



Paul Korolkiewicz
Global Head of Quality, Risk
and Regulatory
KPMG International Limited

KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Correspondence Address
KPMG
15 Canada Square
London E14 5GL
United Kingdom

Ken Siong
Program and Senior Director
International Ethics Standards Board for
Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

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Exposure Draft: Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards)

Dear Mr Siong,

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG global organization.

We agree that a single global standard for ethics and independence in sustainability assurance is in the public interest. A clear standard that can be understood by both professional accountants and practitioners who are not professional accountants is crucial to promote global adoption and we support the IESBA in their efforts to create such a standard.

We do have several key concerns with the proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA or Part 5), which we believe could lead to the IESSA not being consistently adopted by all sustainability assurance practitioners, especially those who are not professional accountants.

First, the inclusion of group sustainability assurance engagements in Part 5 is not supported at this time, as there are no existing or proposed group sustainability assurance standards to reference. We suggest the IESBA postpone the inclusion of proposals related to group sustainability assurance engagements until they can be developed in tandem with the IAASB's expected project on such engagements.

Second, the proposed independence provisions for using the work of another practitioner lack clarity as drafted and extend beyond what is necessary when a sustainability assurance practitioner uses the work in certain scenarios.

Third, the provisions addressing value chain entities are not supported, as they go beyond the independence requirements for financial statement audits. In addition, we have concerns



about the operational strain and potential adverse outcomes for the sustainability assurance industry based on the broad requirements that have been proposed.

Lastly, while it was expedient to duplicate the extant Code's ethics and independence requirements, there has not been sufficient adaptation for risks specific to sustainability assurance engagements. This has also created a standard that is heavily based on auditing terminology and concepts, which may be a barrier to adoption by practitioners who are not professional accountants.

To promote global adoption and consistent interpretation of Part 5, we urge the IESBA to coordinate with the IAASB on the points raised in our responses and provide sufficient time for implementation, which will allow the continued building of capacity and sustainability expertise among sustainability assurance practitioners. The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft.

Please contact Karen Bjune at kbjune@kpmg.com if you have questions on any of the points raised in this letter. We would be happy to discuss our views with you.

Yours sincerely

Paul Korolkiewicz
Global Head of Quality,
Risk and Regulatory

Appendix: Responses to Specific Questions

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?

We agree that with these proposals, the IESBA has achieved the same high standards of ethical behavior and independence that apply to audit engagements in the extant Code.

We also acknowledge the Board's decision to essentially duplicate the extant Code's ethics and independence requirements in order to respond to the request for swift action to develop a global standard of ethics and independence requirements for sustainability assurance engagements (SAEs). This plan of action, however, may have unnecessarily created certain ethics and independence requirements that would likely not have been needed if the IESBA's approach had instead been to start with a clean slate and develop standards solely to address the risks inherent to SAEs. As the proposals are currently drafted, there is a lack of adaptation of audit engagement ethics and independence requirements to the specific circumstances of SAEs.

While the resulting Part 5 will be familiar for professional accountants (PAs), we do have concern that the extent of provisions in Part 5 may be viewed as unnecessary or onerous and therefore create a barrier to adoption for practitioners who are not professional accountants (non-PAs) and who do not currently subscribe to a code of ethics and/or find independence concepts unfamiliar. This unfamiliarity will be exacerbated by the terminology used in Part 5, as many of the terms and concepts originate from the auditing standards. To this end, our responses throughout this appendix are geared toward making the IESSA adoptable and operable for PAs and non-PAs alike.

We recommend the IESBA work through its partnership with the International Accreditation Forum and with other accreditation bodies for SAPs who are non-PAs to mandate adoption by non-PAs. We also suggest implementation guidance to assist non-PAs, in particular, with understanding key requirements and terminology in Part 5.

b) Profession-agnostic and framework-neutral?

We support the IESBA's direction to create proposals that are profession-agnostic and framework-neutral. However, we believe the proposals fall short of this given how Part 5 was developed using essentially the same language from the provisions applicable to audits of financial statements without sufficiently recognizing the differences in SAEs or in the practitioners who provide the assurance.

