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Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
The United States of America

Dear Sir,

The IESBA Exposure Draft on *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards, financial reporting standards as well as sustainability disclosure standards in Hong Kong. We welcome the opportunity to provide our comments on the captioned IESBA Exposure Draft (ED-IESSA). The HKICPA appreciates the IESBA's work in this area, the time and effort in organizing global webinars on the ED-IESSA and explaining the proposed new requirements. During the local consultation on the ED-IESSA, the HKICPA has reached out to its members, sustainability assurance practitioners (professional accountants and non-professional accountants), small and medium practices, preparers of sustainability reports, regulators and other stakeholders.

Overall, we support the development of the ED-IESSA aimed at maintaining public trust in providing sustainability assurance. The proposed ethics and independence standards are especially relevant where sustainability information is increasingly becoming important for multiple stakeholders including investors, consumers, companies and governments as well as when service providers outside of the accounting profession play a role in sustainability assurance. Having said that, these proposed standards would only work effectively when there is an established framework (including monitoring and enforcement) for sustainability reporting and assurance similar to the reporting and audit of financial statements. Many jurisdictions are still in the early stages of establishing the framework for sustainability reporting and assurance. Hence, there is a pressing need to ensure a level playing field for all sustainability service providers to foster trust and transparency among users of sustainability disclosures.

However, challenges are anticipated in implementing certain requirements as proposed in the ED-IESSA, such as provisions regarding fee-related information disclosures, NOCLAR, value chain entity as well as non-assurance services.

Our responses to the specific questions raised in the ED-IESSA are set out in the Appendix for your consideration. We trust that our comments are of assistance to you.



Hong Kong Institute of
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If you require any clarifications on our comments, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hkiipa.org.hk).

Yours faithfully,

Cecilia Kwei
Director, Standard Setting Department

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?**
[See paragraphs 19 and 20 of the Explanatory Memorandum (EM)]
 - (b) **Profession-agnostic and framework-neutral?** ***[See paragraphs 21 and 22 of the Explanatory Memorandum]***

Other than the anticipated implementation challenges explained in this Appendix, we support the proposed ethics and independence standards in ED-IESSA which we consider to be equivalent to those for audit engagements in the extant Code.

The proposed ethics and independence standards are especially relevant where sustainability information is increasingly becoming important for multiple stakeholders including investors, consumers, companies and governments as well as when service providers outside of the accounting profession play a role in sustainability assurance. Having said that, these proposed standards would only work effectively when there is an established framework (including monitoring and enforcement) for sustainability reporting and assurance similar to the reporting and audit of financial statements. Many jurisdictions are still in the early stages of establishing the framework for sustainability reporting and assurance. Hence, there is a pressing need to ensure a level playing field for all sustainability service providers to foster trust and transparency among users of sustainability disclosures.

We consider that the ED-IESSA meets the objective of being profession-agnostic, as long as non-professional accountant practitioners (non-PA practitioners) commit to comply with the requirements in ED-IESSA when undertaking sustainability assurance engagements. Non-PA practitioners are expected to perform a thorough gap analysis to compare their existing procedures and policies with the relevant requirements and take steps to ensure their compliance with ED-IESSA by addressing any identified shortcomings and supplementing them. We would also like to emphasize that the ED-IESSA can only truly be profession-agnostic in practice if there is a robust and effective monitoring and enforcement system that is implemented consistently across both professional accountant practitioners (PA practitioners) and non-PA practitioners.

We suggest the IESBA coordinate with regulators and global accreditation bodies to promote the consistent use of a global framework of high-quality ethics standards for sustainability assurance. In particular, in the IESBA's partnership with the International Accreditation Forum (IAF), it would be useful for the accounting profession and users of sustainability disclosures if the IESBA and IAF have a roadmap on how and when IAF would incorporate the IESSA as part of the accredited verification activities of ISO compliant programs as they apply to assurance of sustainability information and the expectation on members of IAF. Public information as to IAF members' compliance status with IAF's standards similar to adoption status of IESBA Code by IFAC members would foster trust and transparency.

