

Explanatory Memorandum
January 2024
Comments due: May 10, 2024

*International Ethics Standards Board
for Accountants®*

**Explanatory Memorandum for
Proposed *International Ethics
Standards for Sustainability Assurance
(including International Independence
Standards)* (IESSA) and Other
Revisions to the Code Relating to
Sustainability Assurance and Reporting**

This Explanatory Memorandum is intended to be read with the separate Exposure Draft of the Proposed IESSA and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

IESBA

**International
Ethics Standards
Board for Accountants®**



About the IESBA

The [International Ethics Standards Board for Accountants](#)[®] (IESBA[®]) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#) (IFEA). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit[™] (IFEA[™]).

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REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read with, the Exposure Draft of [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#) which was developed and approved by the IESBA.

The proposals in the ED may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 10, 2024**. Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of the proposed standards.

Respondents are asked to submit their comments electronically through the IESBA website, using the “[Submit a Comment](#)” link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at KenSiong@ethicsboard.org.

Recognizing that the IESBA utilizes software to support its analysis of comments received from respondents to public consultations, you can assist the IESBA’s review of the responses by bearing the following in mind in preparing your submission:

- Respond directly to the questions formulated and provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IESBA to be made aware of this view.
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes when providing your responses to the questions.

This EM and the accompanying ED may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

PROPOSED IESSA AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING

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I. INTRODUCTION

1. This memorandum provides background to, and an explanation of, the additions and proposed revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) relating to sustainability assurance and reporting. These proposed changes, including the proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) in a new Part 5 of the Code, are set out in the ED. The mark-up and clean versions of the ED are contained in two separate documents.
2. The ED is composed of the following Chapters:
 - Chapter 1: Proposed IESSA (New Part 5)
 - Chapter 2: Proposed Revised Glossary
 - Chapter 3: Proposed Consequential and Conforming Amendments Resulting from IESSA
 - Chapter 4: Proposed Revisions to Parts 1 to 3 of the Extant Code to Reflect Sustainability Reporting Considerations for Professional Accountants
3. The IESBA approved these proposed changes for exposure at its [December 2023](#) meeting.

A. Background

4. In recent years, there has been a sharp rise in market and public demand for sustainability information such as in relation to environmental, social and governance (ESG) matters. Such information is increasingly used to support not only capital allocation by investors, but also other decisions by customers, current or potential employees, government agencies and other stakeholders. As demand for sustainability information continues to expand rapidly not only in relation to environmental matters but also in relation to social and governance matters, there is a pressing public interest need to ensure that such information is trustworthy and comparable, and therefore capable of being subject to assurance. Governments and regulators in a number of major jurisdictions have also prioritized the development of new legislation and regulations governing sustainability reporting and assurance.
5. In response to these rapid developments, the IESBA [publicly committed](#) to developing, as a new strategic priority, global ethics (including independence) standards as part of the regulatory infrastructure (see diagram below) that supports transparent, relevant and trustworthy sustainability reporting. The IESBA began its information gathering in early 2022, including actively engaging in outreach to collect views and insights from a wide range of stakeholders. To highlight the relevance of the extant Code in addressing ethics issues relating to “greenwashing,” the IESBA released in October 2022 a [Staff publication](#) highlighting the relevance and applicability of the Code in combatting greenwashing.

Sustainability Reporting and Assurance



6. In September 2022, the International Organization of Securities Commissions (IOSCO) publicly recognized the work of both the IESBA and the International Auditing and Assurance Standards Board (IAASB) as important in meeting the need for robust standards applicable to all practitioners of sustainability assurance to foster independent, high-quality engagements and consistent practices.¹ In particular, IOSCO welcomed the two 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. In addition, in its final report *Supervisory and Regulatory Approaches to Climate-related Risks*, the Financial Stability Board (FSB) also singled out the work of the IESBA and IAASB as relevant to the development of third-party assurance of climate-related public disclosures by corporates.²
7. In December 2022, the IESBA approved a project proposal to develop ethics (including independence) standards for sustainability assurance and reporting, allocating the necessary resources so that the key deliverables can be produced within an ambitious timeline.

B. Sustainability Project

Project Proposal

8. In December 2022, the IESBA approved two related project proposals. With respect to sustainability reporting and assurance, the IESBA approved a [project proposal](#) with the objectives to develop:
 - (a) Revisions to the Code³ 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

¹ In September 2022, IOSCO issued a [statement of support](#) for the work of the IESBA and IAASB to develop profession-agnostic global standards to support assurance of sustainability information.

² In its [2023 Progress Report on Climate-Related Disclosures](#), the FSB continued to highlight the need for a global assurance, ethics and independence framework for sustainability disclosures and expressed support for both Boards' standard-setting work in this regard.

³ For purposes of the ED, the reference to the extant Code is to the draft 2024 edition of the IESBA Handbook, which includes the most recent IESBA-approved revisions.

practitioners (i.e., professional accountants (PAs), conformity assessment bodies, and other practitioners performing sustainability assurance engagements).

9. In the same December 2022 meeting, the IESBA also approved a [project proposal](#) relating to the use of experts by PAs as well as all sustainability assurance practitioners. For more information about the IESBA's Use of Experts project, please visit its [webpage](#).

Public Interest Framework

10. The IESBA took into account the Public Interest Framework published by the Monitoring Group in July 2020⁴ when approving the Sustainability project proposal. The IESBA has also applied the Public Interest Framework's qualitative standard-setting characteristics when developing the proposed revisions to the Code. See also paragraph 23 below.

C. Coordination with the IAASB

11. As highlighted above, the IAASB is also undertaking a [sustainability project](#) to develop a new overarching standard for assurance on sustainability reporting that is:
 - (a) Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
 - (b) Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks; and
 - (c) Implementable by all assurance practitioners.
12. In August 2023, the IAASB released its proposed ISSA 5000⁵ for public consultation. The comment period closed on December 1, 2023, and the IAASB aims to issue the final standard by the end of 2024.
13. In undertaking this project, the IESBA has engaged closely with the IAASB to address matters of mutual interest in order to ensure that the IESBA's final sustainability-related standards will be consistent and interoperable with the proposed ISSA 5000. Such matters include definitions of terms such as "sustainability information," using the work of another practitioner, sustainability assurance engagements in a group context, and the concept of value chain.

D. Sustainability Reference Group

14. The IESBA engaged with sustainability reporting and assurance experts through its [Sustainability Reference Group](#) established in June 2023. The Sustainability Reference Group members are predominantly from professions other than accounting and audit, and were selected based on a series of criteria, including their background, experience in sustainability reporting or assurance, diversity of stakeholder groups, and geographical location.
15. The Sustainability Reference Group has acted as a "sounding board" to the IESBA's Sustainability Task Force through quarterly meetings and written feedback to provide insights, expertise and advice relating to the development of the global ethics (including independence) standards for sustainability

⁴ See the Monitoring Group report, [Strengthening the International Audit and Ethics Standard-Setting System](#) (pages 22–23 of the Public Interest Framework's section on "What qualitative characteristics should the standards exhibit?").

⁵ Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

reporting and assurance.

E. Stakeholder Engagement

Stakeholder Outreach

16. The IESBA has engaged in extensive outreach activities with key stakeholders prior to and during the project, including with:
- The IESBA Consultative Advisory Group (CAG).
 - Monitoring Group members, including IOSCO, the International Forum of Independent Audit Regulators (IFIAR), the European Commission (EC), the FSB and the World Bank.
 - Regional and national regulatory bodies, such as the Committee of European Auditing Oversight Bodies (CEAOB), United States Securities and Exchange Commission (SEC), and the Japan Financial Services Agency (JFSA).
 - International standard setters for sustainability reporting and assurance, such as the International Sustainability Standards Board (ISSB) and the International Organization for Standardization (ISO).
 - National standard setters (NSS).
 - Representatives of the accountancy profession, such as the International Federation of Accountants (IFAC) and its Small and Medium Practices (SMP) and Professional Accountants in Business (PAIB) Advisory Groups, the Forum of Firms (FoF), and professional accountancy organizations (PAOs).
 - Other international groups such as the International Accreditation Forum (IAF).
 - Sustainability information preparers, sustainability assurance practitioners, those charged with governance (TCWG), and user and investor groups.

Global Sustainability Roundtables

17. Given the importance and global scope of the Sustainability project, the IESBA conducted four global sustainability roundtables in March-April 2023 to inform its strategic direction on a range of key issues.⁶ These roundtables, held in Paris, Sydney, Singapore and New York, were attended by over 140 senior-level participants representing over 80 different organizations from a wide range of stakeholder groups,⁷ including non-PAs.

II. SUSTAINABILITY ASSURANCE

This Section covers Chapters 1 to 3 of the ED and questions 1 to 19.

A. Main Objectives of the IESSA

18. The IESBA agreed to develop the IESSA under a new Part 5 of the Code. Following extensive

⁶ Refer to [Agenda Item 2-A](#) of the June 2023 IESBA meeting for the summary of the feedback received from the roundtable participants.

⁷ Stakeholder groups represented included: Regulators, Users/Investors, Preparers/TCWG, International and National Standard Setters, Sustainability Assurance Practitioners (Accounting Firms and Others), PAOs, and Academics.

deliberation, the IESBA concluded that this option⁸ would best achieve the main objectives of the Sustainability project, having regard to the requirements of the Public Interest Framework, including that the new standards are comprehensive, scalable, clear, implementable, globally operable and enforceable for all sustainability assurance practitioners.

Equivalence to Audits

19. 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 holds 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.⁹ With that in mind, the proposed IESSA is equivalent to Parts 1 to 4A of the Code, with certain exceptions as explained in paragraphs 4545 to 5050 below. Please refer to question 1(a).
20. The provisions in the proposed IESSA are drafted using the same language as for the ethics (including independence) provisions that apply to audits of financial statements, with terminologies amended only where necessary to be clear as to the application of the provisions with respect to sustainability. This is to maintain the equivalence of the provisions between the sustainability assurance engagements and audit engagements, and to minimize regulatory arbitrage issues such as courts interpreting differences in meaning when none was intended (i.e., there should be only a “single version of the truth”).

Profession-Agnostic Standards

21. Further to the IOSCO statement mentioned in paragraph 66 above, the IESBA agreed to develop profession-agnostic global ethics (including 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 different types of practitioners currently performing sustainability assurance engagements and that, in a number of jurisdictions, they are mostly not PAs. With this in mind, the IESBA developed the proposed IESSA using terminology that it intends to be understandable by all sustainability assurance practitioners. Please refer to question 1(b).

Framework-Neutral Standards

22. To align with the Code’s current approach, the IESBA has developed 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. Nevertheless, in developing the IESSA, the IESBA considered the global sustainability reporting and assurance standards developed by ISSB and IAASB, respectively, with a view to ensuring that the IESSA will be interoperable with those standards. Please refer to question 1(b).

⁸ The other two options considered by the IESBA were having a single set of ethics (including independence) standards applicable to audits and sustainability assurance engagements in the extant Code, and having the new ethics (including independence) standards in a separate Code.

⁹ This approach is consistent with the position taken by regulators in some major jurisdictions, such as the European Union (EU) and the United States (US).

Public Interest Framework

23. The IESBA is of the view that the IESSA is responsive to the public interest considering the Public Interest Framework characteristics (please refer to question 2), in particular:

- *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Code already encapsulates a robust set of standards that sets expectations for, and guides, ethical behavior with respect to the provision of audit, review and other assurance services. As such, the extant Code was used as a baseline for developing the ethics (including independence) requirements and application material in the proposed Part 5.
- *Clarity and conciseness* of the standards, by using the Code's structure and drafting conventions for clarity, understandability and usability. The proposed IESSA follows the same building blocks approach in the extant Code – i.e., starting with the fundamental principles and the conceptual framework as the foundations of the new ethics (including independence) standards for sustainability assurance.

To ensure that the IESSA is applied in the same way as the extant Code in order to achieve equivalence, the language and terminologies used in Part 5 are as much as possible identical to those used in the extant Code, with the exception of the necessary adaptations to meet the objective of profession-agnostic standards and to include sustainability-related examples in the application material.

- *Implementability and enforceability*, by adopting an identical structure to the extant Code, with a clear distinction between requirements and application material. Further, making the proposed IESSA part of the Code will avoid the issue raised by some stakeholders about the lengthy legal process of adopting a new standalone standard or Code for sustainability assurance in some jurisdictions.

B. Significant Matters

Definition of Sustainability Information

24. The IESBA agreed to include a proposed definition for a new term, "sustainability information," applicable to both sustainability assurance and sustainability reporting, in the Glossary to the Code. This proposed definition determines what type of information is relevant for the purposes of applying the IESSA and the standards in Parts 1 to 3 of the extant Code regarding sustainability reporting.