While feedback from non-PAs will give the most direct viewpoint, we are concerned that non-PAs (or the bodies that govern them or provide accreditation) may conclude that adopting the proposed standard is too challenging. This is exacerbated by the fact that the requirements have not been sufficiently adapted for SAEs. The result may be that non-PAs seek to apply alternative ethical requirements. We do not believe that outcome would be in the public interest.

We believe it would be advantageous for the Board, if they have not done so, to explore existing ethical frameworks that non-PAs use in practice presently to understand if these existing frameworks are at least as demanding as the IESSA. This knowledge would also guide the development of implementation guidance to specifically help non-PAs bridge the gap between Part 5 and those current ethical frameworks that are not as demanding as the IESSA. We recommend that the IESBA consider the support needed for SAPs who are not PAs and work with other bodies, including IFAC, NSS, education providers, and professional bodies or associations that SAPs might be members of to develop these resources, including training and materials addressing these concepts in more depth.

Additionally, given the objective of the IESSA is to be framework-neutral, we do not agree with including independence provisions for group SAEs at this time. As compared to other topics taken on by the IESBA, there is no approved or proposed audit or assurance performance standard that the group SAE section of the IESSA standard takes reference from. The IESBA's *Definition of Engagement Team and Group Audits* standard was developed on the framework of ISA 600 and other quality management standards and this proposed standard should follow a similar sequence. Although we understand the IAASB is now planning to add high-level content regarding groups to ISSA 5000, without a fully developed standard that would apply to group sustainability assurance, we believe interpretation and implementation will be an issue, especially for non-PAs who are unfamiliar with the group audit framework in ISA 600 (Revised). Our comment under question 10 addresses this idea further.

With the goal for Part 5 to be profession-agnostic and therefore applicable to practitioners from diverse professions, we believe the IESBA should consider creating a first-time implementation guide similar to what the IAASB is planning for implementation of ISSA 5000. Such a guide would assist in making the IESSA more easily understood, encouraging greater adoption by all sustainability assurance practitioners (SAPs), especially those who do not currently prescribe to ethics or independence standards.

As non-PAs may not have a practical understanding of the difference between limited assurance and reasonable assurance engagements without reference to a relevant framework, we suggest this is a topic that the IESBA should coordinate with IAASB for inclusion in the suggested implementation guide.

2. Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics?

We recognize the request for urgent, timely action on behalf of the Board to address the need for a global ethics and independence standard when providing SAEs and appreciate the significant efforts the Board has put forth to respond to this need. We generally agree that the proposals are responsive to the public interest considering the Public Interest Framework characteristics, with comments included herein on specific proposals that we see as inappropriate or unnecessary. These specific proposals would be onerous or impracticable to implement, which could deter non-PAs from adopting Part 5. This result would not serve the public interest.

Definition of Sustainability Information

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

We understand the IESBA’s intent in defining “sustainability information” broadly, in order to further the aim of the IESSA to be profession-agnostic and framework-neutral. However, we see the benefit to the public interest of having a definition that more closely aligns to the definition used in ISSA 5000, which itself is designed to be a global baseline for the performance of SAEs with the aim to be framework neutral.

We also support inclusion of the term “sustainability matters” along with its definition. The alignment to the ISSA 5000 definition of sustainability information and addition of “sustainability matters” not only provides a more cohesive global baseline but also aligns the terms “underlying subject matter” and “subject matter information” which are embedded across the ISAE 3000 suite of standards and the IESBA Code Part 4B and are well understood by many stakeholders. Use of a different definition that picks up a broader set of information for Part 5 purposes could have unintended consequences and may be problematic, particularly at the early stages of sustainability assurance when not all the “sustainability information” that is reported by an entity may be subject to assurance. Therefore, we support close coordination by the IESBA and IAASB, with the aim of aligning terms and concepts.

If the current definition is maintained, the operability of the IESSA’s definition with the major assurance frameworks currently in use should be further explained in the proposed implementation guide.

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?

