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Chair  
International Ethics Standard Board  
for Accountants (IESBA)

Sent via IESBA website

Brussels, 10 May 2024

**Subject: Proposed IESSA and Other Revisions to the Code Relating to Sustainability Assurance and Reporting**

Dear Gabriela,

Accountancy Europe is pleased to provide you with its comments on the IESBA's Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting.

Sustainability reporting and assurance should be given the highest priority by all stakeholders including the IESBA. We agree that ethical standards for sustainability assurance should be profession-agnostic, framework-neutral and principles-based.

Sustainability reporting is still evolving and many entities will likely face challenges in establishing the necessary reporting systems within tight legislative deadlines as is the case in the European Union. It is therefore imperative that such entities have access to technical assistance. In this regard, the Code should aim for the highest level of ethical standards while not inadvertently limiting the availability of professional services by unnecessarily stringent rules.

Proposed requirements and application material are quite prescriptive and complex. Supporting guidance and further clarification will be needed to foster adoption and for consistent application in practice. There is still room for simplification and customisation considering sustainability-specific matters and examples.

One of our fundamental concerns is the fact that the IESBA's proposals do not exhibit equal treatment to professional accountants (PAs) and other service providers. There has to be level-playing field for all professions performing sustainability assurance engagements. In addition, the IESBA should reconsider proposed provisions and notions regarding cases where financial statements auditor performs the sustainability assurance engagement.

The IESBA and IAASB should align their terminologies and timelines to the maximum extent possible, for the projects that are within the scope of both Boards' mandate.

We thank you for the opportunity to comment on this very important piece. For further information on this letter, please contact Harun Saki at [harun@accountancyeurope.eu](mailto:harun@accountancyeurope.eu).

Sincerely,



Olivier Boutellis-Taft  
Chief Executive

### **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

## ANNEX - REQUEST FOR SPECIFIC COMMENTS

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### Main Objectives of the IESSA

1. *Do you agree that the proposals in Chapter 1 of the ED are:*
  - (a) *Equivalent to the ethics and independence standards for audit engagements in the extant Code?*
  - (b) *Profession-agnostic and framework-neutral?*

We agree with the premise that sustainability assurance engagements must be underpinned by the same level of standards for ethical behaviour and independence as those apply to financial statement audits. In this regard, we appreciate why the IESBA has taken the extant Code as the starting point for developing Part-5. As noted in our detailed responses below, there is still a need to refine certain provisions which fail to address matters that are relevant specifically to sustainability.

We also agree that ethical standards for sustainability, especially for assurance, should be profession-agnostic. Accountancy Europe represents the European accounting and audit profession. Therefore, we are not in a position to comment on whether proposed Part 5 is capable of being understood and applied by non-PAs.

However, the Code with proposed revisions treats PAs and non-PAs differently as can be seen in the examples below:

- For non-professional accountant SAPs who perform professional activities and have professional relationships not covered by proposed Part 5, paragraph 5100.2b(b) only encourages application of the general conduct provisions of Parts 1 to 4B of the IESBA Code.
  - Proposed para. 5100.6 A1 states unequivocally that “*Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.*” This is at odds with the counterpart in Section 100.6 A3 of the IESBA Code, which states: “*Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest.*”
  - R5410.21 which presents an exception to paragraph R5410.20 and allows the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest. There is however a differential requirement for cases where there is no designated regulatory or professional body in the relevant jurisdiction.
2. *Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?*

We agree that the IESBA’s project is an important response to current need for robust ethical standards applicable to all providers of sustainability assurance. A short guide to Part-5 should be considered by the IESBA to explain the purpose and structure of Part 5 as well as how to use it. In addition, implementation support, which might include an FAQ document would be very helpful.

Part 5 should also be made available in digital format that allows filtering requirements based on the characteristics of the sustainability assurance engagement and the party performing the engagement.

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### Definition of Sustainability Information

3. *Do you support the definition of “sustainability information” in Chapter 2 of the ED?*

Yes, we support the proposed broad and generic definition of “sustainability information” which is necessary for the Code to be framework neutral. We understand that subparagraph (b) of the definition scopes in terms and definitions used in laws and regulations or by other standard setters, such as the IAASB’s definition in the ISSA 5000 Exposure Draft.

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#### Scope of Proposed IESSA in Part 5

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

Yes, we agree that Part 5 should also cover other services provided to the same entity. However, as noted in our response to question 16, the IESBA should follow a principles-based approach setting general requirements in section 5600.

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

Yes, we agree with the criteria proposed in paragraph 5400.3a and the objective of the IESBA to develop ethics (including independence) standards for sustainability assurance engagements that are equivalent to those that apply to audits of financial statements.