25. Although cognizant of the fact that standards¹⁰ developed or being developed by other recognized standard setters use identical or similar terms (defined or not), the IESBA sees merit in having a specific and defined term for purposes of the ethics (including independence) standards for the following reasons:

- The proposed IESBA standards cover the collection, classification, recording, measurement, maintenance and approval of sustainability information (under proposed revised Parts 1 to 3 of the Code); the preparation or presentation of that information in the form of sustainability reports, statements or other disclosures (also under proposed revised Parts 1 to 3 of the Code); and the issue of an opinion on those disclosures (under new Part 5 of the Code).

¹⁰ For example, standards developed or being developed by the IAASB, the ISSB, the Global Reporting Initiative (GRI), and the European Financial Reporting Advisory Group (EFRAG)

- Other terms were considered, but “sustainability information” was deemed more aligned with the Public Interest Framework characteristics,¹¹ considering its parallels with the extant “historical financial information.”
 - If not defined, there is a risk that the IESBA standards would be inconsistently applied due to potentially arbitrary, misconstrued or too narrow interpretations of the term. Having a definition serves a clarifying and educative purpose, thus contributing to the *clarity, implementability* and *enforceability* of IESBA standards as required by the Public Interest Framework.
26. The IESBA’s proposed definition of “sustainability information” is intentionally broad and sufficiently generic to be perennial and interoperable with various reporting and assurance standards (including proposed ISSA 5000). It has two parts:
- The first part is the defined term with two components. Subparagraph (a) consists of a broad definition of sustainability information. It includes a reference to the ESG factors but is not limited to them as the IESBA recognizes that additional factors¹² such as economic ones may also be relevant for the sustainability information disclosed by companies. The reference to “other” factors is intended to keep the definition flexible and thus evergreen. Moreover, it is broad enough to cover disclosures made under both single and double materiality perspectives.

Subparagraph (b) scopes in terms and definitions used in local or regional laws or regulations or by other standard setters. Regardless of how “sustainability information” is defined therein or whether a different term is used, it will be deemed to be “sustainability information” for the purposes of applying the IESBA standards. In particular, the proposed terms and definitions used in the ISSA 5000 ED (“sustainability information” and “sustainability matters”)¹³ are scoped into the IESBA’s definition through this subparagraph (b), making the necessary alignment between the two Boards’ proposed terms.
 - The second part (in *italics*) provides further explanation to the defined term by including a non-exhaustive list of what may be considered to be sustainability information. It recognizes, among other things, the specificities of sustainability information and that it can be derived from the entity or third parties in the value chain.
27. Please refer to question 3.

Applicability and Scope of IESSA

Sustainability Assurance Engagements

28. The proposed Part 5 of the Code applies when a sustainability assurance practitioner performs a sustainability assurance engagement, as defined in the proposed revisions to the Glossary of the

¹¹ Particularly for the *consistency, clarity* and *conciseness* of the IESBA standards and consequently their *implementability* and *enforceability*. Such a term also defines the *appropriate scope* for the IESBA standards, as required by the Public Interest Framework, since the standards need to adequately cover both reporting and assurance activities.

¹² A specific reference to “cultural” factors was not included because the IESBA considered it to be a part of (and thus already included in) the “social” factor.

¹³ Although aligned in substance, the terms/definitions used in the IESBA and IAASB proposed standards are not identical. This is because of the different scopes of the two Board’s projects and standards. “Sustainability information” is used in the proposed IESBA standards for both sustainability reporting and sustainability assurance, while the proposed ISSA 5000 focuses on sustainability assurance only. Therefore, the IESBA determined that its definition needs to be sufficiently broad and should not reflect assurance-specific language.

Code. The definition of “sustainability assurance engagement” clarifies that the Code applies only to engagements designed to enhance the degree of confidence of the intended users about the sustainability information but not to certification engagements that are designed to confirm compliance with the specifications set out in relevant certification standards. (See proposed revised Glossary to the Code in Chapter 2.)

29. Part 5 sets out the same provisions for sustainability assurance engagements that fall within its scope irrespective of whether the engagement is a limited assurance or reasonable assurance engagement. The distinction between a limited assurance engagement and a reasonable assurance engagement is consistent with the definition of an assurance engagement in accordance with the IAASB’s proposed ISSA 5000. (See proposed revised Glossary to the Code in Chapter 2.)

Scope of Ethics Standards in the Proposed IESSA

30. The objective of the Sustainability project is to develop ethics (including independence) standards for sustainability assurance engagements that are equivalent to those that apply to audits of financial statements. As such, the starting point for this project was the extant Code, where the relevant ethics standards are set out in Parts 1 and 3 and the applicable independence requirements in Part 4A.

31. Currently, the extant Code applies to one cohort of practitioners (PAs) that can perform different types of activities or services. However, the IESBA has committed under the Sustainability project to issue profession-agnostic standards that can be used by different groups of practitioners (coming from different professions or fields) performing the same type of engagements – sustainability assurance engagements. This paradigm shift led the IESBA to consider three options for the scope of the ethics standards in the proposed IESSA, from the narrowest to the broadest:

- The narrowest option would focus strictly on the scope of the project (sustainability assurance) and the purpose of the project (to develop standards that are equivalent to those applying to audits of financial statements). It would entail developing ethics standards solely for sustainability assurance engagements that are subject to the independence requirements in Part 5 (see the criteria mentioned in paragraph 3939 below).
- At the other end of the spectrum, the broadest option would mean adopting the same scope as the extant Code, which would entail developing ethics standards for all activities and services provided by sustainability assurance practitioners to any of their clients.
- A middle ground option is to develop ethics standards for all sustainability assurance engagements and any other services that the practitioner provides to the same sustainability assurance client.

32. The IESBA proposes to adopt the middle ground option for the scope of the ethics standards in the IESSA as a balanced approach, having regard to the public interest considerations at hand. Sustainability information disclosed by companies is used by a wide range of stakeholders to assess and compare companies’ performances and to make investment, business or other decisions. Hence, given the level of public reliance placed on those disclosures, those performing the sustainability assurance engagements should follow the most stringent ethics requirements. However, adhering to the highest standards of ethical behavior only when performing the sustainability assurance engagement for the client might not sufficiently safeguard stakeholder confidence and the public interest at large. The IESBA, therefore, believes it is important to hold the practitioner to the same high ethics standards with respect to any other professional services they might provide to the same client. (See paragraph 5100.2(a) in Chapter 1.)

33. The broadest option would go beyond the scope of the project, potentially raising questions about the basis for the IESBA to set standards to cover all the activities performed, and services provided by, any sustainability assurance practitioner outside the accountancy profession.
34. The IESBA was of the view that the middle ground option best aligns with the Public Interest Framework's qualitative characteristics, including:
- *Consistency* with the priorities and scope of the Sustainability project. This option centers on a sustainability assurance service but recognizes that the public interest underpinning such a service may extend to other situations with the same client.
 - Appropriate *coherence* with the extant Code. While the Code applies to a certain profession and thus to all professional activities, services and relationships of members of that profession (i.e., PAs), the scope of the Sustainability project focuses on a certain service that can be provided by practitioners from different professions or fields. This option is a balanced middle ground focusing on the practitioners performing sustainability assurance engagements and any other services for the same client.
 - Ensuring an *appropriate scope* and *relevance* of the ethics standards, as they adequately serve the public interest underpinning sustainability disclosures and their assurance.
35. The IESBA also agreed that the ethics standards in the new Part 5 of the Code should cover all sustainability assurance engagements irrespective of whether they are within the scope of independence standards in Part 5 (see paragraph 5100.2(a) in Chapter 1). This is because the objective of the Sustainability project is to develop "*ethics and independence standards for use by all assurance practitioners in sustainability assurance engagements.*" This follows the same approach in the extant Code where there is only one set of ethics standards for PAs in public practice (PAPPs) (Parts 1 and 3 of the extant Code), irrespective of the type of services provided.
36. In addition, the IESBA recognizes that having high ethics standards that address circumstances outside the scope of the ethics standards in Part 5, such as services provided by a sustainability assurance practitioner to other clients, is also important because other aspects of the conduct of a practitioner may contribute to (or impair) the credibility of, and public trust in, the practitioner's sustainability assurance work. Thus, the proposed IESSA:
- Reminds ***practitioners who are PAs*** that Parts 1 to 4B of the Code apply in all situations not covered by Part 5 – see paragraph 5100.2b(a) in Chapter 1.¹⁴
 - Encourages ***practitioners who are not PAs*** to apply Parts 1 to 4B of the Code in all situations not covered by Part 5 – see paragraph 5100.2b(b) in Chapter 1 which includes examples of situations not covered by the IESSA, such as aspects of the relationships between the practitioner and other clients, and the practitioner and the firm.
- In complying with Parts 1 to 4B, the practitioners who are not PAs derive the benefit of public trust – which is first and foremost tied to the performance of sustainability assurance engagements – in their work and business relationships.
37. Please refer to question 4.

¹⁴ As part of this project, the Guide to the Code (located at the beginning of the Code) will also be updated so that users are clear about which Parts to follow for a given service or situation.

Scope of Independence Standards in the Proposed IESSA

38. Since sustainability assurance engagements can be very diverse in nature, scope and purposes, the IESBA believes that, as a first step, the independence standards in Part 5 should focus on sustainability assurance engagements with the same level of public interest as audits of financial statements. Please refer to question 5.
39. Accordingly, the IESBA proposes that the *International Independence Standards* (IIS) in Part 5 apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:
- (a) Is reported in accordance with a general purpose framework (as defined in the proposed revised Glossary); 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.
- (See paragraph 5400.3a in Chapter 1.)
40. The IESBA also proposes that the IIS in Part 5 apply only to attestation engagements (where a party other than the sustainability assurance practitioner measures or evaluates the underlying subject matter against the criteria) and not to direct engagements (where the sustainability assurance practitioner also measures or evaluates the underlying subject matter against the applicable criteria).^{15, 16} (See paragraph 5400.3d in Chapter 1.)
41. Where the sustainability assurance practitioner is a PA, Part 4B of the extant Code sets out independence standards for other sustainability assurance engagements¹⁷ that are not within the scope of the IIS in Part 5 (see paragraph 5400.3e in Chapter 1). This approach is in line with the extant Code, which specifies for PAs different independence standards for audit and review engagements (Part 4A) and for other assurance engagements (Part 4B).
42. Although Part 4B is currently applicable to PAs only, as mentioned above, other sustainability assurance practitioners are also encouraged to comply with its provisions when performing other sustainability assurance engagements outside of the scope of the IIS in the proposed IESSA. As part of its Strategy and Work Plan 2024-2027 (SWP), the IESBA will consider how the Code might be enhanced, whether through revision of the extant Part 4B or the development of a Part 4B equivalent in the new Part 5, to ensure that all independence standards for sustainability assurance engagements are addressed in the Code in a profession-agnostic manner.¹⁸
43. The IESBA proposes conforming amendments to Part 4A and Part 4B of the Code to clarify their scope, having regard to the new IIS in Part 5. (See paragraphs 400.17 and 900.1 in Chapter 3.)
44. See the diagrams in Appendix 1 for the inter-relationship between ethics and independence standards for sustainability assurance practitioners (PAs and non-PAs).

¹⁵ The Glossary of the extant Code defines attestation and direct engagements.

¹⁶ Part 5 makes references to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

¹⁷ Paragraph 5400.3e provides examples to sustainability assurance engagements that are not within the scope of the IIS in Part 5.

¹⁸ The new SWP for 2024-2027 was approved by the IESBA in December 2023 (see [Agenda Item 2-H.1](#) of the December 2023 IESBA meeting). Subject to PIOB approval of due process, the SWP is expected to be released in April 2024.