We understand the aim of the IESBA to encourage a non-PA to follow the most stringent ethics requirements. While we appreciate the middle ground approach proposed by the IESBA, we believe ethics standards should be applied by all SAPs regardless of their profession. The middle ground approach brings to question the appearance of a non-PA applying Part 5 ethics to “other services” provided to a sustainability assurance client and not applying those same ethics when providing the same “other services” to a non-sustainability assurance client. Any unethical behavior that an SAP may exhibit when providing services to non-sustainability assurance clients affects the reputation of the SAP as a whole. This impact cannot be ringfenced to only affect the SAP’s reputation when serving non-sustainability assurance clients. To illustrate, Sections 5270 *Pressure to Breach the Fundamental Principles*, 5300 *Applying the Conceptual Framework*, and 5340 *Inducements, including Gifts and Hospitality* contain ethics standards that ought to be universally applied by the SAP across all professional services for all clients.

Additionally, to suggest that the ethics standards be applied only to services provided to the same sustainability assurance client, representing a cross section of their clients, creates an unnatural division. From a practical implementation perspective, it may be difficult for these practitioners to distinguish whether or which ethical standards are being applied on a client-by-client basis, as opposed to having one standard for all engagements and services. Integrity, objectivity, confidentiality and the other fundamental principles are integral concepts for any professional service provider, so it seems reasonable for non-PAs who perform SAEs to apply Part 5 ethics for all services performed to all clients.

For the proposed scope of ethics standards in Part 5 as it relates to PAs, we are not confident that the same approach is in the public interest when a sustainability assurance client is also a financial statement audit client. Parts 1 and 3 of the Code already cover all professional services that a PAPP provides to its clients and is well established by PAs in relation to their clients. We believe use of these extant ethics provisions should continue to set the highest bar for PAPPs in support of the public interest for all other services a PAPP will provide to their client, notwithstanding that the Part 5 ethics provisions were developed to be the same high bar as those of the extant Code. Sections 5100.1 to 5390.21 A1 would only add confusion for PAPPs, especially when interpreting wording that has been adapted for sustainability assurance for application to a financial statement audit or review. We encourage the Board to reconsider this proposal in view of the continued focus on public trust in the accounting profession, increased regulatory scrutiny and continued efforts to operate a system of quality management in line with the relevant ethics requirements of the IESBA Code.

5. The IESBA is proposing that the International Independence Standards in Part 5 apply to SAEs 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?

We agree with the proposed approach to apply the International Independence Standards in Part 5 to SAEs with the same level of public interest as audits of financial statements.

As "general purpose framework" is an integral piece of the criteria for applying Part 5 as stated in paragraph 5400.3a, we believe attention should be given to this topic in the suggested implementation guide. The guide should cover the definitions and differences between a general purpose and a special purpose framework, along with examples of each. In addition, given the framework-neutral construct of Part 5, implementation guidance should also cover attestation versus direct engagements as a non-PA may not be familiar with IESBA Code Part 4B or ISAE 3000.

Structure of Part 5

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

We agree with the Board's overarching direction that there is no need to develop equivalent standards to those in extant Part 2 for purposes of the IESSA. Given the proximity of subject matter already existing within Part 1 and Part 3, we believe any relevant points from Section 270 that are missing in relation to the pressure on the SAP to breach the fundamental principles could be added in Section 5120 or other sections in Part 5 that cover the same subject matter, such as fees in Section 5330 or inducements in Section 5340. Thus, we do not support the inclusion of this section in Part 5.

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?

The proposed provisions for the auditor and the SAP to consider communicating (actual or suspected) NOCLAR to each other should not be categorized as requirements of the Code.

When management is aware of non-compliance, it is their responsibility to take timely and appropriate actions, including communicating with their auditors based on their

inquiries and procedures, and any assessed impacts to the financial statements (e.g., for contingent liability losses and disclosures). We do not agree that it is the auditor's role to communicate NOCLAR that the auditor becomes aware of to another practitioner, including the SAP, or vice versa that the SAP would be required to communicate to the auditor. This communication is the responsibility of management and/or those charged with governance (TCWG). In some jurisdictions, this type of communication between service providers may be prohibited by law, regulation, or professional standards, or restricted by client confidentiality provisions. Further, in the case where a firm performs both the audit and SAE, the firm would already know of the NOCLAR.

