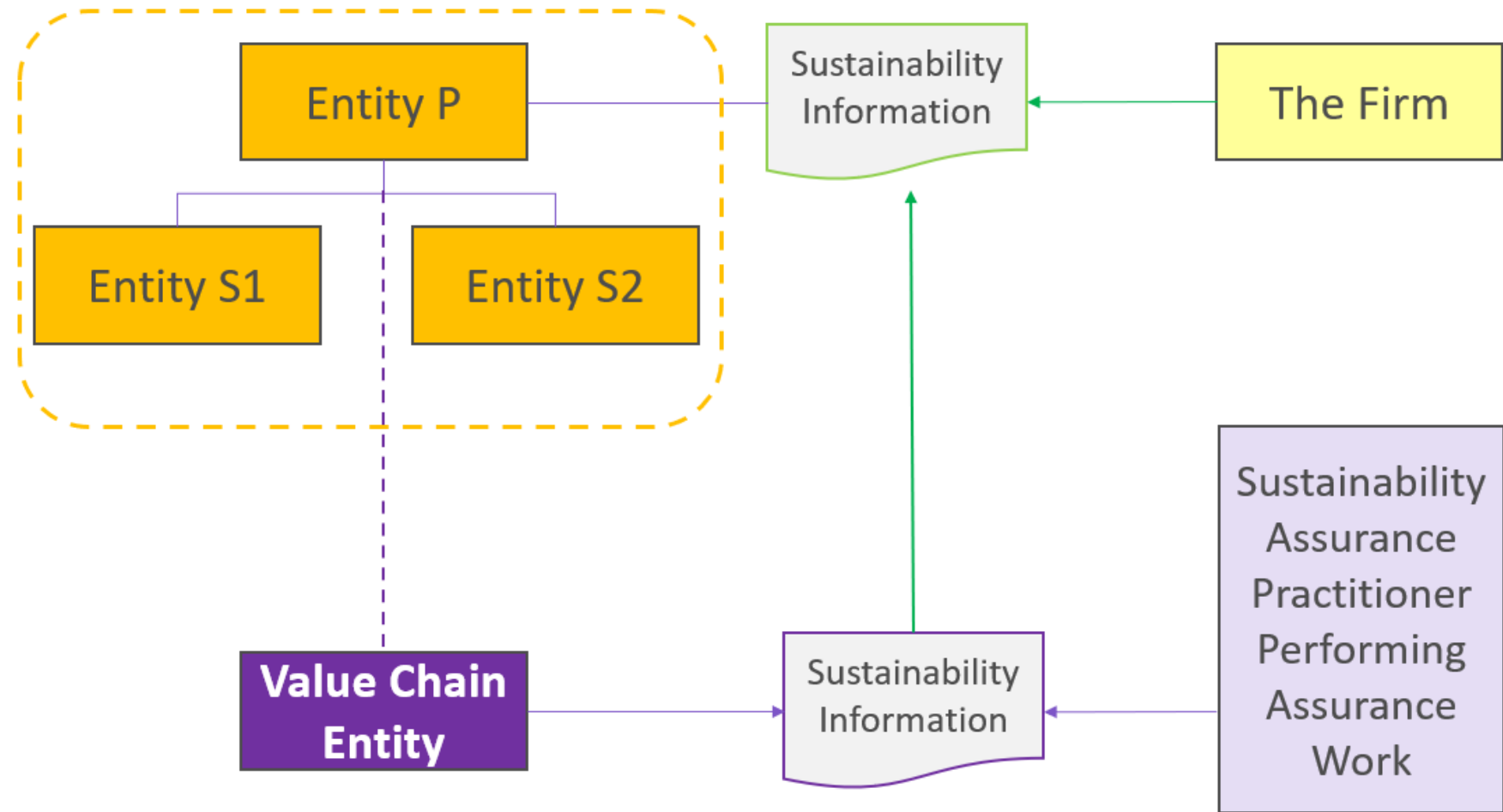
Standalone and Group SAEs

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

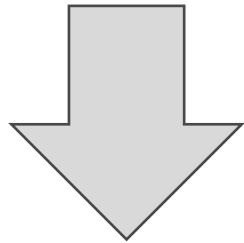


Independence Considerations – Value Chain

The firm performs assurance work at the value chain entity

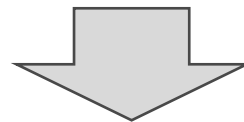
Another SAP performs assurance work at the value chain entity