However, the IESBA should consider revising Part 4-B which will be applicable for other sustainability assurance engagements that are not within the scope of the IIS in Part 5, when the sustainability assurance practitioner is a PA.

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#### Structure of Part 5

6. *Do you support including Section 5270 in Chapter 1 of the ED?*

Yes, we agree with the inclusion of Section 5270 in proposed IESSA. Examples of potential pressures mentioned in this section can be expanded by including pressures from the entity connected with intentional or unintentional greenwashing.

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#### NOCLAR

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

Yes, we agree that the auditor and the sustainability assurance practitioner should consider communicating (actual or suspected) NOCLAR to each other, having considered the factors listed in paragraphs 360.18a A1 and 5360.18a A1, respectively.

Examples of laws and regulations given in paragraph 5360.5 A2 includes a broad range of issues that may indeed be relevant in a sustainability assurance engagement. However, it should be clarified that the practitioner is not expected to search for cases of NOCLAR and section 5360 deals only with (actual or suspected) NOCLAR that the practitioner becomes aware of in the course of providing services to the sustainability assurance client.

We also believe that sustainability assurance practitioners should primarily focus on non-compliance that might result in fines, litigation or other consequences materially affecting entity's sustainability information.

8. *Do you support expanding the scope of the extant requirement for PAIBs?*

Yes, we support proposed revisions that require the senior PA to determine whether to disclose (actual or suspected) NOCLAR to the external auditor *and* sustainability assurance practitioner performing an engagement within the scope of the IIS in Part 5. R260.15 requires considering disclosure to the external auditor *or* sustainability assurance provider. We believe that there may be instances where communication to both is warranted especially when they are not the same firm.

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## Determination of PIEs

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

Yes, we agree that the determination of a PIE for sustainability assurance engagements should depend on whether the entity has been determined as such for the purposes of the audit of its financial statements in accordance with the Part 4A. Otherwise, there will be practical difficulties in application and confusion for the users of sustainability reporting and assurance.

In cases where the auditor voluntarily decides to treat an entity as a PIE for purposes of the audit of its financial statements, the proposals do not require another firm performing the sustainability assurance engagement to treat the entity as a PIE. However, it is not clear what the implications will be with respect to a sustainability assurance engagement performed by the same firm conducting financial statements audit. As a minimum, however, SAP should consider the criteria that led the financial statement auditor to voluntarily treat the entity as a PIE – and should determine whether this may also be appropriate for the purposes of sustainability assurance.

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## Group Sustainability Assurance Engagements

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

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

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

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

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

*(iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements?*

In principle we agree that the group engagement partner should be responsible for communicating relevant ethics, including independence requirements to component sustainability assurance firm and other practitioners whose work is used for group engagement purposes.

Proposed requirements in Section 5405 were adopted from extant Section 405 which is based on ISA 600, Audits of Group Financial Statements. This section is overly complex. Without supporting guidance and further clarification, it will not be suitable to foster acceptance, nor consistent application in practice, by non-PAs.

Sustainability assurance standards such as IAASB's Exposure Draft ISSA 5000, do not address group engagement considerations in detail. In addition, Section 405 has come into effect recently and audit firms are in the process of applying it. Therefore, we anticipate practical issues and challenges in applying Section 5405. The IESBA could keep high-level requirements in this Section and defer addressing group-specific scenarios until how a group sustainability assurance work should be performed is clarified by the performance standards, such as ISSA 5000.

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### Using the Work of Another Practitioner

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

We believe that without supporting guidance and further clarification, consistent application of the requirements in Section 5406 will not be possible in practice.

The ability of the practitioner to obtain confirmation from other practitioners will be limited when they are not able to direct, supervise and review other practitioners' work. Furthermore, the proposals do not clarify the implications if the other practitioner does not respond to the request for confirmation.

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

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

We agree that defining the term value chain is a reporting concept that is often described in sustainability reporting frameworks. According to the European Sustainability Reporting Standards, value chain is the full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates.

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

Yes, we partially support the provisions in Section 5407.

For reporting purposes, value chain will include more than individually identifiable entities. For the entities within the value chain of sustainability assurance client, it will be extremely challenging to comply with proposed paragraph R5407.3 that requires SAP to be independent of the value chain entity if assurance work is performed at the value chain entity. Even though this paragraph does not spell it out, paragraph 108 of the explanatory memorandum suggests that sustainability assurance team will need to be independent from not only the value chain entity, but also its relevant related entities. This is quite onerous and may, in practice, lead SAPs not to seek to perform work at the value

chain entity and impair the quality of the assurance engagement. Finally, as noted in our response to question 14, in today's business environment the location of the work performed cannot be a relevant and thus determining factor.