The scope, nature and frequency of SAEs can be diverse, with multiple engagements taking place for the same entity simultaneously and perhaps by different networks. The auditor may or may not be aware of other providers who are performing SAEs or which of those may be affected by any (actual or suspected) NOCLAR.

Therefore, we do not support the requirement to consider communicating (actual or suspected) NOCLAR. As proposed, the communication may be misinterpreted as being expected or required. We do, however, support these provisions being included in Part 5 as application material, along with additional factors indicating when the communication might be appropriate, such as when there might be a risk that the NOCLAR would have an impact on the other engagement.

Another possible alternative to the proposed provisions is to have the auditor confirm with management and/or TCWG that management or TCWG have communicated or will communicate the NOCLAR to their SAP (or auditor).

Comments on specific paragraphs in Section 5360

- 5360.3 (a) - The effect on “the client’s financial statements” may not be relevant when the SAP is not the auditor. Therefore, this point should just consist of laws and regulations that are relevant (i.e., directly related) to the sustainability information.
- 5360.3 (b) - The effect of “indirect” laws and regulations may not be relevant to an SAE as it is not clear what the potential “indirect” impact of such NOCLAR to sustainability information would be.
- 5360.4 (b) - Not all SAPs may know when it would be appropriate to alert TCWG of (actual or suspected) NOCLAR. Clarification of the use of the phrase “where appropriate” should be provided.
- 5360.5 A3 - It is not clear how the results of NOCLAR (i.e., fines, litigation, other consequences) would materially affect the sustainability information. If it is just those that potentially “directly” affect the information, this should be clarified.
- 5360.7 A2 - Not all SAPs may understand what is meant by matters that are “clearly inconsequential.” Guidance and considerations for making the

determination should be included, particularly given the proposed standard would scope out clearly inconsequential matters from Section 5360.

- R5360.10 - The last sentence states "...circumstances in which it has occurred or might occur." "Might occur" implies the future and we do not believe the SAP would be responsible to identify matters that might occur in the future. We note that the same phrase is used in extant R360.10, and wonder if it is meant to say, "might have occurred." The same wording is used in paragraphs R5360.11 and R360.11.
- 5360.11 A4 - We see this point as much less relevant for an SAP than an auditor and suggest deleting it.

We did not repeat comments provided above that would be applicable to respective paragraphs for SAEs not within the scope of the International Independence Standards (paragraphs R5360.29 through 5360.40 A1).

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

We support the expanded provisions for PAIBs in Section 260.

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?

Fundamentally, we do not agree with the idea that the definition of PIE for a SAE should be based on the same factors used for financial statement audits. The underlying criteria for a PIE as a metric of public interest by stakeholders in the financial condition of the entity does not necessarily apply to an entity from the perspective of sustainability reporting. For example, an entity that is a non-PIE for the purpose of the financial statement audit may hold significant public interest for sustainability. Vice versa, a listed entity may have minimal public interest for sustainability due to its line of business or other factors. Under the current proposal, it is likely that many more entities will be scoped in as PIEs for the SAE than would be scoped in with more sustainability-focused criteria, such as consideration of the significance of public interest in the sustainability assurance client itself or in its sustainability information or consideration of how an entity's sustainability information would be used by stakeholders to make decisions. We realize that given the highly variable scope, timing and breadth of SAEs that may be provided, including those that are not performed contemporaneously with the financial statement audit, the challenge is finding criteria that are objective and capable of being applied consistently across all SAEs.

Conversely, we appreciate the reasonableness of the proposed approach for consistency and simplicity when a firm is both the auditor and the SAP. However, when a firm or network firm is only providing sustainability assurance services to a client, we believe the firm should be able to employ different criteria. As stated above, such criteria should align with measures relevant to sustainability as opposed to financial condition.