In addition, we request that the IESBA persist in its endeavors to educate market players about the benefits of following high quality ethics (including independence) standards in sustainability assurance engagements. We believe education plays an important role in promoting such benefits which would in turn lead to public trust and confidence and support healthy growth in the sustainability assurance market.

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? [See paragraph 23 of the Explanatory Memorandum]**

We agree that the ED-IESSA is responsive to the public interest.

We appreciate that the IESBA has engaged in extensive outreach activities and identified the public interest needs to further enhance the Code. We suggest that the IESBA develop a roadmap on the development of sustainability ethics to better manage stakeholders’ expectation, for example, the IESBA mentions in paragraph 42 of the explanatory memorandum (EM) that it will consider further enhancing the Code to ensure all independence standards for sustainability assurance engagements are addressed in a profession-agnostic manner (i.e. non-PA practitioners are encouraged but not required to comply with Part 4B provisions when performing other sustainability assurance engagements outside of the scope of the Independence Standards in ED-IESSA). The IESBA also mentions in paragraph 135 of the EM that it will explore the opportunity to extend the impact of the Code beyond the accountancy profession.

In addition, we suggest including Appendices 1 to 3 of the EM in the revised Code to assist users in reading and applying the Code. These appendices clearly set out the structure of the Code and guide all practitioners on how to use the Code when performing different types of engagements (e.g. Part 4A for audit; Part 4B for assurance; and Part 5 for sustainability assurance, etc.).

Definition of Sustainability Information

3. **Do you support the definition of “sustainability information” in Chapter 2 of the ED? [See paragraphs 24 to 26 of the Explanatory Memorandum]**

We acknowledge that the intentionally broad definition of “sustainability information” aims to encompass both sustainability assurance and sustainability reporting. However, we believe that it would be helpful for the IESBA to include examples of the types of information that lie outside the scope of the definition in order to assist practitioners in effectively implementing the ED-IESSA. An example could be where the client embeds hyperlinks within the sustainability report which direct readers to the entity’s website with various sustainability policies and related information (i.e. the sustainability policies may or may not be related to the information being assured). It would be helpful for the IESBA to clarify what would meet the definition of “sustainability information” in this case.

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? [See paragraphs 30 to 36 of the Explanatory Memorandum]**

We agree that the ethics standards in the new Part 5 which provide ethical principles to practitioners who carry out professional services to the sustainability assurance clients extend to all other services provided to the same sustainability assurance clients.

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? [See paragraphs 38 to 43 of the *Explanatory Memorandum*]**

We agree that the independence standards in Part 5 should only be applied to sustainability assurance engagements with a similar level of public interest as audits of financial statements which applies specifically to sustainability assurance engagements where the sustainability information, on which the practitioner expresses an opinion, is reported in accordance with a general purpose framework and is required to be provided by law or regulation, or publicly disclosed to support decision-making by investors or other stakeholders, as set out in paragraph 5400.3a.

Structure of Part 5

6. **Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of the *Explanatory Memorandum*]**

No specific comment.

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? [See paragraphs 56 to 67 of the *Explanatory Memorandum*]**

Our local stakeholders do not object to the proposed provisions added in extant Section 360 and in Section 5360 for the auditor and the sustainability assurance practitioner to consider communicating NOCLAR to each other but they are of the view that the overall NOCLAR requirements in respect of sustainability assurance engagements should not be at the same level as those imposed on financial statement audits. In terms of current practice, practitioners are required to comply with the relatively less stringent requirements set out under “Professional Services Other than Audits of Financial Statements” in Section 360 of the extant Code for sustainability assurance engagements.