Structure of the Proposed IESSA

45. For equivalence purposes, the starting point for the Sustainability project was the extant Code, in which the ethics standards applying to audits of financial statements are set out in Parts 1 and 3 and the applicable independence requirements in Part 4A.
46. The standards in Part 2 of the extant Code were not replicated in Part 5 (apart from Section 270, as explained below), since Part 2 applies to PAs in business, who do not perform audits of financial statements.
47. In certain circumstances, Part 2 can also apply to PAs performing audits of financial statements. That is the case when an ethics issue arises in the context of their relationship with the firm.¹⁹ However, the development of standards for the performance of sustainability assurance engagements covers, by nature, the relationship between the practitioner and the client, not between the practitioner and their firm. Hence, except for Section 270, there is no need to develop equivalent standards to those in extant Part 2 for purposes of the IESSA.
48. The IESBA agreed to include in the proposed IESSA a set of provisions drawn from one section in Part 2 – Section 270, *Pressure to Breach the Fundamental Principles*. (See Section 5270 in Chapter 1.) The IESBA considered it important to include this Section in the new Part 5 because pressure to breach the fundamental principles,²⁰ which might arise in different situations and is not explicitly covered by the Part 1 equivalent standards in the IESSA, might compromise the performance of sustainability assurance engagements and consequently impair the public trust in it. Please refer to question 6.
49. Part 5 includes the equivalent Standards drawn from Part 3 of the extant Code except extant Section 321, *Second Opinions*, due to the topic of second opinions being outside the proposed scope of IESSA. As mentioned above, the proposed ethics standards in Part 5 apply to sustainability assurance engagements and any other services that a sustainability assurance practitioner performs for the same sustainability assurance client. Therefore, this assumes there is a client, i.e., the sustainability assurance client. However, extant Section 321 applies when a PA provides a second opinion to an entity that is not an existing client (see paragraph 321.2 of the extant Code).
50. If the practitioner is a PA, then extant Section 321 applies. Practitioners who are not PAs are encouraged to use the remainder of the Code (thus including Section 321) whenever their professional activities or professional and business relationships do not fall under Part 5 – see the specific example about second opinions in paragraph 5100.2b(b)(v) in Chapter 1.
51. The proposed IESSA further provides that if a sustainability assurance practitioner performs a sustainability assurance engagement within the scope of Part 5, the firm needs to apply the requirements and application material in Part 5 (see paragraph 5100.2 in Chapter 1), irrespective of whether the practitioner is a PA and provides other engagements to the client, such as audit of the financial statements. However, if the practitioner performs both engagements for the same client, the provisions in Parts 1 to 4A in the Code applicable to an audit also apply. (See paragraph 5400.16a in Chapter 1.)
52. Where the firm is subject to both Parts 1 to 4A and Part 5, this does not mean that the firm needs to apply the conceptual framework to separately identify, evaluate and address threats to independence

¹⁹ Part 2 of the Code is applicable to PAPPs via the “applicability provisions” – see paragraphs 120.4, R300.5, and 300.5 A1 of the extant Code.

²⁰ This is regardless of whether the pressure originates from the client, within the firm, or other sources.

in relation to each engagement. Taking into account laws and regulations of the relevant jurisdiction, it is an operational matter for firms performing both the audit and sustainability assurance engagement to determine how to comply with the corresponding requirements in Parts 1 to 4A and Part 5, within their systems of quality management. In most cases, complying with a requirement in Parts 1 to 4A will achieve compliance with the corresponding requirement in Part 5, and vice versa.

53. However, where applicable, Part 5 will address specific situations where additional independence considerations arise from the auditor also providing sustainability assurance services to the client, such as considerations relating to:
- The proportion of fees for services other than audit and sustainability assurance engagements to the audit or sustainability assurance fee.
 - The cooling-off period if an individual has acted as an engagement leader and a key audit partner for the same client.
 - The provision of accounting and bookkeeping services and sustainability data and information services to audit and sustainability assurance clients.
54. The numbering in the IESSA follows a 5000 sequence because the new standards are under Part 5 of the Code. To facilitate an equivalence verification, the numbering of the standards in Part 5 follows the numbering used in Parts 1 to 4A with a “5” added in front.
55. See the diagram in Appendix 2 that illustrates the proposed structure for the Code, including the extant Parts 1 to 4A/4B and the new Part 5.

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

Sustainability Assurance Practitioners (IESSA) and Auditors (extant Part 3 of the Code)

56. The proposed Section 5360 deals with NOCLAR. Similar to extant Section 360, the scope of this section in the IESSA is centered on (actual or suspected) non-compliance with laws and regulations that the practitioner becomes aware of in the course of providing services to the sustainability assurance client. (See paragraph 5360.3 in Chapter 1.)
57. Section 5360 only applies to NOCLAR committed by the parties listed in paragraph 5360.5 A1 such as TCWG and management of a sustainability assurance client. As mentioned in paragraph 5360.7 A3(b), it does not extend to situations where the NOCLAR has been committed by entities in the sustainability assurance client's value chain. This is similar to extant Section 360, where the NOCLAR provisions do not apply to situations where the NOCLAR has been committed by a third party. Nevertheless, the sustainability assurance practitioner might find the guidance in Section 5360 helpful in considering how to respond in a situation of NOCLAR within the client's value chain.
58. Section 5360 includes:
- One set of provisions applying to (actual or suspected) NOCLAR identified in the context of sustainability assurance engagements within the scope of the IIS in Part 5 (see paragraphs R5360.10 to 5360.28 A1 in Chapter 1);²¹ and
 - Another set of provisions covering those sustainability assurance engagements outside the scope of the IIS in Part 5 as well as other professional services performed for a sustainability

²¹ Sustainability assurance engagements within the scope of the IIS in Part 5 are the type of engagements that the IESBA agreed are equivalent to audits of financial statements.

assurance client (see paragraphs R5360.29 to 5360.40 A1 in Chapter 1).

This segmentation mirrors the structure in extant Section 360²² and is warranted by the scope of the ethics standards in the IESSA (see paragraphs 30 to 35 above).

59. The provisions applying to sustainability assurance engagements within the scope of the IIS in Part 5 include a proposed new requirement regarding the communication of (actual or suspected) NOCLAR to the auditor of the sustainability assurance client. Paragraph R5360.18a requires the practitioner to consider communicating (actual or suspected) NOCLAR to the auditor of the sustainability assurance client (if there is one). Paragraph 5360.18a A1 sets out examples of factors to guide the practitioner when considering whether to communicate the matter to the auditor. In particular, the last bullet on that illustrative list²³ allows for communication to be made according to the firm's or network firm's internal protocols or procedures.²⁴
60. The IESBA considered adding a separate requirement for the practitioner to also consider communicating (actual or suspected) NOCLAR to other sustainability assurance practitioners performing engagements for the same client²⁵ but agreed not to for the following reasons:
- The identification of (actual or suspected) NOCLAR in sustainability assurance will most likely have an impact on the audit of the financial statements given the financial materiality aspect of sustainability reporting. Therefore, communication with the auditor is particularly relevant.
 - Requiring communication with other sustainability assurance practitioners could raise practical issues, such as knowing if the client has engaged other practitioners and whether those other practitioners are performing sustainability assurance engagements within the scope of the IIS in Part 5.
 - Based on feedback from the Sustainability Reference Group, at least in the UK, large companies doing voluntary assurance²⁶ usually just engage one sustainability assurance practitioner. As such, a situation where one practitioner would have to consider communicating with other practitioner(s) may be uncommon.
 - Expanding the existing communication requirements to other practitioners would add a layer of complexity, potentially impairing the understandability and ultimately the adoption and

²² Section 360 includes a group of provisions for audits of financial statements (see extant paragraphs R360.10 to 360.28 A1) and another group of provisions applying to professional services other than audits of financial statements (see extant paragraphs R360.29 to 360.40 A1).

²³ This bullet is a new factor added to Part 5 but not included in extant paragraphs 360.34 A1 since Section 360 includes additional requirements (in paragraphs R360.31 and R360.32) where communication is to be made or considered to be made within the firm or network firm.

²⁴ There is one factor in extant paragraph 360.34 A1 that was not replicated in Part 5, related to the likely materiality of the matter to the audit of the client's or the group's financial statements. The IESBA agreed not to include such a factor in Part 5 because it might not be reasonable to expect a practitioner who is not a PA to recognize the materiality of a NOCLAR situation to the audit of the client's or the group's financial statements, especially if that practitioner is not familiar with integrated reporting. In addition, feedback from the Sustainability Reference Group supported not having practitioners who are not PAs make judgments on financial materiality or form opinions about financial statements. In any case, if a practitioner who is not a PA has this kind of expertise, such a factor could also be considered given that the list in paragraph 5360.18a A1 is not exhaustive.

²⁵ For instance, there may be situations where one practitioner provides assurance on one aspect of the sustainability information disclosed (e.g., greenhouse gas emissions) and other practitioner(s) provide assurance on other aspects (e.g., water pollution; compliance with human rights).

²⁶ This relates to "assurance" taken in technical terms, i.e., under the IAASB standards. It does not refer to verification or certification services under for instance the ISO standards.

implementation of the IESSA.

61. Thus, this approach focuses on first ensuring that sustainability assurance practitioners understand how the NOCLAR provisions work under Part 5 before the IESBA considers expanding on them. It is also in line with the following Public Interest Framework characteristics: clarity and conciseness of the standards as well as their scalability (over time), implementability, and enforceability.
62. In light of the public interest in sustainability assurance engagements that are within the scope of the IIS in the new Part 5, the IESBA also proposes a symmetrical requirement in extant Section 360. Under proposed paragraph R360.18a, the PA performing an audit of the financial statements will be required to consider whether to communicate (actual or suspected) NOCLAR to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement within the scope of the IIS in Part 5.
63. The proposed new requirements in paragraphs R5360.18a and R360.18a and the corresponding application material were based on extant paragraphs R360.33 to 360.35 A1. From a confidentiality perspective, this corresponds to a situation covered under paragraphs 5114.3 A1(b)(iv) for Part 5 and 114.3 A1(b)(iv) for the revisions in Part 3 where the practitioner might be required to disclose confidential information or when such disclosure might be appropriate to comply with technical and professional standards, including ethics requirements.
64. Please refer to question 7.
65. The proposed IESSA only addresses communication between the sustainability assurance practitioner and the auditor in the context of NOCLAR. The IESBA considers that the terms for the communication in a broader sense between the practitioner and other parties such as the auditor (or other practitioners) is a matter for the relevant sustainability assurance standards (such as proposed ISSA 5000) to determine. The IESBA will coordinate with the IAASB on this matter as needed.
66. The provisions covering sustainability assurance engagements outside the scope of the IIS in Part 5 as well as other professional services performed for a sustainability assurance client include communication requirements that mirror extant paragraphs R360.31 to 360.35 A1, i.e., for purposes of communicating to the auditor only.
67. Upon deliberation, the IESBA agreed not to extend the scope of paragraphs R5360.31 to R5360.33 to also include the client's sustainability assurance practitioners(s) for the following reasons:
 - Communication for audit purposes is sufficient. If a practitioner communicates with the auditor under these requirements, that communication will, in turn, trigger the auditor to consider communicating with a sustainability assurance practitioner under new paragraph R360.18a (in Part 3). This means that a practitioner performing a sustainability assurance engagement within the scope of the IIS in Part 5 can still become aware of (actual or suspected) NOCLAR through the communication from the auditor.
 - Communicating (actual or suspected) NOCLAR to management or TCWG is the priority, as set out by the NOCLAR regime. This is supported by paragraphs 360.34 A1 (for Part 3) and 5360.18a A1 and 5360.34 A1 (both for Part 5) which set out that a factor when considering whether to communicate NOCLAR to the auditor is whether management or TCWG have already informed the auditor about the matter.
 - Extending the scope of paragraphs R5360.31 to R5360.33 would add a layer of complexity, potentially impairing the understandability and ultimately the adoption and implementation of the IESSA.

Professional Accountants in Business (PAIBs) (Extant Part 2 of the Code)

68. The IESBA also proposes corresponding revisions to extant Section 260 (see paragraphs R260.15 and 260.15 A1 in Chapter 3) in order to align with the communication provisions mentioned above for Parts 5 and 3. The proposed revisions require the senior PA to determine whether to disclose (actual or suspected) NOCLAR also to the employing organization's sustainability assurance practitioner performing a sustainability assurance engagement within the scope of the IIS in Part 5. Please refer to question 8.

Independence Standards in the Proposed IESSA

69. The IIS in Part 5 require a sustainability assurance practitioner (referred to as "a firm"²⁷ in the IIS) performing a sustainability assurance engagement within the scope of the IIS to be independent. (See paragraph R5400.18. in Chapter 1.)
70. Like the approach for audit engagements, the proposed IIS in Part 5 also require network firms to be independent of the sustainability assurance clients of the other firms within the network in accordance with Part 5. The determination of the network and a network firm is based on the same concepts of network and network firms applicable in the case of an audit engagement. (See paragraphs 5400.50 A1 to 5400.54 A1 in Chapter 1.)
71. The conceptual framework set out in Section 5120 requires firms to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement. In Part 5, the IIS provides examples and other guidance on interests, relationships, and circumstances that might create such threats to independence.
72. The IESBA's premise in developing the proposed IIS in Part 5 is that interests, relationships and circumstances that might create threats to independence for an audit of financial statements might also create threats for a sustainability assurance engagement. In developing the ED, the IESBA reviewed the independence standards for audit engagements and considered whether any changes or refinements are necessary based on the specific characteristics of sustainability assurance engagements, for example, with respect to the different subject matter (i.e., the sustainability information) and the different reporting boundaries.
73. The section below explains the key independence matters specific to sustainability assurance engagements.²⁸

Applying the Conceptual Framework to Independence for Sustainability Assurance Engagements

Quality Management System

74. Participants at the IESBA's global sustainability roundtables agreed that all sustainability assurance practitioners, including PAs and non-PAs, must have a system of quality management in place in order to comply with the relevant requirements, including ethical requirements. Therefore, the proposed IESSA recognizes that the sustainability assurance standards are based on an expectation that the firm will have designed, implemented and operated an appropriate system of quality management as a prerequisite to the performance of high-quality sustainability assurance

²⁷ See the explanation in paragraphs 76 and 77 in this document.