Underpinning our lack of support for the current proposal for determination of PIEs is the fact that many jurisdictions currently have not “localized” their PIE definition, including some that have not even adopted the restructured Code. The IESBA’s *Revisions to the Definitions of Listed Entity and Public Interest Entity* will lead to globally inconsistent definitions of PIEs for at least the next 3-5 years until the pronouncement is well established. Given it is not clear what entities will be required to report on sustainability and even more unclear what entities will be required to have their sustainability reports assured by an independent assurance practitioner, imposing the Part 4A definition of PIEs will have a significant impact. Setting this high bar on independence might result in alternative standards being more attractive as they are more practical, which does not support global adoption of Part 5 and would not be in the public interest.

Given the current status of implementation of the Part 4A definition of PIE and deliberations on the IAASB’s *Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised)*, we believe it is premature to bring the PIE definition proposals into Part 5. We recommend a delay to allow the IESBA time to work through this proposal in close coordination with the IAASB. See our response to question 24 regarding the effective date and deferral of PIE determination proposals.

Group Sustainability Assurance Engagements

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

- a) **Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?**
- b) **If you support addressing group sustainability assurance engagements in the IIS 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?**
- iii. **Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?**

We are not in support of Part 5 addressing group SAEs at this time. Presently, sustainability assurance frameworks have yet to address the concept of group sustainability assurance in any detail. Therefore, the provisions for groups in Part 5 are based on what group sustainability assurance standards may look like in the future. We do not believe the independence standards should precede the sustainability assurance standards.

Further, implementation of the new Section 405 for group audits, upon which Section 5405 is based, is still in the first year of operation and its implementation took significant effort across firms and their networks. The fact that there is insufficient practical experience to date with the group audit standard for financial statement audits increases the risk of unintended consequences when adding this concept to sustainability assurance.

For example, a consequence of Section 405 is that control and materiality of interest, where there is significant influence but no control, no longer serve to limit the boundaries when identifying threats to independence. If audit work is performed on an underlying account balance at an immaterial equity accounted investee or joint venture for purposes of the group audit, threats to independence must be identified and evaluated. This is regardless of whether the audit work is performed by the group auditor firm or a component auditor firm. Further, in a group audit scenario, as the list of components may change in the course of the engagement and from year to year, audit firms need to navigate through the entities to ascertain which require independence for purposes of the group audit.

Applying the same concept to SAEs would amplify the need to navigate the structure of the group especially since "components" for purposes of an SAE may be different from those for an audit of group financial statements. We support the idea of group sustainability assurance reporting but not a determination of "components" that mirrors an audit of group financial statements. We also urge the IESBA to consider taking this opportunity to redefine "group audit client" if it were to proceed with group SAEs.

As compared to topics in previous projects taken on by the IESBA, there is no approved or proposed audit or assurance performance standard that Section 5405 takes reference from. The IESBA's *Definition of Engagement Team and Group Audits* standard was developed on the framework of ISA 600 (Revised) and other quality management standards. This topic should likewise not precede the performance standard.

While we understand from the March 2024 IESBA Board meeting that the IAASB is contemplating adding high level considerations for group sustainability reporting into ISSA 5000, we also understand the IAASB has been strongly encouraged by its stakeholders to develop a detailed standard on group SAEs at a later date. It is imperative that ethics and independence standards are interoperable with the assurance standard. We therefore urge the IESBA to postpone including Section 5405 in the final Part 5 standard until such time as they can coordinate efforts with the IAASB so that future group sustainability assurance standards and group sustainability assurance independence requirements can be developed in tandem. This will ensure that the standards are interoperable and best support the public interest.

Using the Work of Another Practitioner

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

We believe that Section 5406 must be further refined in order to clarify the applicability of the proposed independence provisions. The usage of the term “use the work” must be defined and applied in a consistent manner.

The notion that the SAP is using the work rather than the notion that the client has obtained sustainability information from a sustainability assurance report on a third party are two very different circumstances. It appears that “use the work” has been conflated with what we would consider assurance evidence to support the client’s assertions.