They have also expressed concern regarding the suitability of implementing the NOCLAR provisions (Section 5360) at the present time. Paragraph R5360.11 requires practitioners to discuss NOCLAR matters with the appropriate level of management and, where appropriate, those responsible for governance if they identify suspect instances of NOCLAR. Given that practitioners may be engaged to provide limited assurance for only a limited portion of the client’s sustainability information and sustainability assurance may be obtained on a voluntary basis, the compliance efforts required to adhere to the NOCLAR provisions could potentially place an undue cost on sustainability assurance practitioners.

Furthermore, sustainability assurance is still evolving and the guidelines are continually being developed. Imposing the NOCLAR requirements to a new market like sustainability assurance may have unintended consequences for practitioners. For example, practitioners may unintentionally fail to identify situations that fall under NOCLAR given the evolving nature of sustainability reporting resulting in inadvertent non-compliance. Therefore, our local stakeholders are of the view that NOCLAR requirements should be restricted to sustainability information that is subject to assurance and suggest this to be explicitly stated in Section 5360. The IESBA should take care not to place undue cost on practitioners especially in cases when

they may be engaged to provide limited assurance for only a limited portion of the client's sustainability information.

Considering these concerns, we recognize the need for more non-authoritative materials such as case studies to illustrate the expected work effort involving a limited assurance engagement versus that of a reasonable assurance engagement.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) [See paragraph 68 of the Explanatory Memorandum]

No specific comment.

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? [See paragraphs 80 to 85 of the Explanatory Memorandum]

We agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements to ensure consistent application of the requirements and maintain a high quality sustainability assurance.

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. [See paragraphs 86 to 92 of the Explanatory Memorandum]

(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 in 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? [See paragraph 88 of the Explanatory Memorandum]

(iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, "group sustainability assurance engagement" and "component")?

We support addressing group sustainability assurance engagements in the *International Independence Standards* in Part 5 of the ED-IESSA. In terms of practical issues regarding the application of proposed Section 5405, non-PA practitioners may have difficulty in understanding terminologies such as network firms and components leading to inconsistent or inappropriate application. The lack of understanding may lead to unintentional breaches of those requirements. We recommend that the IESBA develop frequently asked questions or case studies to illustrate the relevant requirements. In addition, we would like to highlight that non-PA practitioners may face challenges when obtaining independence-related information from their network firms as there is currently no established system in place for such information sharing.

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? [See paragraphs 93 to 101 of the Explanatory Memorandum]**

No specific comment.

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? [See paragraphs 102 and 103 of the Explanatory Memorandum]**

No specific comment.

- 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? [See paragraphs 104 to 110 of the Explanatory Memorandum]**

We are of the view that requiring the practitioner who performs assurance work at the value chain entity of the sustainability client to be independent of the value chain entity is excessive and disproportionate in the context of a sustainability assurance engagement. This is particularly the case when (i) value chain entity is not the reporting entity of the sustainability information, (ii) the number of value chain entities involved may be significant, and (iii) the extent of work performed at each value chain entity may be limited for the time being given that in many cases limited assurance is provided on a limited scope of sustainability information. While we acknowledge that this is a matter for consideration in terms of the scope of assurance engagement and that it falls under the purview of the IAASB's proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, we would appreciate it if the IAASB and the IESBA can work together to address this area considering current practice and the evolving scope of sustainability assurance.

In addition, there seems to be an inconsistency between the explanation of the proposed independence requirement in paragraph 108 of the explanatory memorandum and the draft wording in paragraph R5407.3. Paragraph 108 states clearly that the firm and members of the sustainability assurance team will need to be independent from not only the value chain entity, but also its relevant related entities which is missing in paragraph R5407.3. It would be helpful to clarify in paragraph R5407.3 to ensure consistent application of the independence requirement. Furthermore, we would like to emphasize that extending the requirement to

the related entities of the value chain entity would be challenging in practice based on the aforementioned reasons.