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

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

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

We do not support the approach taken by the IESBA as it is quite challenging to apply in practice. Firstly, the nature and significance of the information should be the determining factor rather than the location of the assurance procedures performed. Secondly, companies may have hundreds of value chain entities with which they have relationships and activities, but they will not have control over them as these entities may well be outside their organisational boundary. Finally, sustainability assurance practitioners will not have a contractual arrangement with these entities. Therefore, monitoring and maintaining independence from the full range of entities in the value chain will not be practically possible.

Accordingly, proposed Section 5700 should take a high-level threats-safeguard approach and provide further guidance on how to apply proposed requirements in practice, especially when a threat has been identified. We also believe that if the sustainability information of the value chain entity has been subject to assurance by practitioners applying the Code, this could already be considered as a safeguard.

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## Providing NAS to Sustainability Assurance Clients

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

Yes, we agree with the provisions in Section 5600 including the self-review threat prohibition, determination of materiality as a factor, and communication with TCWG.

Paragraph R5600.17 sets a general requirement that sustainability assurance provider shall not provide a non-assurance service to the same entity that is a PIE if the provision of that service might create a self-review threat. This makes other paragraphs repeating the self-review threat prohibition for specific type of NAS (such as R5603.5, R5604.15, R5604.19 R5604.24, etc.) redundant. As such, Part 5 does not need to include those paragraphs in Part 5.

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

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

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

No, we disagree with covering specific types of NAS and believe that overarching principles set under Section 5600 should be sufficient (for example, see our suggestion related to the self-review threat prohibition in response to Question 15).

Subsections 601-610 of the extant Code had been developed as response to evolving practices and needs with regards to financial statements audit. As the sustainability reporting and assurance practices mature, IESBA could consider adding subsections to the Code to address ethical considerations for various type of services provided by SAPs.

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

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

No, we believe that the IESBA should reconsider proposed provisions regarding cases where a firm performs both audit and sustainability assurance engagements for the same entity. In fact, complying with a requirement in Parts 1 to 4A would achieve compliance with the corresponding requirement in Part 5, and vice versa.

We also disagree with IESBA's premise that a firm providing these two services should consider applying safeguards regarding the proportion of non-audit, including for sustainability assurance, to audit fees. In cases where the sustainability assurance engagement is required by law or regulation, the notion that the proportion of fees for the audit engagement to the fees for sustainability assurance may affect the firm's independence becomes void. PAs should evaluate the level of threats considering the proportion of fees for assurance services, including audit, to fees received from non-assurance services.

It should also be noted that some provisions of the Part 5 will not be relevant when the same firm performs the financial statements audit of the entity. For example, when a firm provides sustainability services to the audited entity, Part 4A requires the firm to disclose the fees for such services. There are similar requirements for public disclosure of fee-related information in section 5410 and we are not sure how these will work together with corresponding requirements in section 410.

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### Other Matters

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

No, we believe that the provisions in Chapter 1 of the ED are largely focused on finance-oriented thinking. This is understandable as practices in sustainability reporting and assurance are in their early stages and still evolving.

We suggest reviewing the examples provided in this Chapter with a view to consider if they are indeed relevant from a sustainability assurance perspective.

In addition, certain type of actions, such as having an appropriate reviewer who was not a member of the team review the work performed, are repeatedly given as examples of safeguards to be applied in different parts of the Code. We believe these examples should be retained only in general sections



such as Section 5300 Applying the Conceptual Framework and Section 5600 Provision of Non-Assurance Services to a Sustainability Assurance Client. This would be more in line with principles-based approach.

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

Transitional provisions should be considered for specific sections such as the provisions related to long association of personnel, including leader rotation.

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### Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

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

We believe that the IESBA should not start working on this work stream before making sure that there is a need and appetite for the adoption of its Code by non-PAs. Accordingly, the IESBA should consider this as a broader strategic matter that requires engagement with a broad range of stakeholders. Otherwise, the Board's limited resources will have been used to develop profession-agnostic ethics standards for sustainability reporting which may not be operable or enforceable in practice.

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

Yes, we agree that extant Parts 1 to 3 of the Code already contain robust ethics standards that can be applied to financial and sustainability reporting. Accordingly, substantive changes to address ethics issues specific to sustainability reporting are not required. However, as the practice evolves, the IESBA may update the Code as necessary.

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### Proposed Revisions to the Extant Code

*22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:*

*(a) Proposed revisions to Section 220?*

*(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?*

*(c) Other proposed revisions?*

Yes, we agree with the proposed revisions to Parts 1 to 3 of the extant Code.

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

No, there are no other matters we would like to raise concerning the proposals in Chapter 4 of the ED.

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### Effective Date

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

Yes, we support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000.