When the SAP performs review of (aspects of) another practitioner's work, we believe this would be the appropriate context of "use the work" as the SAP is able to look at the underlying work and determine if it is appropriate for their purposes. Usually this takes place because the work performed by the other practitioner is significant to the SAP’s assurance opinion. While the SAP is not performing contemporaneous direction, supervision and review, the SAP is still able to review the underlying work (e.g., where the work has already been done for another purpose), and this review could be quite extensive. In this case, we believe it is appropriate for the SAP to obtain confirmation of the other practitioner’s independence.

On the other hand, “use” could refer to the sustainability assurance client providing the other practitioner’s report as evidence to support the client’s sustainability information. The information could form part of evidence, but through the lens of whether the information is relevant and reliable, as opposed to whether the other practitioner is independent. In such circumstances, imposing independence requirements seems unnecessary and would likely not be practicable.

The other practitioner, in this case, is neither performing work for, nor are they in a position to influence, the engagement. Therefore, if, in fact, using the work of another

practitioner is intended to include circumstances where the client has provided the assurance report as evidence to support assertions about the client's sustainability information, we believe this creates independence requirements that extend beyond what is required for a financial statement audit. The independence considerations laid out in Section 5406 should be limited to where the SAP has performed a review of the underlying work of the other practitioner. Since the concept of "another practitioner" is also included in ISSA 5000, we believe these concepts should be aligned through coordination between the Boards.

We also propose in paragraph R5406.5, where the other practitioner has already carried out the work and confirms understanding of and compliance with the relevant ethics, including a transitional provision that such confirmation can be made under Part 4B of the Code for a period of time to allow the market to adjust to the requirements in Part 5. See our response to question 24 regarding effective date.

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

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

We support the IESBA in their proposed definition of "value chain." We note that this definition specifically states that "the value chain does not contain components" as defined for the purposes of a group SAE. In contrast, the update given by the IAASB ISSA 5000 Task Force to the Board on 20 March 2024 stated that a component might in fact be within the value chain. We understand this concept is still being developed and recommend that the IAASB and IESBA work closely together on this. The definitions and concepts would need to be aligned for the standards to be workable.

We also recommend the IESBA consider defining the term "reporting boundary" in application material.

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?

We do not support the provisions addressing independence considerations for assurance work at a value chain entity (VCE). VCEs are generally not related to the sustainability assurance client in the traditional way by ownership or financial interest. Meanwhile, all entities are connected in some fashion with a multitude of other entities, especially in a global economy or for a multi-national corporation. In addition, the web of connections among these entities is constantly changing. So while the organizational boundary and the reporting boundary are not aligned in sustainability assurance, we do not believe the IESBA has made a successful case for the need to evaluate or require

independence from entities that go beyond the organizational boundary. In fact, in some SAEs it can be argued that there is not a need to evaluate and require independence from all entities inside the organizational boundary because certain entities may not have an impact on the sustainability information.

The operational strain imposed to achieve compliance with Section 5407 is anticipated to be monitoring intensive for most firms and beyond the reach of smaller practices that offer sustainability assurance services, hampering their ability to implement the proposed Part 5. By potentially eliminating smaller, yet equally qualified practitioners from the market, diversity and healthy competition are compromised. There is also a cost to the sustainability assurance client to seek an alternative sustainability assurance provider in the event that their current provider is unable to assert their independence. Indeed, given a sustainability assurance client may change a supplier or vendor daily, compliance with this section by an SAP of any size may not be possible.

We also believe that scoping in VCEs seems to be going beyond the independence requirements in the case of a financial statement audit or review. We believe this proposal may lead to potential unintended consequences, especially when the requirements related to the reporting and assurance under the *Corporate Value Chain (Scope 3) Standard* are unclear. There is a risk that the IESBA, by imposing onerous independence requirements related to VCEs, will create unforeseeable yet adverse outcomes for the sustainability assurance industry.