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

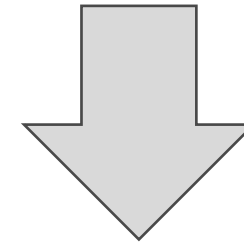


Firm and sustainability assurance team members required to be independent of VCE

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

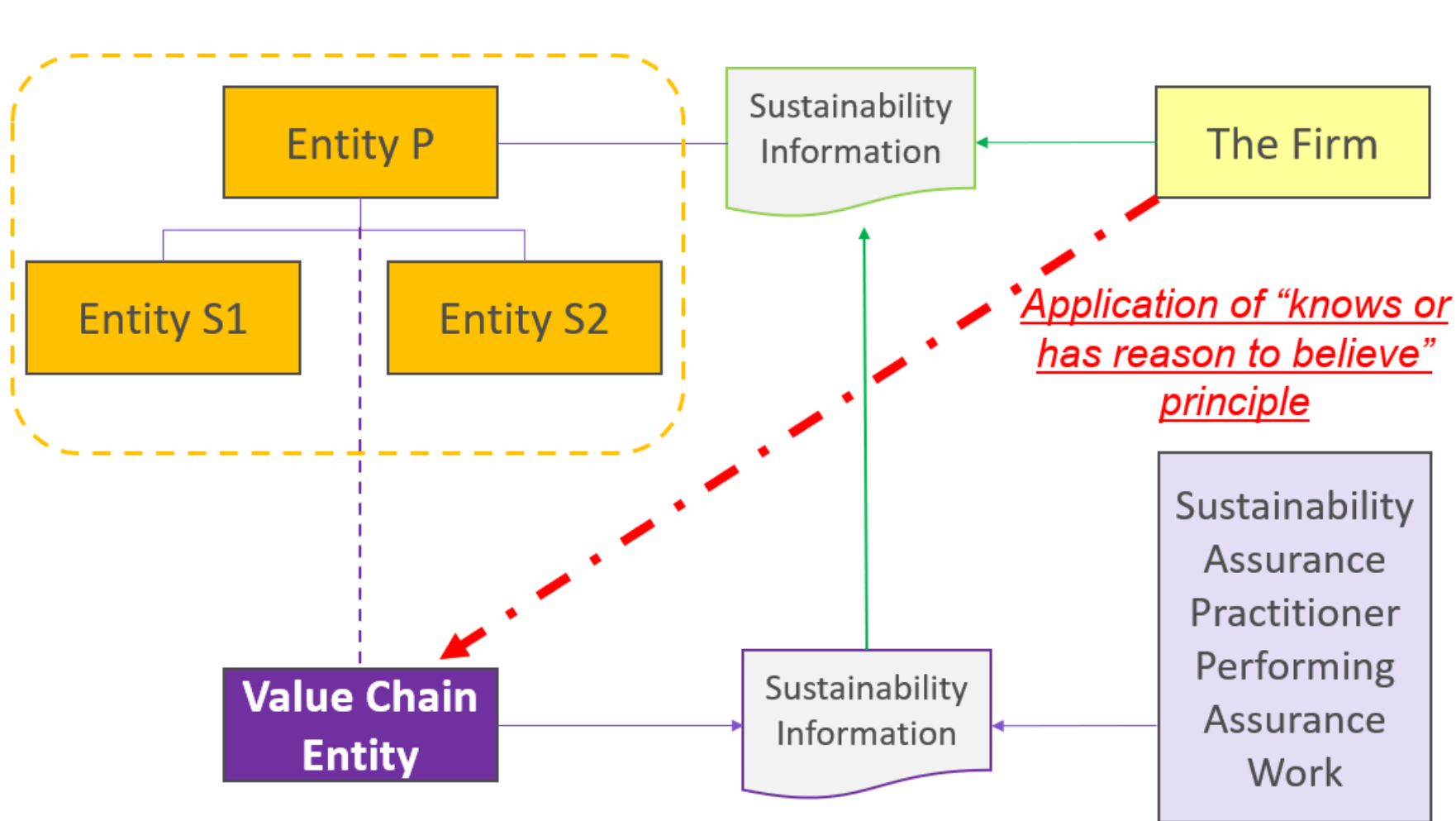


Confirmation of the other SAP's independence from VCE

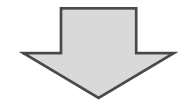


Firm and sustainability assurance team members required to be independent of sustainability assurance client

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

Providing Non-Assurance Services to a Sustainability Assurance Client

- Same threats arising from providing non-assurance services (NAS) to a client in the context of sustainability assurance engagements
 - Same prohibition from assuming management responsibilities and “self-review threat” prohibition
- Similar list of specific NAS → addresses characteristics of sustainability assurance engagements
 - Tailored examples to factors and safeguards
 - Refers to concept of materiality as being addressed in reporting and assurance frameworks
 - Focusing more broadly on sustainability data and information services instead of accounting and bookkeeping services
 - Include “future-looking” services

Sustainability Data
and Information
Services

Administrative
Services

Valuation and Other
Forecasting Services

Tax Services

Internal Audit
Services

Information
Technology Systems
Services

Litigation Support
Services

Legal Services

Recruiting Services
Corporate

Finance Services

Independence Considerations Applicable When a Firm Performs Both Audit and Sustainability Assurance Engagements

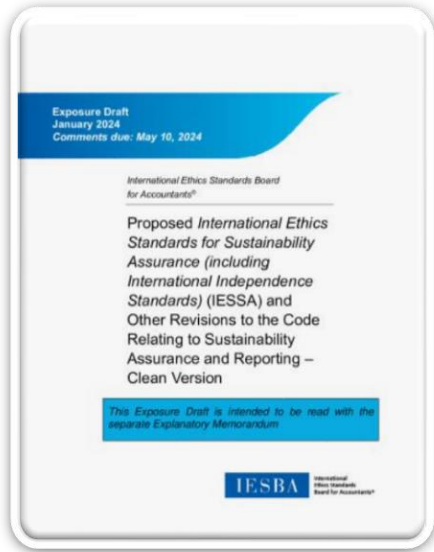
Fees

- Consideration of threats to independence related to proportion of fees from both engagements
 - Where SAE is a separate engagement from audit
 - Disclosure as non-audit fee
- No proposed prohibition or threshold

Long Association

- Service as key audit partner and key sustainability assurance leader treated as equivalent
 - Prior service in any of these roles might create threats to independence
- Factored in when determining cooling-off periods

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





www.ethicsboard.org



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