²⁸ Given the aim of equivalence between the independence standards for sustainability assurance engagements and those for audit engagements (in Part 5 and Part 4A of the Code, respectively), for any other independence matters set out in IIS in Part 5 please refer to the relevant standards and materials issued by IESBA applicable to audits of financial statements.

engagements. This is in line with the extant Code's approach in Part 4A which recognizes that the IAASB's ISQM 1²⁹ requires a firm to design, implement and operate a system of quality management for audits of financial statements performed by the firm.

75. Given that the proposed IESSA is framework-neutral, Part 5 does not prescribe a specific quality management standard. However, it states that sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For illustrative purposes, the proposed Part 5 refers to the IAASB's ISSA 5000 as requiring compliance with ISQM 1³⁰ (or other legal, regulatory or professional requirements that are at least as demanding). (See paragraph 5400.3f in Chapter 1.)
76. Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. The allocation of responsibilities within a firm will depend on its size, structure and organization. Therefore, many of the provisions of the IIS in the proposed IESSA do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. (See paragraph 5400.4 in Chapter 1.)
77. The determination of a "firm" in the context of a sustainability assurance engagement is equivalent to the approach in the context of an audit or other assurance engagement. Under proposed Part 5, a firm includes:
- (a) A sole practitioner, partnership or corporation of sustainability assurance practitioners;
 - (b) An entity that controls such parties, through ownership, management or other means; and
 - (c) An entity controlled by such parties, through ownership, management or other means.
- (See proposed revised Glossary to the Code in Chapter 2.)
78. The IIS in the proposed IESSA also set out specific requirements for members of the engagement team and sustainability assurance team. The determination of such individuals follows the same approach as for the engagement team and the audit team for audit engagements.³¹ (See proposed revised Glossary to the Code in Chapter 2.)

Sustainability Assurance Client

79. The IIS in the proposed IESSA require a firm providing a sustainability assurance engagement to be independent of the sustainability assurance client. A sustainability assurance client covers the entity in respect of which a firm conducts a sustainability assurance engagement. In addition, equivalent to the approach for audit engagements, when the client is a publicly traded entity (as defined in the

²⁹ International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³⁰ See paragraph 5b of the proposed ISSA 5000.

³¹ For further material regarding the determination of an audit team member. please refer to the [Final Pronouncement: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#)

Code), a sustainability assurance client will always include its related entities.³² When the sustainability assurance client is not a publicly traded entity, the sustainability assurance client includes those related entities over which the client has direct or indirect control. Consequently, the firm needs to be independent of the relevant related entities, too. (See proposed revised Glossary in Chapter 3.)

80. The IESBA believes that the approach to independence standards for sustainability assurance engagements should be proportionate and provide a scalable approach for sustainability assurance clients that are not public interest entities (PIEs). This is the same approach for the independence standards for audits of financial statements in Part 4A. Therefore, some of the independence provisions in Part 5 are applicable only to sustainability assurance engagements of PIEs.
81. The IESBA agreed that, as a first step, Part 5 should not prescribe which entities are PIEs in the context of sustainability assurance engagements but, instead, rely on the revised definition of PIE recently finalized by the IESBA in the context of audits of financial statements.³³
82. In the case of audit engagements, the factors guiding the determination of entities as PIEs are based on the extent of public interest in their financial condition. In the context of sustainability assurance engagements, stakeholders might also have heightened expectations given the nature of the entity and its sustainability information. However, the IESBA considers that in the context of the current regulatory environment, there would be the potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements.
83. Therefore, the IESBA proposes that an entity be deemed to be a PIE for the purposes of the sustainability assurance engagement if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.^{34, 35} (See paragraph 5400.13 in Chapter 1.) Please refer to question 9.
84. The IESBA notes that this approach maintains equivalency of treatment between the audit and sustainability assurance engagement of an entity that falls within the PIE definition. It avoids the situation where PIE requirements are applied in relation to the audit but not in relation to the sustainability assurance engagement for the same entity, an outcome that might be viewed as incoherent or anomalous especially in an integrated reporting context. However, in the case of a

³² The Glossary to the Code defines a related entity as “an entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.”

³³ [Final Pronouncement: Revisions to the Definition of Listed Entity and Public Interest Entity in the Code](#)

³⁴ Consequently, based on the approach in Part 4A, when determining whether an entity is a PIE, a sustainability assurance practitioner also needs to take into account more explicit definitions established by law, regulation or professional standards for the categories in the PIE definition.

³⁵ For further material regarding the determination of a PIE, please refer to material published by the IESBA related to the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#)

voluntary determination by the auditor of whether to treat an entity as a PIE for purposes of the audit of its financial statements, i.e., when the entity does not fall within the PIE definition, the IESBA does not believe that it would be appropriate for the Code to require another firm performing the sustainability assurance engagement to treat the entity as a PIE and therefore comply with the more stringent provisions in Part 5 applicable to PIEs. (See paragraph 5400.13a in Chapter 1.)

85. If a sustainability assurance client is a PIE, Part 5 will require the firm to publicly disclose the fact that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements (see paragraphs R5400.25 and R5400.26 in Chapter 1). The IESBA intends to coordinate with the IAASB and other sustainability assurance standards setters regarding the form and manner of such public disclosure.

Independence for Group Sustainability Assurance Engagements

86. The IESBA noted that sustainability reporting and assurance will be mandatory in some major jurisdictions, mostly for entities that operate as groups. Certain sustainability reporting frameworks already require reporting on a consolidated basis.³⁶ Therefore, the IESBA considered how the IIS in the proposed IESSA could best address independence considerations for group sustainability assurance engagements where the sustainability information includes the information of more than one entity or business unit, in a way that would achieve equivalence to the independence standards for group audit engagements. The IESBA recognized that the IAASB's proposed ISSA 5000 addresses group sustainability assurance engagements only in a general and overarching way.³⁷ However, the IESBA generally was of the view that not explicitly addressing group sustainability assurance engagements in Part 5 would detract from the premise that the independence standards in Part 5 are equivalent to those for audit engagements in Part 4A.
87. Furthermore, the proposed IESSA is being developed in a framework-neutral way. Accordingly, the proposed IESSA should address the independence of a sustainability assurance practitioner engaged to express an opinion on group sustainability information, irrespective of whether the practitioner applies ISSA 5000 or another sustainability assurance standard(s).
88. Therefore, the IIS in the proposed IESSA expressly address the independence considerations for group sustainability assurance engagements, i.e., when a group sustainability assurance firm and any component sustainability assurance firms carry out the assurance work. The relevant provisions in Section 5405 are equivalent to the independence standards applicable to group audit engagements.³⁸ To maintain that equivalence given that there is not yet an equivalent of ISA 600

³⁶ For example, in the EU, the Corporate Sustainability Reporting Directive (CSRD) already requires entities to report their sustainability information on a consolidated basis from 2025.

³⁷ The IAASB explained, in the Explanatory Memorandum that accompanied the Exposure Draft of proposed ISSA 5000, that the principles-based requirements in the proposed standard are capable of being applied for all sustainability assurance engagements, including for all types of sustainability information, regardless of the manner in which that information is presented. This includes that the sustainability information may be for a single entity or may include information for entities that are part of a group or other entities in the reporting entity's value chain. In addition to requirements and application material that recognize that the assurance engagement may involve firms and individuals from firms other than the assurance practitioner's firm, the application material also includes several references to groups or "consolidated" sustainability information, and examples of how certain requirements may be applied in those circumstances.

³⁸ For further information regarding the provisions applicable to group audits, please refer to the [Final Pronouncement: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#), and the related [IESBA Staff Questions and Answers publication](#).

(Revised)³⁹ for group sustainability assurance engagements, Section 5405 includes specific requirements concerning the communication between the group sustainability assurance firm and the component sustainability assurance firms regarding the relevant ethics, including independence, provisions that apply to the group sustainability assurance engagement (see paragraphs R5405.3 and R5405.4 in Chapter 1). These proposed requirements help to achieve the effect of the requirements in ISA 600 (Revised), referenced in Section 405 in Part 4A, concerning the communication between the group audit firm and the component auditor firms regarding the relevant ethics, including independence, provisions that apply to the group audit engagement. The IESBA welcomes stakeholders' views on the current practice regarding sustainability reporting and assurance in a group context, how practice might develop in the future and whether this might give rise to potential issues in the application of the proposed provisions in Section 5405. Please refer to questions 10(a) and (b)(i)-(ii).

89. Given the equivalence to provisions applicable to group audit engagements, the IESBA proposes that the terms and definitions in Section 5405, such as group sustainability assurance firm, component sustainability assurance firm and group sustainability assurance team, mirror the concepts in the equivalent terms used in the independence standards for group audit engagements. (See proposed revised Glossary in Chapter 2.)
90. Concerning the definition of group sustainability assurance client, similar to the independence standards for group audit engagements, the IESBA is proposing that apart from the entity on whose group sustainability information the firm expresses an opinion and the relevant related entities, the definition also includes components at which assurance work is performed. In the context of group sustainability assurance engagements, the Code defines a component as an entity, business unit, function or business activity, or some combination thereof, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement. Importantly, this definition explicitly excludes entities within the client's value chain. (See proposed revised Glossary in Chapter 2.) The independence considerations applicable to assurance work performed at, or with respect to, a value chain entity are addressed in Section 5407.
91. During its deliberations, the IESBA considered some concerns that references to the term "components" in the new Part 5 could create potential confusion for non-PAs if such a term is perceived to be audit-specific. The IESBA considered whether terms other than "components" might be used to describe the entities or business units within a group that are captured within the scope of the group sustainability assurance engagement. Upon deliberation, the IESBA came to the general view that consistency with the independence standards for group audit engagements would be beneficial, avoiding different terms to describe what are in essence the same parts of a group. The IESBA also considered that using other terms (for example, reporting entity) for the purposes of Section 5405 would not alleviate perceptions of potential complexity from the perspective of non-PAs. The IESBA noted that assisting non-PAs in achieving full understanding of all the provisions of Part 5 would be a matter of implementation, education and training. Please refer to question 10(b)(iii).
92. The IESBA acknowledges that until the IAASB or other sustainability assurance standard setters develop more specific standards addressing group sustainability assurance engagements, sustainability assurance practitioners might need guidance to consistently apply the provisions in Part 5 applicable to group reporting situations. Subject to the feedback received from stakeholders, the

³⁹ International Standard on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

IESBA will consider what implementation support resources, if any, it might commission to facilitate effective implementation of the provisions. The IESBA will also coordinate closely with the IAASB regarding the IAASB's future considerations in relation to addressing group sustainability assurance engagements.

Using the Work of Another Sustainability Assurance Practitioner

93. As mentioned above, Section 5405 in the proposed IESSA addresses independence considerations for group sustainability assurance firms, component sustainability assurance firms and members of the group sustainability assurance team. The latter might include individuals from outside the firm (either within or outside network firms) who perform assurance work at components within the group. However, the (group) firm must be able to direct, supervise and review the work of such individuals when they are members of the group sustainability assurance team.
94. For the purpose of issuing an assurance report on sustainability information, a firm might wish to use the work of another practitioner who has already carried out, or will carry out, assurance work with respect to a sustainability assurance client or a group sustainability assurance client, despite the firm not being able to direct, supervise and review the work of that practitioner. In this regard, the proposed ISSA 5000 recognizes and addresses the concept of using the work of *“another practitioner.”*⁴⁰ To align with proposed ISSA 5000, the IESBA proposes to address independence considerations regarding using the work of another practitioner in a new Section 5406.
95. For the purposes of the IIS in Part 5, the IESBA also proposes to define the new term “another practitioner” (also referred to as “other practitioner” where appropriate for ease of drafting) as a sole practitioner, partnership or corporation of practitioners that performs assurance work relevant to a sustainability assurance engagement, and the sustainability assurance practitioner is unable to direct, supervise and review their work. Along with this proposed new definition, the Glossary makes it clear that an individual from another practitioner who performs the assurance work is not a member of the engagement team. (See proposed revised Glossary in Chapter 2.)
96. When another practitioner carries out sustainability assurance work at the sustainability assurance client, the IESBA considered that the impact of their work on the outcome of the engagement and the firm's responsibilities in using their work are different compared with other individuals who might be involved in the engagement, but who are not carrying out assurance work, such as external experts or data providers. Therefore, as described below, proposed Section 5406 sets out an approach to addressing the independence considerations with respect to using the work of another practitioner at a sustainability assurance client.⁴¹ Please refer to question 11.
97. The IESBA recognizes that where a practitioner whose work the firm intends to use is not under the firm's direction and supervision, the firm cannot directly require that practitioner to comply with the Code's provisions. In some instances, that practitioner might have already completed their assurance work and might not have been subject to Part 5 of the Code. In light of this, the IIS in the proposed IESSA require the firm to:
 - Make the other practitioner aware of the relevant ethics, including independence, provisions;
and

⁴⁰ Paragraph A22 in the Exposure Draft of the proposed ISSA 5000

⁴¹ Section 5407 addresses circumstances where another practitioner, whose work the firm is not able to direct, supervise and review, performs assurance work at a value chain entity and the firm intends to use that work.