We believe that should the proposed Section 5407 go forward, in addition to the unintended consequences discussed above, it will likely lead to a scenario that limits choice in the market by clients for SAPs, as there will not be sufficient competent and independent practitioners to perform SAEs, or a scenario where there is inability for some SAPs to obtain sufficient appropriate evidence, leading to scope limitations. Neither of these scenarios would be in the public interest.

Comments on specific paragraphs if proposed Section 5407 is maintained include:

- R5407.4 and R5407.5 - When the work has already been performed by another practitioner who asserts independence under provisions other than those in Part 5, a transition period should be granted to allow a statement of independence under Part 4B of the Code to satisfy the requirement in R5407.5. See our response to question 24 regarding effective date.
- R5407.6 - We recommend deleting this requirement paragraph as it is duplicative of the overarching requirement of the International Independence Standards in Part 5 for the SAP to be independent of the sustainability assurance client.

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

assurance client:

- a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?**
- b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide?**

We do not agree that certain interests, relationships or circumstances between the firm or its sustainability assurance team and a VCE may potentially compromise the firm's independence. For the reasons stated in our response to question 13, the likelihood of such an interest, relationship or circumstance affecting the SAE is minimal, and it is even less likely when it involves a network firm and a VCE. The network firm operates independently and is far removed from impacting the sustainability information included in the client's sustainability assurance report.

Paragraph R5700.4 requires the SAP to evaluate threats to independence when they know or have reason to believe that such threats are relevant to the evaluation of the firm's independence from the client. The application of the knows or has reason to believe principle exists in other sections of the IESBA Code. While not expressly stated in the Code, the explanatory memorandum as well as a statement by the IESBA confirm that the knows or has reason to believe principle does not need to be operationalized. Rather, the knows or has reason to believe principle is a reminder to apply the conceptual framework when appropriate.

While applying the knows or has reason to believe principle may not require operationalization, we do not view the risks associated with VCEs to warrant such inclusion. We believe that a VCE's sustainability assurance report is sustainability information that is provided by the client. We are not aware of any other circumstance that requires consideration of the firm's independence with respect to client evidence that is derived from a third party. For example, a firm might obtain a SOC report on controls at a third-party service provider used by an audit client. The firm does not need to consider independence at that third-party service provider.

If we were to apply Sections 5407 and 5700 analogously to a financial statement audit where a cash balance that is confirmed by a third party bank is included in the audited financial statements of a company, then the auditor of the company would need to be satisfied that the auditor of the bank has made a statement that the auditor of the bank is independent in accordance with the International Independence Standards of the IESBA Code. On top of that, the auditor of the company would also need to be independent of the bank. Additionally, if the auditor of the company has a financial interest in the bank, for example, this might create a self-interest threat. Just as we do not have these

independence requirements for a financial statement audit, we do not agree with their inclusion in Part 5.

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)?

We agree with the provisions that address providing NAS to a sustainability assurance client with a suggested clarification to paragraph R5600.15 to reword point (a) to ensure it is clear that the “records underlying the sustainability information” and “the internal controls over sustainability reporting” are those that are linked to the sustainability information on which the firm will express an opinion. Without these edits to bring in sustainability terminology, this paragraph may be incorrectly interpreted too broadly as the results of the service forming part of or affecting internal controls over any sustainability reporting or records underlying any sustainability information.

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

- a) **Do you agree with the coverage of such services and the provisions in the Subsections?**
- b) **Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?**

We agree with the examples of NAS.

Independence Matters Arising When a Firm Performs Both Audit and SAEs 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)?

We do not support the proposed approach with regard to evaluation and disclosure of the proportion of fees when a firm performs both the audit of the financial statements and the assurance of the sustainability reporting for the same client. In that circumstance, we

believe the calculation should be the proportion of fees “for services other than the audit and SAE” to the audit fee and the SAE fee. In other words, the SAE fee and the audit fee should be combined in the evaluation and compared against fees for other services. To include the SAE fees with fees for NAS diminishes the importance of the sustainability reporting and assurance and is inconsistent with the crucial role and increasing market demand for high-quality sustainability information. Further, we expect sustainability assurance to be delivered in a more integrated manner in the future and fees for such work may be combined. Examples include combining the auditing of stock movements for the financial statements and auditing of stock to understand stock consumed for emission purposes and combining testing new loans for a bank for audit purposes with new loans being evaluated for ESG risks. We also expect potential overlap in testing controls when the systems are the same for the audit and sustainability assurance engagements.

