

22 July 2024

Mr. Panos Prodromides  
Chair  
Committee of European Auditing Oversight Bodies (CEAOB)  
Brussels  
Belgium

Via email: [pprodromides@cypaob.gov.cy](mailto:pprodromides@cypaob.gov.cy)

Dear Panos,

As Chair of the International Ethics Standards Board for Accountants (IESBA), I am writing in response to the CEAOB's invitation to comment on its public consultation on its draft non-binding guidelines regarding limited assurance on sustainability reporting (the draft guidelines). The development of the draft guidelines is a welcome step towards providing EU Member States with harmonized guidance for financial years beginning on 1 January 2024 under the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU), pending the adoption by the European Commission (EC) of limited assurance standards on sustainability reporting by 1 October 2026.

The IESBA strongly welcomes the CEAOB proposal, in the sense that it will allow the EU to fulfil the unregulated but already mandatory activity of sustainability assurance.

It is, however, critical that these guidelines include robust ethics and independence requirements to ensure that the assurance framework operates with quality, integrity and effectiveness.

The IESBA is therefore recommending that the CEAOB considers leveraging the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) for purposes of developing and finalizing the draft guidelines, pending the IESBA's finalization by the end of this year of its proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA).

I further address the IESSA in the appendix to this letter and explain the key characteristics of the IESSA and its comprehensive nature through illustrative key areas, and how it can assist the EU in effectively achieving the harmonization goal with respect to the ethical (including independence) provisions.

### **Paramount Role and Importance of Ethics and Independence**

At the outset, the CEAOB has made clear in the draft guidelines that they do not address ethical provisions. Instead, as highlighted in the draft guidelines, all practitioners are required to comply with the relevant ethical provisions described in the EU Audit Directive and Audit Regulation, and with any relevant national provisions as well as the provisions of the Audit Directive regarding independence, as transposed in national laws as they apply to limited assurance engagements.

Ethics and independence are a cornerstone to sustainability assurance quality and to public trust in assurance on sustainability reports. For any sustainability assurance framework to be trustworthy and effective, it must be complemented by ethics and independence standards that are rigorous, comprehensive, and interoperable with the assurance provisions. This has been rightly recognized in the CSRD and welcomed by the IESBA.

To be effective and respond to the needs of the market and investors and to the public interest, steps must be taken to ensure that the ethics and independence framework for sustainability assurance (i) is complete, covering all the relevant ethics and independence issues that may arise in sustainability assurance engagements; and (ii) is consistent and interoperable with the international ethics and independence framework. This is in the interest of the global capital markets, investors and regulators, in an area where most of the players are transnational and operate internationally.

It is, therefore, in the public interest that regulators, policy makers and standard setters unite efforts to deliver an operable and convergent framework that can be consistently used by market agents and overseen by regulators.

### **The Need for Harmonized Ethical Provisions**

A robust global baseline of high-quality ethics and independence standards is important to avoid fragmented approaches to ethical and independence provisions across jurisdictions and countries. Fragmented standards and regulations are not in the public interest, as they create unnecessary costs and complexity for practitioners and the market, sow uncertainty and confusion among global investors, regulators and other stakeholders, and allow opportunities for regulatory arbitrage.

The IESBA's IESSA will be widely used – the 35 largest transnational audit firms that form the Forum of Firms will be mandated to use it. In addition, other independent providers of sustainability assurance permitted by CSRD, subject to the Member State decisions, have already committed publicly, through the International Accreditation Forum (IAF), to use the IESSA as their own ethical and independence framework, subject to the IAF's and national accreditation bodies' supervision and enforcement, alongside sectoral regulators or enforcement systems set up at jurisdictional level.<sup>1</sup>

Finally, the International Auditing and Assurance Standards Board's (IAASB) ISSA 5000<sup>2</sup> includes express references to the IESBA Code and framework, assuming that, in most jurisdictions globally, the two frameworks, which are being conceived with a full integration approach, will be adopted and used together, ensuring perfect interoperability between the two parts of the sustainability assurance system.

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<sup>1</sup> The IESSA provides a strong response and support to CSRD's vision with respect to accepting (subject to national decisions) sustainability assurance providers other than accountants, complementing firms' capacity to respond to all the market needs in terms of sustainability assurance and profiting from important and established sources of experience in this field, while applying the same ethical framework to all providers.

<sup>2</sup> International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

Given the above, it is clear that the IESSA will reach an important level of adoption and use not only internationally but also in Europe, where a very large number of firms and independent providers of sustainability assurance will make it a reference, in addition to (or being embedded in, depending on the political decisions to be made in this respect) the EU framework.