Furthermore, we note that there are different approaches which could be used by practitioners when determining assurance procedures at the value chain entity (i.e. paragraph 5407.2 A1) which are subject to different independence requirements (i.e. paragraphs R5407.3 and R5407.4). However, the rationale behind the differences in independence requirements has not been explained in the ED-IESSA or the explanatory memorandum. We recommend that the IESBA explain the rationale in the Basis for Conclusion for better understanding by practitioners.

Lastly, we suggest that the IESBA clarify paragraph 5407.2 A1(a) when it refers to “at the value chain entity”. With the use of technology and availability of remote access, practitioner is able to obtain information directly from the value chain without being physically “at the value chain”. In addition, it will also be useful to clarify whether obtaining direct confirmation from the value chain entity is considered as performing work “at the value chain entity”. This clarification will enhance practitioners’ understanding of how to approach situations involving a value chain entity, enabling them to apply the appropriate independence considerations as set out in paragraphs R5407.3 to R5407.6 to ensure consistent implementation of the requirements.

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? [See paragraphs 111 to 114 of the Explanatory Memorandum]**

We regard that the threats arising from the relationships between the firm, a network firm, or a member of the sustainability assurance team and a value chain entity are low due to their remote relationships. Additionally, according to paragraphs 112 and 113 of the IESBA’s explanatory memorandum, the IESBA proposes in Section 5700 that the threats to independence arising from these relationships should generally be low and addressed based on the principle of “knows or has reason to believe.” And hence implementing the “knows or has reason to believe” principle should not impose a monitoring obligation on the firm. In view of this, we do not perceive any necessity to include such requirements in the ED-IESSA.

We recommend that the IESBA provide clarity on its expectation of work to be performed in order to comply with Section 5700 requirements consistently. In paragraph 113 of the IESBA’s explanatory memorandum, the IESBA mentions that the principle of “knows or has reason to believe” used in paragraph 5700.4 is well-established in the extant Code. However, its application in the context of ED-IESSA may pose challenges for both non-PA practitioners who are unfamiliar with such a concept and PA practitioners due to the extended requirements that now encompass relationships between the firm, a network firm, or a member of the sustainability assurance team, and a value chain entity (which is newly introduced in ED-IESSA). The absence of specific guidance and examples in Section 5700 regarding the factors to consider when identifying and evaluating threats makes it challenging for all practitioners to apply the “knows or has reason to believe” approach consistently.

In contrast, Section 5600 offers comprehensive provisions and specific examples to assist practitioners in identifying, evaluating, and addressing threats related to the provision of non-assurance services to a sustainability assurance client. However, Sections 5700 and 5407, which deal with interests, relationships, or circumstances involving value chain entities and independence considerations in assurance work, respectively, do not provide explicit examples or guidance to aid practitioners in identifying and evaluating different threats associated with value chain entities.

Therefore, we recommend that the IESBA provide more guidance with specific examples in Section 5700 to ensure consistency and clarity in addressing the matter.

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)? [See paragraphs 115 and 116 of the Explanatory Memorandum]

In view of the evolving development of sustainability reporting and assurance, we suggest that the IESBA incorporate transitional arrangement or implement the provisions in Section 5600 in phases. With the emergence of new sustainability reporting requirements in recent years and the absence of sustainability assurance requirement in certain jurisdictions, entities are expected to prioritize their efforts on preparing sustainability information and approaching external consultants (PA and non-PA practitioners) for assistance in the form of non-assurance services. We believe that the experience gained by external consultants from such non-assurance services will also be helpful to them in pitching for, planning and conducting sustainability assurance engagements when the need for assurance arises.

In this regard, the implementation of the provisions in Section 5600 at the same time as the other fundamental principles within ED-IESSA may result in unintended consequences in reducing the pool of practitioners that will be available to clients as a practitioner who intends to provide sustainability assurance in future years cannot provide certain NAS to the same client. This is particularly relevant in the current market where there are already limited quality sustainability assurance providers and where the majority of clients seeking sustainability assurance are public interest entities.