- Request that practitioner to confirm that they understand and will comply or, if the work has already been carried out, has complied, with such provisions. (See paragraphs R5406.3 and R5406.4 in Chapter 1.)
98. To meet the above request, the IESBA proposes that the other practitioner confirm that both the practitioner and the individuals from the practitioner who perform the assurance work are independent of the entity on whose sustainability information the other practitioner performs assurance work, in accordance with the independence requirements of Part 5. Given that the sustainability assurance client also includes certain related entities as defined in the Glossary, the other practitioner will need to be independent not only of the entity on whose sustainability information the other practitioner performs assurance work, but also its relevant related entities. (See paragraph R5406.5. in Chapter 1.)
99. Furthermore, to maintain consistency with the approach used in the proposed Section 5405 on group sustainability assurance engagements, the IESBA intends that the independence provisions that apply to the entity on whose sustainability information the firm expresses an opinion (the client) should apply throughout the engagement and each entity within the definition of the sustainability assurance client. Accordingly, if a firm intends to use the work of another practitioner who performs assurance work at an entity that is not a PIE, but the entity on whose sustainability information the firm expresses an opinion is a PIE, the firm will need to request confirmation that the other practitioner is independent of the entity on whose sustainability information that practitioner performs assurance work in accordance with the provisions applicable to PIEs.
100. If the firm cannot obtain confirmation regarding the independence of the other practitioner in accordance with the IIS in the proposed IESSA, the firm will need to consider that fact in determining whether, under the applicable sustainability assurance standards, it can proceed to use the assurance work of that practitioner for the purposes of the sustainability assurance engagement.
101. The diagram in Appendix 3 explains the applicable sections in the proposed IIS of Part 5 when the firm performing the sustainability assurance engagement uses the assurance work of another sustainability assurance practitioner for the purposes of that engagement.

Independence Considerations Relating to Value Chain Entities

102. The reporting boundary for the sustainability information might differ from the reporting boundary for the financial statements. For example, a sustainability reporting framework might require the reporting entity to include information about material value chain entities in the sustainability information on which the firm will express an opinion. Consequently, interests, relationships or circumstances involving such value chain entities might create threats to the firm's independence. The IESBA proposes that the IIS in the IESSA specifically address these considerations.
103. Given that the determination of entities within the value chain is based on the reporting framework, the IESBA proposes that the Code define a client's value chain by reference to the applicable reporting framework. The value chain might include, for example, a sustainability assurance client's customers and suppliers that are material for sustainability reporting purposes. The value chain does not include components as defined for the purposes of a group sustainability assurance engagement. Please refer to question 12.

104. Based on the proposed definition of group sustainability assurance client,⁴² value chain entities are not part of the client's organizational boundary and are not under its control. Therefore, the provisions in Part 5 relevant to (group) sustainability assurance clients are not applicable to them. In light of this, the IESBA proposes to include new provisions in Sections 5407 and 5700 in the proposed IESSA that explicitly address the independence considerations applicable when assurance work is carried out at, or with respect to, a value chain entity for the purposes of a sustainability assurance engagement.
105. The IESBA welcomes stakeholders' views on whether the IIS in the proposed IESSA appropriately address the threats to independence related to value chain entities. Please refer to questions 13 and 14.

Assurance Work at a Value Chain Entity

106. If a sustainability reporting framework requires the inclusion of a value chain entity's information in the sustainability information (the value chain entity's information will most likely be material to that information), a firm performing the sustainability assurance engagement might determine to perform assurance procedures at, or with respect to, that value chain entity. In such circumstances, the firm might:
- (a) Perform the assurance work at the value chain entity;
 - (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
 - (c) Perform the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity.
107. Proposed Section 5407 addresses the independence considerations relating to the assurance work performed at, or with respect to, a value chain entity covered by bullet points (a) to (c) above. As the information of value chain entities may be included in both standalone or group sustainability information, this Section is applicable to both.
108. If the firm performs the assurance work at a value chain entity, proposed Section 5407 requires the firm and members of the sustainability assurance team to be independent of the value chain entity in accordance with the independence requirements of Part 5 that are applicable to a firm and a sustainability assurance team member, respectively, with respect to a sustainability assurance client. Given that the determination of the sustainability assurance client also includes certain related entities as specified in the definition of sustainability assurance client, 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. (See paragraph R5407.3 in Chapter 1.)
109. Where the firm decides to use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity:
- This practitioner could be any other sustainability assurance practitioner, irrespective of whether the firm is able to direct, supervise and review that practitioner's work.⁴³
 - In such circumstances, proposed Section 5407 requires the firm to be satisfied that such practitioner is independent of the value chain entity in accordance with the independence

⁴² See proposed revised Glossary in Chapter 2.

⁴³ This also includes "another practitioner" as defined in the proposed revisions to the Glossary to the Code.

requirements of Part 5 that are applicable to a firm with respect to that entity. The independence requirements are only applicable with respect to the value chain entity at which that practitioner performs the assurance work. (See paragraph R5407.4 in Chapter 1.)

- Recognizing that the value chain entity's sustainability assurance practitioner might have already carried out the relevant assurance work, and that such work might be used for the purposes of various other entities' sustainability assurance engagements, the IESBA proposes a pragmatic approach. That is, in such circumstances, the firm may rely on a statement of independence in the sustainability assurance practitioner's report to meet the above requirement. (See paragraph 5407.4 A1 in Chapter 1.)
- However, if that practitioner has not provided a statement of independence in relation to the assurance work at the value chain entity, proposed Section 5407 makes it a responsibility of the engagement leader to request that practitioner to confirm whether:
 - Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of Part 5; or
 - Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions of Part 5. (See paragraph R5407.5 in Chapter 1.)

110. If the firm performs the assurance work on the sustainability information of the value chain entity provided by the sustainability assurance client without carrying out assurance work at that entity, proposed Section 5407 requires the firm and members of the sustainability assurance team to be independent of the sustainability assurance client in accordance with the independence requirements of Part 5. (See paragraph R5407.6 in Chapter 1.)

Interests, Relationships or Circumstances Involving Value Chain Entities

111. There might be circumstances where a firm uses the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion. Although the firm uses the assurance work of the other practitioner, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information. Therefore, the IESBA believes that Part 5 should recognize that interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and that value chain entity might create threats to the firm's independence. The IESBA welcomes respondents' views on whether proposed Section 5700 appropriately addresses such threats. Please refer to question 14.

112. Recognizing that the level of the threats to independence that might be created by interests, relationships or circumstances involving a value chain entity will generally be lower, the IESBA proposes in Section 5700 that such threats be addressed on a "knows or has reason to believe" principle basis. (See paragraph R5700.4. in Chapter 1.)

113. The "knows or has reason to believe" principle is a well-established concept in the extant Code. The IESBA does not intend that the application of the "knows or has reason to believe" principle create a monitoring obligation on the firm. Accordingly, there is no expectation that the firm maintains an up-to-date database of the client's value chain entities and monitor any interests, relationships and circumstances between the firm, network firms and members of the sustainability assurance team and such entities. There is also no expectation that the firm monitor any changes to the client's value

chain during the engagement period or the reporting period for the engagement.

114. The approach in Section 5700 relies on the application of the conceptual framework as set out in Section 5120. If the sustainability assurance team knows about any interests, relationships or circumstances between the firm, a network firm or members of the sustainability assurance team and the value chain entity, the sustainability assurance team will need to include them when identifying, evaluating and addressing threats to independence. If the threats are not at an acceptable level, the sustainability assurance team will need to consider actions that might eliminate the threats or reduce them to an acceptable level. The IESBA welcomes respondents' views as to whether Section 5700 should provide more guidance in this regard, such as examples of factors to evaluate threats and potential safeguards.

Provision of Non-Assurance Services to Sustainability Assurance Clients

115. Taking an equivalent approach to the independence standards for audit engagements, the IIS in the proposed IESSA set out that providing NAS to a sustainability assurance client might create threats to compliance with the fundamental principles and to independence. The provision of NAS to an audit client focuses on the impact of such services on the financial statements. Likewise, the IESBA considers that in the context of a sustainability assurance engagement, the provision of the same NAS may impact the sustainability information on which the firm expresses an opinion. Consequently, the IESBA agreed that that general requirements and application material set out in Section 600 of Part 4A for audit engagements (such as the prohibition from assuming management responsibility, "self-review threat prohibition," and communication with TCWG) are also applicable when the firm provides NAS to a sustainability assurance client.
116. The proposed Section 5600 and its subsections also include updated examples that are more relevant to sustainability-related services.
117. Please refer to question 15.

Examples of NAS

118. The subsections to Section 5600 address the same types of NAS as in the independence standards for audit engagements in Part 4A of the Code, except for:
- Accounting and bookkeeping services.
 - Valuation services.
119. Instead of accounting and bookkeeping services, the proposed IESSA focuses more broadly on the provision of sustainability data and information services to a sustainability assurance client as those services might affect the sustainability information on which the firm expresses an opinion.⁴⁴ The provision of accounting and bookkeeping services to a sustainability assurance client is addressed

⁴⁴ The IIS in the proposed IESSA only prohibit firms from providing a sustainability data and information service to the sustainability assurance client if that service might be relevant to the sustainability information on which the firm expresses an opinion. If the firm expresses an assurance conclusion only in relation to certain sustainability matters, for example, climate-related issues, and the firm also provided sustainability information services in relation to reporting on other matters (for example, a Diversity, Equity, and Inclusion (DEI) Transparency Report) that is not in the scope of the sustainability assurance engagement, the provision of such a service does not create a self-review threat. Although the provision of sustainability data and information services in relation to sustainability information that is not subject to sustainability assurance is not prohibited under subsection 5601, the firm will still need to evaluate and address any other threats created by the provision of that service to the client. (See paragraphs R5601.5 and R5601.6 in Chapter 1.)

as one type of sustainability data and information services.⁴⁵ (See Subsection 5601 in Chapter 1.)

120. The Sustainability Reference Group pointed out that apart from valuation services, providing other NAS to a sustainability assurance client with regard to future developments of non-monetary value, such as estimation or other forecasting services (e.g., a service that includes estimating the amount of hazardous substances produced by a manufacturing process), could also create threats to independence. Given the similarities between estimation, forecasting and similar types of services and valuation services, the IESBA proposes to address these services under the same subsection as “valuation” services. (See Subsection 5603.)
121. Please refer to question 16 regarding the list of specific NAS addressed in Subsections 5601 to 5610.

Materiality

122. Section 5600 in the proposed IESSA, based on Section 600 in Part 4A, also provides factors to assist firms in identifying the different threats that might be created by providing a NAS to a sustainability assurance client. One such factor is the consideration of whether the outcome of the service will have a material effect on the sustainability information. Since the IIS in the proposed IESSA are applicable irrespective of the reporting framework used by the reporting entity or sustainability assurance standards used by the firm, the determination of materiality, and whether it is single or double materiality, will depend on the applicable reporting framework or assurance standards (for example, materiality in the CSRD or in the standards issued by the International Sustainability Standards Board (ISSB)). (See paragraph 5600.11 A1 in Chapter 1.)

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

123. The IIS in the proposed IESSA also address certain independence matters and provide related guidance when the firm performs both audit and sustainability assurance engagements for the same client. Please refer to question 17.