Any significant level of fragmentation and possible differences between the EU framework and the international framework will create enormous difficulties for these firms, forcing them to use or comply with different sets of standards, preventing them from developing solid and effective consistent practices, and imposing significant burden on them and costs on clients that rely on the services they provide, which will ultimately be passed on to the investing public.

For these reasons, the IESBA is concerned that the draft guidelines do not address ethics and independence provisions, and particularly the need for harmonization of such ethical provisions across EU Member States for limited assurance engagements under the CSRD. For example, while the ethical provisions in the Audit Regulation will apply to the auditor of the financial statements of the entity who also carries out the limited assurance sustainability assurance engagement for the entity, they will not apply to other sustainability assurance practitioners should they carry out the limited assurance engagement for that entity. The emerging picture we see is that while there will be a high level of harmonization with respect to the limited assurance procedures, it will be a fragmented landscape with respect to the ethics and independence provisions across EU Member States.

That undesirable scenario may, however, be significantly mitigated. Some effective options are available to support convergence at the EU level and interoperability with the international framework (IESSA), namely:

- An interoperability exercise between the ethics and independence frameworks of CSRD and IESSA, ensuring that they cover the same issues with the same policy approach.
- The use or adoption of the IESSA by the different EU Member States as the instrument or the reference for the transposition of the high-level ethics and independence provisions established in the Audit Directive, as some Member States are already considering doing.

While developing the IESSA, the IESBA has been carefully addressing the policy options in the CSRD to avoid major inconsistencies between the two frameworks upfront. The IESBA will also be open to possible additional refinements to be made in the draft IESSA as it is imperative to ensure that both frameworks fit together and that there will be no issues preventing the EU or the EU Member States from using the IESSA as the relevant ethics and independence framework for sustainability assurance.

### **Global, Fit-for-Purpose Ethical Provisions for Sustainability Assurance**

The availability of international standards is key to setting a global benchmark and improving consistency across jurisdictions. In September 2022, the International Organization of Securities Commissions (IOSCO) publicly [recognized](#) the complementary nature of the work of both the IESBA and the IAASB and welcomed the two global standard-setting Boards' plans to develop high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited and reasonable assurance of sustainability information. The Financial Stability Board (FSB) also issued reports in 2022 and

2023 incentivizing and welcoming the work of the IESBA and the IAASB on sustainability assurance. The IESBA has committed resolutely to responding to IOSCO's and FSB's calls as a matter of the highest strategic priority. In this regard, the IESBA has been coordinating closely with the IAASB to ensure that the IESSA and the IAASB's ISSA 5000, both due to be approved later this year, are fully aligned and interoperable. This will assist practitioners using these global standards to carry out independent, high-quality sustainability assurance engagements in a consistent manner at the EU and global levels.

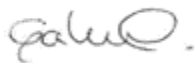
The IESBA's strategic decision to develop the IESSA on a profession-agnostic basis, beyond reacting positively to clear calls from IOSCO and FSB, will fully respond to the need for ethical provisions that will apply to all sustainability assurance practitioners in the EU, regardless of their backgrounds. In this context, earlier this year, the IESBA entered into a strategic partnership with the International Accreditation Forum (IAF), under which the IAF will stipulate to national accreditation bodies around the world that the IESSA are to be used when accrediting and authorizing conformity assessment bodies (CABs) to carry out assurance work on corporate sustainability disclosures. This means that assurance practitioners accredited under the IAF umbrella, many of whom are not professional accountants (PAs), will be complying with the robust and comprehensive ethics and independence standards set out in the IESSA when conducting sustainability assurance engagements. In the Appendix, I outline some of the key characteristics of the IESSA and why, when issued, it will provide a ready solution to the question of harmonization for ethical provisions for limited, and ultimately reasonable, assurance engagements on sustainability reporting under the CSRD.

### **Closing**

As the CEAOB finalizes the draft guidelines, I would strongly encourage the CEAOB to consider giving a greater emphasis in the document and its work to the ethics and independence component of the guidance and framework being developed, namely by recognizing the importance of each Member State adopting a strong ethics and independence framework to complement the assurance framework for sustainability assurance in a consistent manner – i.e., ensuring convergence at EU level and full consistency with the international framework to be delivered by the end of 2024. This will enhance the public trust in sustainability information and avoid the incidence of greenwashing and other ethical issues.

I thank you for the opportunity to comment on this very important document and remain at your disposal to discuss these ideas further, working together for the best possible integrated output.

Yours sincerely



Gabriela Figueiredo Dias  
IESBA Chair

### **Proposed IESSA – A Comprehensive Ethics and Independence Framework**

In formulating its approach, the IESBA agreed to develop ethics and independence standards for sustainability assurance that are profession-agnostic, framework-neutral, and equivalent to the standards for audits of financial statements.