From a practitioner’s perspective, they might become more cautious when accepting sustainability assurance engagements and negotiating fees due to the proposed restrictions imposed by Section 5600. As a result, the pool of practitioners available to client may also be limited as clients may be declined and compelled to seek another practitioner for their sustainability assurance needs. If that other practitioner is not subject to regulatory oversight and enforcement regarding sustainability assurance, this raises concern about the quality of work, considering the absence of mandatory regulatory requirements to comply with specific assurance frameworks and ethical requirements. The overall impact could be detrimental to the sustainability reporting and assurance as a whole.

Furthermore, the inaugural ISSB standards (i.e. IFRS S1 & S2) were published just ten months ago and the ISSB is already planning to publish more topical standards; at the same time, the assurance reporting framework (i.e. ISSA 5000) is still undergoing development. These developments indicate that a larger volume of sustainability information would be subject to reporting requirements and subsequently require assurance. Given the ever-evolving landscape, implementing such a stringent requirement within Section 5600 may not be conducive to the development of the sustainability market.

Lastly, after examining Section 5600, we believe that it is not the intention of the IESBA to expand the scope of NAS requirements to include the value chain entities of sustainability assurance clients. To enhance clarity on this matter, we recommend that the IESBA follow the wording of the proposed paragraph 5360.7 A3(b) to explicitly state in Section 5600 that NAS requirements are applicable to sustainability assurance clients only and exclude their value chain entities. Currently, neither the IESBA's explanation memorandum nor Section 5600 discusses or provides guidance in this regard.

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of the Explanatory Memorandum]

- (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?**

In addition to the services covered in subsections 5601 to 5610, the IESBA may consider providing guidance to address potential threats arising from:

- (i) The provision of sustainability training and capacity building services, given that the growing global demand for sustainability reporting and assurance has raised the need for individuals and organizations to acquire knowledge and expertise in this field.
- (ii) The provision of materiality assessment services to the client, i.e., assessing which topics are material among all the sustainability information for the client. The client may then establish key performance indicators (KPIs) for the material topics so identified and may request the practitioner to provide assurance on those KPIs.

Providing the above services might or might not create a self-review threat depending on whether the results of the services will affect the records underlying the sustainability information or the sustainability information on which the practitioner will express an opinion. We recommend that the IESBA provide more guidance (e.g. frequently asked questions or case studies) to illustrate the evaluation process and possible safeguards in practical scenarios.

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)? [See paragraphs 123 to 131 of the Explanatory Memorandum]

Feedback from local stakeholders indicates that the concern arising from, for example, the threats created by a large proportion of fees charged for sustainability assurance engagements compared to the audit fee is likely to be low as the sustainability assurance fee is relatively low in the current market.

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?

Refer to comments in questions 3, 7, 14 and 15 relating to guidance on the definition of sustainability information, implementation guidance on NOCLAR, value chain entity and NAS respectively.

In addition, we suggest that the IESBA develop non-authoritative material such as case studies to illustrate the thought process in the evaluation of threats and determination for any safeguards throughout Part 5.

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

Fee-disclosures

Our local stakeholders have expressed that challenges may arise from the implementation of the disclosure requirement of fee-related information under paragraphs R5410.30 and R5410.31 of the ED-IESSA.

Paragraph R5410.30 states that if laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than sustainability assurance paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

Paragraph R5410.31 of the ED-IESSA further requires that where a sustainability assurance client that is a public interest entity does not make the relevant fee disclosure, the firm should publicly disclose (a) fees paid or payable to the firm and network firms for the sustainability assurance engagements; and (b) fees, other than those disclosed under (a) charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement on which the firm will express an opinion. The equivalent requirements for an audit of financial statement are set out in paragraphs R410.30 and R410.31 of the extant Code.