Fees

124. As a guardrail around independence, the independence standards for audit engagements in the extant Part 4A require a firm to address the threats to independence arising from the firm receiving fees for services other than audit, including the fees for assurance services. The IESBA took into account that in practice, the audit and sustainability assurance engagements are generally still separate engagements, and in jurisdictions that require the disclosure of fees, regulators generally mandate the disclosure of audit fees only.
125. Although the IESBA’s objective is for equivalency between independence standards for audit engagements and independence standards for sustainability assurance engagements, the IESBA considered during its deliberations that there might be threats arising from concerns about the potential loss of the sustainability assurance engagement as a separate engagement (for example, if the firm were to express a modified audit opinion on the financial statements), which might impact the firm’s objectivity. The IESBA also considered that there might be a perception that the firm or network firm focuses on the sustainability assurance relationship to the detriment of the audit

⁴⁵ In addition, subsection 5601 does not mirror the exemption in paragraph R601.7 provided for accounting and bookkeeping services in Part 4A. The IESBA approved that exception to address a specific jurisdictional circumstance that is not relevant in the context of a sustainability assurance engagement.

engagement, or vice versa. Consequently, if the auditor also provides sustainability services to the client, Part 4A requires the firm to disclose the fees for such services as non-audit fees and consider applying safeguards regarding the proportion of non-audit to audit fees.

126. If the firm provides both the audit and the sustainability assurance engagements, the IIS in Part 5 guide the firms to apply the provisions in Section 410 in Part 4A regarding the evaluation of the threats created by the proportion of fees for services other than audit, including assurance services such as sustainability assurance engagements, to the audit fee. (See paragraph 5410.11 A1 in Chapter 1.)
127. The extant guidance in Section 410 in Part 4A relating to the evaluation of the level of the threats created by the proportion of fees includes the consideration of the nature, scope and purposes of the services other than audit, as a factor. The IESBA proposes a consequential amendment to this factor to clarify its applicability to sustainability assurance engagements. In circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level, especially if the auditor's performance of the sustainability assurance engagement is required by law or regulation. (See paragraph 410.11 A2 in Chapter 3.)
128. The IESBA notes that the provisions in Part 4A on the proportion of fees do not include any prohibition, threshold or a fee cap. Section 410 sets out guidance for firms to evaluate the level of the threats that might be created by the proportion of fees and provides guidance to assist such evaluation. Nevertheless, the IESBA believes that Part 5 needs to acknowledge the potential threats to independence related to the provision of both the audit and sustainability assurance engagements by the same firm, and guide the firm to evaluate the level of such threats and address them, if necessary. The IESBA does not believe that this guidance would impede the development of the sustainability assurance market or discourage the movement towards integrated reporting.
129. The IESBA welcomes respondents' views on the proposed approach regarding the proportion of fees received from audit and sustainability assurance engagements.

Long Association

130. If the auditor later becomes the provider of sustainability assurance services (or vice versa) to the same client, the extended period of the relationship might create familiarity and self-interest threats to independence. Accordingly, the IESBA proposes that the independence standards for audit and sustainability assurance engagements should address such threats. (See proposed Section 5540 in Chapter 1.)
131. This approach results in proposed consequential amendments to Section 540 in Part 4A applicable to audit engagements. (See proposed changes to Section 540 in Part 4A in Chapter 3.)

III. SUSTAINABILITY REPORTING

132. This Section covers Chapter 4 of the ED and questions 20 to 23.

A. General Overview

Scope of Sustainability Reporting-related Revisions

133. The IESBA considered whether to develop ethics standards for sustainability reporting to apply to all preparers of sustainability information (i.e., profession-agnostic). This would mean all those preparing, reporting and assuring sustainability information, regardless of their profession or field,

could be covered by the same robust ethics (including independence) standards issued by the IESBA.

134. While recognizing the benefits of all preparers of sustainability reporting being subject to the same robust ethics standards, the IESBA determined to restrict the scope of the current Sustainability project to developing ethics standards for sustainability reporting by PAs at this time. In reaching this decision, the IESBA has taken into account the following:
- There was no urgent international regulatory call for profession-agnostic ethics standards for sustainability reporting at this time.
 - There was no strong support from the global sustainability roundtable participants for the IESBA to develop profession-agnostic ethics standards for sustainability reporting at this moment, due to doubts about the enforceability of such standards on non-PAs as well as other factors such as the current use of corporate governance codes by regulators in a number of jurisdictions.
 - The need to expand the scope of extant Part 2 to all preparers of sustainability reporting is a much broader strategic matter which will require the IESBA's consideration over a longer period of time and discussions with a broad range of stakeholders.
135. In developing its SWP,⁴⁶ the IESBA observed that there is a public expectation that all preparers of financial and non-financial information should be subject to the same high ethics standards. Therefore, the IESBA agreed that it is in the public interest for it to explore the opportunity to extend the impact of the Code beyond the accountancy profession as a key strategic focus area. The IESBA has already taken the first step on this journey in developing profession-agnostic ethics (including independence) standards for sustainability assurance engagements under the current Sustainability project. As part of a phased approach, the IESBA will take the next step and focus on sustainability information with a new work stream to explore developing profession-agnostic ethics standards for sustainability reporting, to commence after the finalization of this project in 2024. Please refer to question 20.

Framework-neutral Standards

136. Consistent with the approach in the extant Code, the proposed sustainability reporting-related revisions have been developed to be framework-neutral, suitable for use irrespective of the underlying framework used to prepare the sustainability information, such as the ISSB's IFRS Sustainability Disclosure Standards, the Global Reporting Initiative (GRI) standards and the EFRAG's European Sustainability Reporting Standards (ESRS).
137. For instance, the proposed definition of sustainability information (see paragraphs 24 to 26) is drafted broadly to capture such information regardless of the framework used, and includes sustainability information "*prepared for internal purposes or for mandatory or voluntary disclosure.*"

Public Interest Framework Considerations

138. The IESBA is of the view that the proposed sustainability reporting-related revisions are responsive to the public interest considering the Public Interest Framework characteristics, in particular (please refer to question 21):

⁴⁶ The new SWP for 2024-2027 was approved by the IESBA in December 2023 (see [Agenda Item 2-H.1](#) of the December 2023 IESBA meeting). Subject to PIOB approval of due process, the SWP is expected to be released in April 2024.

- *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Parts 2 and 3 already contain robust standards that address ethics issues relating to PAIBs performing professional activities and PAPPs providing professional services, respectively.
- *Relevance, clarity and conciseness* of the standards, notably by adding only those considerations and examples that are necessary to make Parts 1 to 3 fit for sustainability reporting.
- *Implementability and enforceability*, notably by maintaining the integrity of Parts 1 to 3 and making specific revisions only where necessary.

B. Significant Matters

139. The rapidly changing ecosystem of global and national sustainability standard setting, and the qualitative and forward-looking nature of sustainability information result in increased challenges, complexity and uncertainty in preparing or presenting sustainability information. Accordingly, PAs' exercise of discretion and professional judgment play a crucial role when performing such activities.
140. Extant Parts 1 to 3 of the Code already contain robust standards addressing ethics issues that might arise when performing financial or non-financial reporting. Accordingly, the IESBA does not believe substantive changes to address ethics issues specific to sustainability reporting are required. However, to ensure that these Parts remain fit for purpose, the IESBA proposes to include sustainability references where applicable, and to revise existing examples and add new examples relating to:
- Conduct to mislead in sustainability reporting;
 - Value chain considerations relevant to sustainability reporting; and
 - The forward-looking nature of sustainability information.

Proposed Revisions to Section 220⁴⁷

141. Section 220 of the Code guides PAIBs at all levels of the employing organization when involved in preparing and presenting financial or non-financial information, both within and outside the organization. Accordingly, a substantial proportion of the proposed sustainability reporting revisions was made to Section 220, including examples on conduct to mislead in sustainability reporting, the value chain and forward-looking information (see further discussions below). Other proposed revisions to this section include:
- Clarification that the preparation or presentation of information:
 - Relates not only to an entity's state of affairs, but also its operations, which would include, for example, its services or products (see paragraph 220.3 A2); and
 - Includes collecting the information, such as from an entity's value chain, and measuring the information, through for example measurement methods, metrics and estimations (see paragraph 220.3 A3).
 - Expanding the extant requirement that when preparing or presenting information, a PA must exercise professional judgment to also incorporate:
 - Describing clearly the impacts of business transactions or activities, as impacts are an

⁴⁷ Section 220, *Preparation and Presentation of Information*

important aspect of certain sustainability reporting frameworks (such as GRI and ESRS) (see subparagraph R220.4(c)(ii)); and

- Collecting and measuring information in a timely and proper manner (see subparagraph R220.4(c)(iii)).
- Expanding the types of information that a PA is encouraged to consider documenting to include the PA's analysis, assumptions, and judgments and decisions made in preparing or presenting the information (see paragraph 220.11 A1).

142. Please refer to question 22.

Conduct to Mislead in Sustainability Reporting

143. Conduct to mislead in sustainability reporting might arise from intentionally misleading others or through inappropriately using discretion, to misrepresent how responsible an organization is from a sustainability perspective (for example, “greenwashing”), or intentionally omitting certain sustainability information to avoid scrutiny on an organization’s sustainability efforts (for example, “greenhushing”).
144. PAs must not intentionally prepare or present information in a manner to mislead others or omit anything to render the information misleading (see subparagraphs R220.4(b) & (d)). Accordingly, a proposed new example illustrates how sustainability information might be intentionally prepared or presented to mislead others through a range of practices, such as omitting information, including false information, inappropriate calculations, or over/under emphasizing certain information (see paragraph 220.4 A1).
145. An applicable sustainability reporting framework might permit different actions, such as alternative measurement methods, or an entity might voluntarily apply such a framework or implement its own entity-defined framework. These situations require PAs to exercise discretion in making professional judgments. Accordingly, proposed examples in paragraph 220.5 A1 demonstrate how such discretion might be misused to mislead others or misrepresent sustainability information in contravention of paragraph R220.5.
146. The ED also includes new examples of pressure exerted on a PA in a sustainability reporting context that might result in a breach of compliance with the fundamental principles, such as pressure to misrepresent how an entity is aligned to or achieving its sustainability goals, and to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations (see paragraph 270.3 A2).

Value Chain Considerations

147. Collecting and using data from within the value chain to prepare or present sustainability information might create ethics issues for PAs. Feedback from the global sustainability roundtables included that preparers need to be transparent about the availability and deficiencies of data, and that complexity in the value chain can result in difficulties in collecting reliable data.
148. When preparing or presenting information, PAs must avoid undue influence of, or reliance on, individuals, organizations or technology (see subparagraph R220.4(e)). A proposed new example illustrates that failing to consider the source, relevance and sufficiency of a supplier's data that is used in preparing or presenting sustainability information would result in undue reliance on an organization (see paragraph 220.4 A3). This example draws on the extant requirement in the Code for PAs to have an inquiring mind, which is a prerequisite to understanding known facts and

circumstances and involves considering the source, relevance and sufficiency of information obtained (see extant paragraphs R120.5 and 120.5 A1).

149. The IESBA also believes that the quantitative and qualitative characteristics of a client's value chain might impact the PA's evaluation of the level of threats to compliance with the fundamental principles (see proposed paragraphs 300.7 A4a and 320.3 A4). The example in paragraph 300.7 A4a highlights that a threat to compliance with professional competence and due care might arise where sustainability information comes from multiple suppliers that are geographically dispersed or is prepared under different reporting frameworks. The IESBA believes these situations might impair a PA's ability to act diligently and in accordance with applicable technical and professional standards (see extant subparagraph R113.1(b)) on a careful, thorough and timely basis (see extant paragraph 113.1 A3). These situations might also reduce the PA's ability to attain and maintain professional knowledge and skill (see extant subparagraph R113.1) under a myriad of different requirements.
150. Relationships with entities in the value chain might also create threats to compliance with the fundamental principles, such as a self-interest threat resulting from a PAIB holding a financial interest in a supplier of their employing organization where that supplier is impacted by the employing organization's sustainability practices (see proposed example in paragraph 200.6 A1(a)).

Forward-looking Information

151. A fundamental aspect of sustainability reporting is forward-looking information. However, the inherent uncertainty in such information creates potential ethics issues. For instance, excessive optimism in the analysis of estimates, and forward-looking information which is more qualitative and narrative-based by nature may lead to "greenwashing."
152. Therefore, the IESBA has proposed a new example in paragraph 220.5 A1 on how discretion in the preparation of forward-looking information might be misused in order to achieve inappropriate outcomes. This example was developed for broader application beyond sustainability reporting as forward-looking information is relevant to various types of information, including financial information.
153. The IESBA also believes that recent technology-related revisions to the Code dealing with the impact and management of complexity⁴⁸ include useful guidance for PAs when using forward-looking information. These provisions highlight that complexity, whether it is technology-related or not, is a factor to consider when exercising professional judgment. The provisions also explain that complexity results from the "*compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.*"⁴⁹
154. Please refer to question 22.