As an alternative approach, when a firm performs both audit and SAEs for the same client in a jurisdiction where legislation requires specific disclosure of the audit fee, the fees for sustainability assurance services should be scoped out of the fees for services other than audit to the client, as the firm will be subject to the same fee disclosure requirements in its capacity as SAP. This would prevent the situation where the client chooses another SAP over the firm providing the audit of the financial statements due to the perceived threat to auditor independence. This approach would be in line with the viewpoint taken by the European Commission in the Corporate Sustainability Reporting Directive where it indicates “To ensure the independence of the statutory auditor when carrying out a statutory audit, ... Regulation establishes a limit concerning the fees for other services that the statutory auditor can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit.”

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?

Our suggestions in this regard are included throughout the responses to prior questions.

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

If proposed provisions on group SAEs and VCEs are maintained, is there an impact on a firm’s system of quality management in relation to scoping of the SAE? We recommend this topic be discussed with the IAASB and be included in either or both the IAASB’s and IESBA’s implementation guides.

Comments on specific paragraphs include:

- 5700.2 – This paragraph states that this section sets out “application material” when it should say “requirements and application material” due to the presence of the requirement paragraph R5700.4.
- 5100.2b – We suggest adding “in the public interest” to link to both the reference to “public trust in sustainability information that is subject to assurance” in the same paragraph and the reference to “public interest” in paragraph 5100.1, as follows:

“A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner’s general conduct in the public interest. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance...”

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?

Given the lack of support from the global sustainability roundtables to expand the scope of extant Part 2, we have no comments at this time.

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?

We agree the revisions in Chapter 4 are appropriate and responsive to the public interest, subject to our response to question 22.

Proposed Revisions to the Extant Code

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

- a) Proposed revisions to Section 220?
- b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?

c) Other proposed revisions?

We do not support the addition of paragraph 300.7 A4a and the new bullet point under 320.3 A4, as we don't believe that these are appropriate examples for a PA's evaluation of threats to the fundamental principles. As we note in our responses to questions 13 and 14, VCEs are outside the organizational boundary of the sustainability assurance client and there is not a sufficient relationship with the sustainability assurance client requiring these as examples of factors that bear on the SAP's compliance with the fundamental principles.

We do agree that the remaining revisions in Chapter 4 are clear and adequate from a sustainability reporting perspective.

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

We have no other matters to raise concerning Chapter 4.

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?

We support an effective date no earlier than 24 months from the approval of the final pronouncement, meaning if the final pronouncement is approved by December 2024, it would be effective for sustainability assurance reports for periods beginning on or after December 15, 2026. This time period provides the necessary time for effective implementation, as a shorter period would raise serious concerns whether SAPs who are not PAs and who have previously never applied these concepts would be able to understand the requirements and put the appropriate policies and processes into place in their organizations, while at the same time potentially needing to implement a system of quality management in response to ISSA 5000.

Alternatively, the IESBA could consider a phased approach for implementation starting not earlier than periods beginning on or after December 15, 2026. Transitioning in the requirements over an 18-to-24-month period, for example, by bringing in provisions that may be the biggest challenge for non-PAs and PAs alike, such as long association and NAS, prior to imposing the full requirements for ethics and independence will allow a more manageable implementation for all practitioners as they simultaneously navigate and build capacity in this complex and evolving area.

As stated in our responses to previous questions, we also suggest delaying determination of PIE and group audit proposals and suggest a transitional measure for



using the work of another practitioner who asserts independence under Part 4B of the Code. The long association requirement for rotation will also be more manageable if the time-on period begins counting with respect to the first period the applicable roles serve on the SAE once the PIE proposals in Part 5 are effective. Ultimately, coordination with the IAASB is needed to align with the effective date of ISSA 5000.