#### *Profession-Agnostic*

Further to IOSCO's support as mentioned above, the IESBA agreed to develop profession-agnostic global ethics and independence standards for sustainability assurance engagements. This means that the IESSA should be capable of being understood and applied by all practitioners of sustainability assurance engagements, including those who are not PAs. The IESBA agreed that profession-agnostic standards best serve the public interest, given that there are already different types of practitioners currently performing sustainability assurance engagements and that, in a number of jurisdictions, they are mostly not PAs.

The IESBA has also developed the IESSA under a new Part 5 of the IESBA Code to allow easier access to the ethics (including independence) standards for sustainability assurance by practitioners, especially those who are not PAs.

#### *Framework-Neutral*

To align with the Code's current approach, the IESBA is developing the ethics (including independence) standards in the proposed IESSA in a framework-neutral way so that they can underpin any reporting or assurance framework used to prepare or assure the sustainability information. For instance, the IESSA will be interoperable with the European Sustainability Reporting Standards (ESRS), the International Sustainability Standards Board's (ISSB) IFRS S1 and S2 standards, the IAASB's ISSA 5000, and relevant sustainability assurance standards issued by the International Organization for Standardization (ISO) for use by conformity assessment bodies, to name a few.

#### *Equivalent to Audit*

Recognizing the public interest in sustainability information that meets certain criteria, including sustainability information that is prepared in accordance with a general purpose framework and is publicly disclosed, the IESBA has agreed to the premise that sustainability assurance engagements on such information must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information, irrespective of whether the assurance engagements are limited or reasonable assurance engagements.

#### *Ethics Standards in the IESSA*

The EU laws provide that a Member State may allow an independent assurance service provider to conduct a limited assurance engagement on sustainability reporting as long as the provider is subject to requirements equivalent to those set out in the Audit Directive, including professional ethics, independence and objectivity.

The Audit Directive sets out a framework of high-level ethical requirements, requiring Member States, among other things, to ensure that:

- All statutory auditors and audit firms are subject to principles of professional ethics, covering at least their public-interest function, their integrity and objectivity and their professional competence and due care.
- All information and documents to which a statutory auditor or audit firm has access when carrying out a statutory audit are protected by adequate rules on confidentiality and professional secrecy.
- The statutory auditor or firm recognizes the possibility of a material misstatement due to facts or behavior indicating irregularities.

The proposed IESSA includes the five fundamental principles of ethics and conceptual framework as the foundational building blocks for its ethics and independence framework for sustainability assurance to address a range of ethical issues such as Conflicts of Interest, Fees and Other Types of Remuneration, Inducements Including Gifts and Hospitality, and Responding to Non-Compliance with Laws and Regulations.,

The draft guidelines have included guidance material on the use of experts' work. In this regard, the proposed IESSA has also included a new ethics standard on Using the Work of an External Expert for all professional services, including sustainability assurance engagements, if the expert is an external expert who is not part of the sustainability assurance team.

In light of the comprehensive nature of the ethics (including independence) standards set out in the proposed IESSA, the IESBA believes that if a Member State adopts or otherwise uses the IESSA, practitioners in that jurisdiction will comply with the ethics requirements set out in the Audit Directive.

#### *Independence Standards in the IESSA*

The Audit Directive has set out a series of independence provisions covering issues such as relationships with the reporting entities, employment of former statutory auditors, prohibition of certain non-audit services to audited entities that are public interest entities, fees and the internal organization of statutory auditors and audit firms.

The proposed IESSA, as a comprehensive ethics and independence framework, includes proposed independence standards that are equivalent to those for audits of financial statements. Similar to the situation for the proposed ethics standards in the IESSA, the IESBA believes that if a Member State adopts or otherwise uses the IESSA, practitioners in that jurisdiction will largely comply with the independence provisions set out in the Audit Directive, not only for limited assurance but also for reasonable assurance engagements.

The IESBA commends the CEAOB for including in the draft guidelines guidance material on assurance with respect to groups and consolidated information as well as value chain information. In this regard, the IESSA will include independence standards for group sustainability assurance engagements that are equivalent to the comprehensive independence standards for group audits in the IESBA Code. Further, the IESSA will also include independence standards relating to assurance with respect to value chain, and



using the work of another practitioner as these are reporting and assurance concepts that are specific to the sustainability landscape. The IESBA believes these topics create a number of key independence matters that should be properly addressed and therefore, has dedicated significant time and effort to deliberate these matters. The IESBA is also coordinating closely with the IAASB on these topics to ensure that ISSA 5000 and the IESSA are fully aligned and interoperable.