Other Matters

155. The IESBA is also proposing a number of additional sustainability reporting-related examples and concepts to Parts 1 to 3 of the extant Code relating to:
- A sustainability-related committee as a further example of a subgroup of TCWG, in addition to an audit committee or individual member of TCWG (see paragraphs 200.9 A2 and 300.9 A2).

⁴⁸ Paragraphs 120.5 A6 to 120.5 A8 introduced in the IESBA's *Final Pronouncement April 2023 Technology-related Revisions to the Code* effective December 15, 2024.

⁴⁹ Paragraph 120.5 A6.

- A sustainability assurance practitioner as a potential avenue for PAs to communicate concerns in respect of misleading information or pressure to breach the fundamental principles (see paragraphs 220.9 A2 and 270.3 A4).
- Identification of threats to compliance with the fundamental principles (see paragraphs 200.6 A1 and 300.6 A1) and pressure that might result in threats to compliance with the fundamental principles (see paragraph 270.3 A2).
- Examples of circumstances with respect to financial interests, compensation and incentives that might create a self-interest threat (see paragraph 240.3 A2).

156. Please refer to question 22.

IV. USING THE WORK OF AN EXTERNAL EXPERT

157. Certain provisions in Section 5320 as well as Section 5390 of the proposed IESSA (in Chapter 1), and the revisions to “Using the Work of Others” in Section 220 and “Using the Work of an Expert” in Section 320, in the extant Code (in Chapter 4), all highlighted in grey, were developed under the Use of Experts project. See the Use of Experts Exposure Draft⁵⁰ for the respective rationale. Any feedback to those proposals should be provided in response to that Exposure Draft.

V. ANALYSIS OF OVERALL IMPACT OF THE PROPOSED CHANGES

158. The IESBA believes that the proposed IESSA and other revisions to the Code are critical to achieving public trust and confidence in sustainability assurance and reporting, and will support growth in the sustainability assurance market. The IESSA in particular aims to respond to an international regulatory call for robust ethics (including independence) standards that can be used by all sustainability assurance practitioners to foster independent, high-quality engagements and consistent practices.

159. Given the equivalence approach, the IESBA believes that practitioners who are already familiar with the extant Code (e.g., auditors of financial statements and other practitioners performing engagements where there is a requirement for compliance with the extant Code or other requirements that are as least as stringent, such as an ISAE 3000 (Revised)⁵¹ engagement) could implement the new standards without significant costs related to obtaining an understanding of the new requirements. Nonetheless, a few areas that will be impacted as a result of the IESSA include:

- The NOCLAR sections in Parts 2 and 3 of the Code, in particular, the new requirement in Part 3 for the auditor to consider communicating actual or suspected NOCLAR to the sustainability assurance practitioner (see paragraphs 56 to 63 above);
- The provisions in Section 5405 addressing group sustainability assurance engagements. (In the case of group sustainability assurance engagements performed in accordance with IAASB standards, there is currently no equivalent standard to ISA 600 (Revised), which applies to audits of group financial statements; such group sustainability assurance engagements will be covered in a general and overarching way under the IAASB’s proposed ISSA 5000.)
- The provisions addressing the different reporting boundaries in the context of a sustainability assurance engagement, which deal with independence considerations when assurance work

⁵⁰ [Use of Experts Exposure Draft](#)

⁵¹ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

is performed at, or with respect to, a value chain entity (Sections 5407 and 5700).

160. For sustainability assurance practitioners who are neither PAs nor other practitioners performing engagements under assurance standards that require compliance with the extant Code, the proposed IESSA will represent a new and comprehensive set of ethics (including independence) standards. It is likely that implementing the proposed IESSA will result in increased costs, including with respect to the deployment of new (or significantly updated) policies and procedures, awareness raising and training initiatives. The IESBA plans to issue non-authoritative guidance material for those who are not familiar with the Code to assist them in navigating the IESSA.
161. Regarding the revisions to the extant Code to reflect sustainability reporting considerations, the IESBA anticipates that there will be non-trivial implementation costs relating to education and training for PAs. This is because of the need for them to fully appreciate the nature and extent of the new ethical expectations relating to the proposed changes to the Code to reflect sustainability reporting considerations.
162. The IESBA also expects costs related to adoption and implementation for national standard setters, professional accountancy organizations and other stakeholders, including translation where needed, and education and training efforts.

VI. PROJECT TIMELINE AND EFFECTIVE DATE

163. The indicative timeline for the completion of this project is set out below.

Indicative Timing	Milestone
May 2024	<ul style="list-style-type: none">• Closing date for comments to the ED
June 2024	<ul style="list-style-type: none">• Preliminary highlights of selected ED responses to IESBA
September 2024	<ul style="list-style-type: none">• Full IESBA review of respondents' comments and first read of revised proposals
October 2024	<ul style="list-style-type: none">• Discussion of significant matters arising on exposure with IESBA Stakeholder Advisory Council (SAC)
December 2024	<ul style="list-style-type: none">• IESBA approval of final pronouncement

164. The IESBA will coordinate with the IAASB to agree on the effective dates for the IESBA's final pronouncement and ISSA 5000.

VII. GUIDE FOR RESPONDENTS

165. The IESBA welcomes comments on all matters addressed in the ED, but especially the matters identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

166. The IESBA welcomes comments on the following specific matters. Where a respondent disagrees with a proposal, it will be helpful for the respondent to explain why and to provide suggestions for other ways to address the particular matter.

Sustainability Assurance

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 this document]*
 - (b) Profession-agnostic and framework-neutral? *[See paragraphs 21 and 22 of this document]*
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 this document]*

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 this document]*

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 this document]*
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 this document]*

Structure of Part 5

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

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 this document]*
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 this document]*

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 this document]*

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 this document]*
- (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 this document]*
- (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")?

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 this document]*

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 this document]*
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 this document]*
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 this document]

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 this document]
16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]
- (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?

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 this document]

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

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 this document]
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 this document]

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? [See paragraphs 139 to 141 of this document]
 - (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]
 - (c) Other proposed revisions? [See paragraph 155 of this document]
23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

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?

Using the Work of an External Expert

Certain provisions in Section 5320 as well as Section 5390 of the proposed IESSA (in Chapter 1), and the revisions to "Using the Work of Others" in Section 220 and "Using the Work of an Expert" in Section 320, in the extant Code (in Chapter 4), all highlighted in grey, were developed under the Use of Experts project. See [Using the Work of an External Expert](#) Exposure Draft for the questions relating to these aspects. Any feedback should be provided in response to that Exposure Draft.

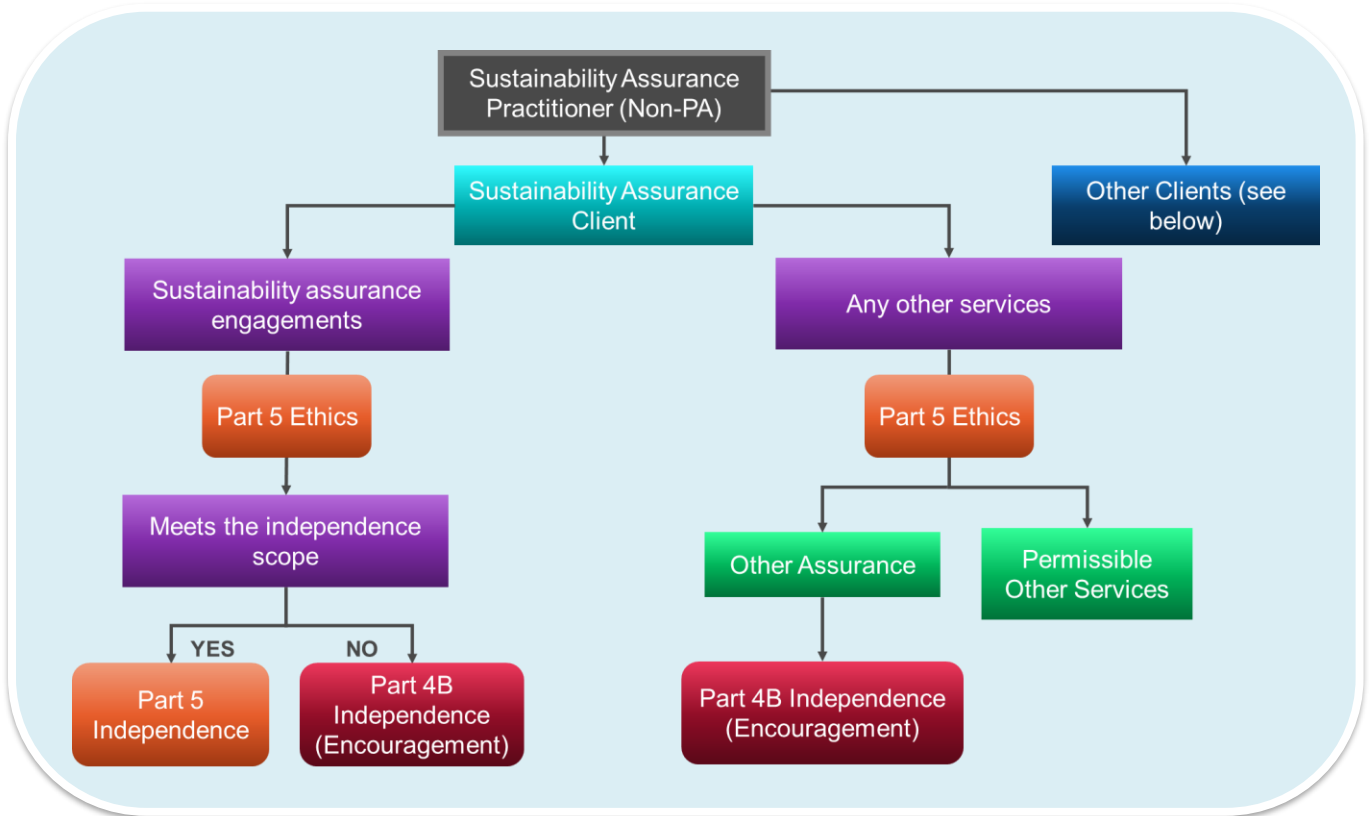
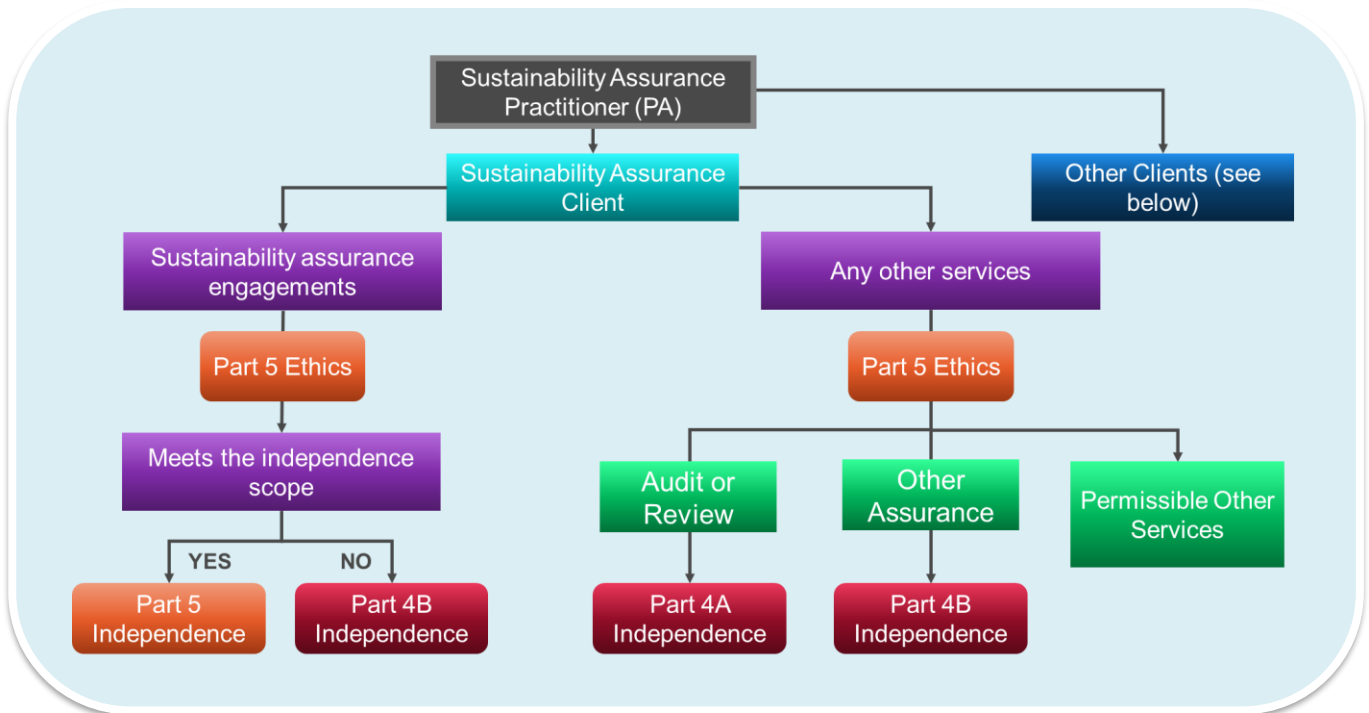
Request for General Comments