Hong Kong listed entities are mandated by the Corporate Governance Code of the Hong Kong Listing Rules (Appendix 14) to disclose an analysis of remuneration pertaining to both audit and non-audit services provided by auditors and the details of the nature of the services and the fees paid for each significant non-audit service assignment. Therefore, audit practitioners have not encountered significant issues in complying with the requirements of paragraphs R410.30 and R410.31 of the extant Code. We believe that in most jurisdictions, there would be no implementation concern in respect of the requirements for audits of financial statements as the regulatory and reporting framework for financial statements audits are well established. Furthermore, we note that there had been no specific guidance developed by the International Auditing and Assurance Standards Board (IAASB) to address the fees disclosure requirements in the extant Code.

Unlike financial statement audits, without mandatory requirements for sustainability assurance and the related fee disclosure requirements in Hong Kong, practitioners may face challenges when requesting their sustainability assurance clients to publicly disclose the fee-related information in their sustainability reports. Clients may be reluctant to do so and perceive the primary responsibility for complying with paragraphs R5410.30 and R5410.31 of the ED-IESSA lie with the practitioners rather than with the entities.

As the sustainability reporting framework, laws and regulations as well as best practices for sustainability are still evolving for most jurisdictions, we believe it may not be in the best interests of users of sustainability assurance reports to impose the same requirements for sustainability assurance as for an audit of financial statements. There could be unintended consequences with sustainability assurance practitioners disclosing clients' information for the first time in their report if there are no relevant laws and regulations requiring clients to disclose such information.

Therefore, we suggest that the IESBA consider providing some relief such as starting off with encouraging the fee disclosures as best practice and transitioning them into requirements over time. At the same time, the IESBA, local regulators and standard setters would need to educate both the practitioners and the sustainability assurance clients to enhance their awareness and understanding of the benefits associated with fee transparency in sustainability reporting.

We note that the IESBA has solicited feedback on Section 5390 within its Exposure Draft on *Using the Work of an External Expert*, therefore, we have duly submitted our comments on this particular section in our comment letter to the IESBA on 29 April 2024.

Sustainability Reporting

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? [See paragraphs 133 to 135 of the Explanatory Memorandum]

We note that Chapter 4 of the ED-IESSA imposes requirements only on PA practitioners, while non-PA practitioners are encouraged but not obligated to comply with the same requirements. While we note the IESBA's intention to develop ethics standards for sustainability reporting that will apply to all preparers of sustainability information instead of just to professional accountants as currently proposed, we would like to emphasize that it is important for all preparers to be subject to the same robust ethics standards given that (i) sustainability report preparers are at the forefront of quality reporting and (ii) many sustainability report preparers in the current market are not professional accountants. As such, we suggest that the IESBA coordinate with regulators and global accreditation bodies to (a) promote the consistent use of a global framework of high-quality ethics standards for sustainability assurance as mentioned in Question 1; (b) mandate compliance with specified ethics standards when preparing sustainability reports through legislation/regulation, and (c) provide a high-level timetable outlining the roadmap to manage stakeholders' expectation.

Besides, we suggest that the IESBA continue to engage in consultation and collaboration with a wide range of stakeholders including preparers of sustainability information, investors, regulators and professional bodies, to ensure that the perspectives and needs of different stakeholders are considered when developing the expanded scope of the Code. Such engagement should in particular include the authorities responsible for enforcing such ethical standards on non-PAs.

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? [See paragraph 138 of the Explanatory Memorandum]

No specific comments.

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? [See paragraphs 139 to 141 of the Explanatory Memorandum]**
- (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of the Explanatory Memorandum]**
- (c) Other proposed revisions? [See paragraph 155 of the Explanatory Memorandum]**

No specific comments.

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

No specific comments.

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?

Though supportive of aligning the effective date of IESSA with ISSA 5000, there is concern as to whether the regulatory framework and enforcement regime for non-PAs will be in ready in time. A level playing field built on consistent regulatory oversight is needed. Otherwise, investors and other users of sustainability assurance information will not be able to rely on what companies report.