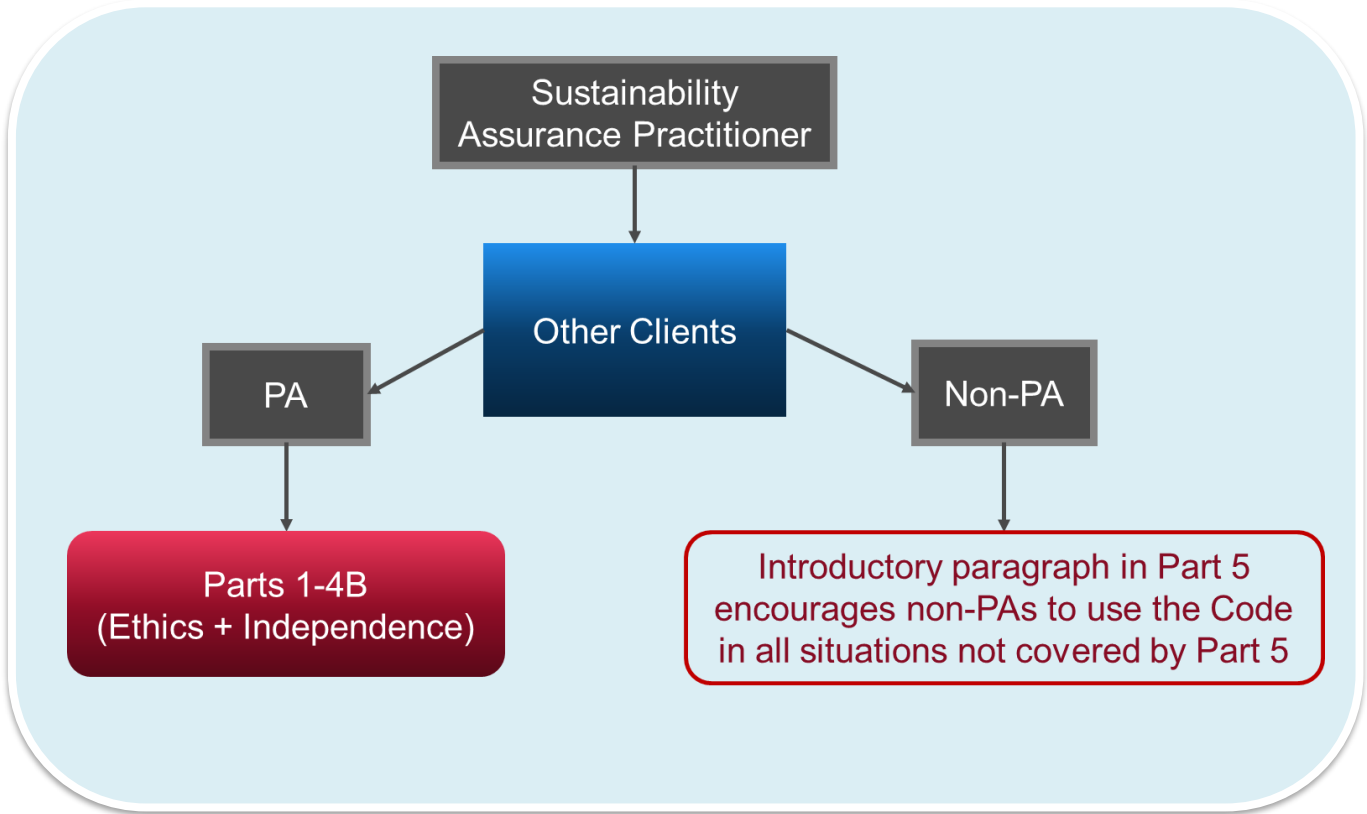
167. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
 - (b) *Regulators and Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and oversight communities.
 - (c) *Sustainability Assurance Practitioners Other than Professional Accountants* – The IESBA invites comments on the clarity, understandability and usability of the proposals from sustainability assurance practitioners outside of the accountancy profession who perform sustainability assurance engagements addressed by the *International Independence Standards* in the proposed Part 5 of the Code.
 - (d) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

- (e) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

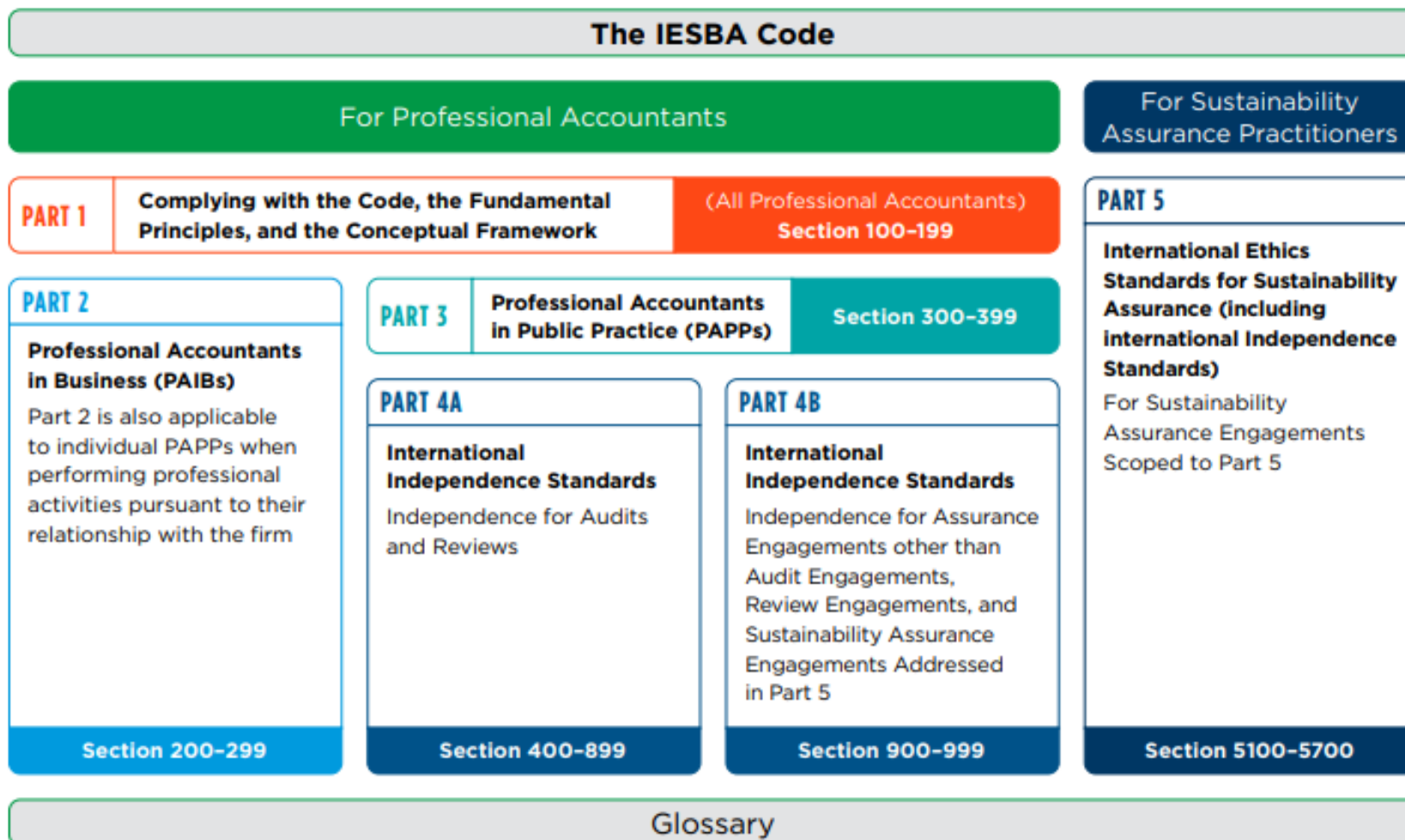
APPENDIX 1

The diagrams below illustrate the inter-relationship between ethics and independence standards for sustainability assurance practitioners (PAs and non-PAs):

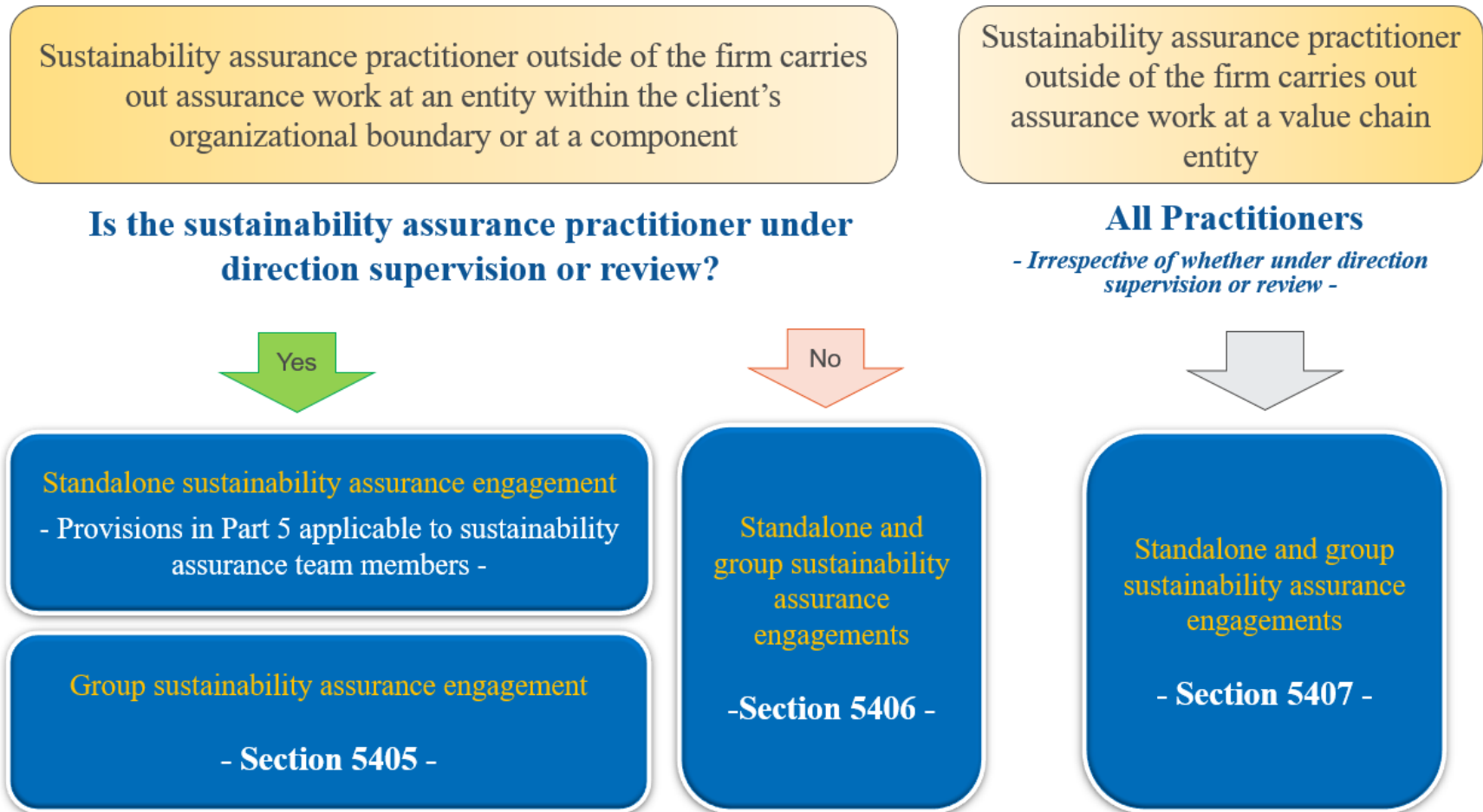




The diagram below illustrates the proposed structure for the Code including the extant Parts 1 to 4B and the new Part 5.



The diagram below explains the applicable sections in the IIS of Part 5 when the sustainability assurance practitioner performing the sustainability assurance engagement uses the assurance work of another sustainability assurance practitioner for the purposes of that engagement:



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