



Meeting: Stakeholder Advisory Council (SAC)
Meeting Location: New York, United States of America
Meeting Date: April 29-30, 2024

Agenda Item **C**

Sustainability Projects (IAASB/IESBA) – Cover

Objective of Agenda Item

1. The objectives of this Agenda Item are for the SAC to:
 - Consider the key issues identified in the section below under SAC Discussion; and
 - Provide advice and views on the public interest issues identified in the Matters for SAC Consideration requiring significant decisions by the IAASB and the IESBA and provide views relevant to the global adoption and implementation of the two Boards' respective standards.

Please note that this cover note is intended to be read together with the accompanying presentation – see **Agenda Item C.1**.

Project Status

Call for Global Assurance, Ethics and Independence Standards for Sustainability Assurance

2. In September 2022, the International Organization of Securities Commissions (IOSCO) [publicly recognized](#) the importance of the work of both the IESBA and the IAASB and welcomed the two Boards' plans to develop high-quality, profession-agnostic, global assurance and ethics (including independence) standards that can support limited and reasonable assurance of sustainability information. The IAASB and IESBA [welcomed](#) IOSCO's support and encouragement and acknowledged the importance of responding to market demands for assurance of sustainability information with robust standards applicable to all sustainability assurance practitioners. The Financial Stability Board (FSB) has also singled out and supported the work of the IESBA and the IAASB in this regard.¹
3. Both the IAASB and IESBA have launched their Sustainability projects in close coordination with each other. The following sections provide an overview of the status of their respective projects.

IAASB Sustainability Project

4. In September 2022, following engagement with key stakeholders, the IAASB approved a [project proposal](#) to develop a new overarching standard for assurance on sustainability reporting, that was to be responsive to the public interest need for a timely standard to support the consistent

¹ Refer to [2022 Supervisory and Regulatory Approaches to Climate-related Risks: Final report \(fsb.org\)](#) and [2023 Progress Report on Climate-Related Disclosures \(fsb.org\)](#)

performance of quality sustainability assurance engagements; suitable across all sustainability topics and reporting frameworks; and implementable by all assurance practitioners.

5. The intent was to provide a global baseline for sustainability assurance engagements and the foundation for a future suite of ISSAs that will be developed over time to meet practitioners' and stakeholder needs. To provide this global baseline, the IAASB's approach was to include principles-based requirements applicable to all engagements, conditional requirements limited to the most common circumstances, and relevant application material to support the consistent understanding and implementation of those requirements. All additional material will be included in first-time implementation guidance, future guidance and educational materials.
6. The IAASB approved an exposure draft of proposed International Standard on Sustainability Assurance 5000, [General Requirements for Sustainability Assurance Engagements](#) (ED-5000) at its June 2023 meeting. ED-5000 covered both limited and reasonable assurance engagements, and was premised on application of the provisions of the IESBA Code² and ISQM 1,³ or other professional requirements, or requirements in law or regulation, that are at least as demanding. ED-5000, along with the [Explanatory Memorandum](#) (EM), was released on August 2, 2023. Shortly thereafter, the IAASB released a survey targeting stakeholders that may not ordinarily respond to IAASB consultations. The ED and survey both closed on December 1, 2023 with 143 comment letters and 36 survey responses received. An extensive global outreach program was conducted during the comment period, comprising informational webinars, roundtables, meetings with key stakeholders and presentations at seminars and events, both in person and virtual.
7. The Sustainability Assurance Task Force (SATF) and staff identified 14 EM questions that generated the most significant comments from stakeholders and represented the main themes that emerged from the feedback. The responses to these questions were analyzed and the SATF recommendations were discussed with the IAASB at the March 2024 meeting. The key themes arising from the analysis included the following:
 - Scope and applicability of proposed ISSA 5000.
 - The definitions of, and relationship among, sustainability matters, sustainability information and disclosures.
 - Relevant ethical requirements and quality management standards.
 - Materiality.
 - Engagement team, using the work of others, and "group" engagements.
 - Differentiation between limited and reasonable assurance engagements.

IESBA Sustainability Project

8. In December 2022, the IESBA approved a [project proposal](#) with respect to sustainability reporting and assurance with the objectives to develop:

² International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

³ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- Revisions to the extant IESBA Code⁴ to address the ethics issues that might arise in sustainability reporting; and
 - Ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants, conformity assessment bodies, and other practitioners performing sustainability assurance engagements).
9. In June 2023, the IESBA established a Sustainability Reference Group to act as a “sounding board” to the IESBA Sustainability Task Force as part of its development of the new IESBA standards.
 10. The IESBA approved for exposure its proposed ethics (including independence) standards for sustainability assurance and reporting at its December 2023 meeting. The IESBA’s [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#) (IESBA Sustainability ED) was issued on January 29, 2024 and is open for public comment until May 10, 2024.
 11. The [Explanatory Memorandum](#) (EM) accompanying the IESBA Sustainability ED includes 24 questions and the IESBA Staff released an [overview](#) of the proposed ethics (including independence) standards for sustainability reporting and assurance in March 2024.
 12. In February 2024, following six months of extensive engagement, the International Accreditation Forum (IAF) and the IESBA [announced](#) a strategic partnership under which the IAF will stipulate to national accreditation bodies around the world that the IEISSA are to be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures.
 13. The IESBA is pursuing extensive global outreach since the IESBA Sustainability ED was issued including global webinars, in-person seminars in Toronto, Brussels, Tokyo, Sydney and Melbourne, and many other meetings and presentations, both in person and virtual.

SAC Discussion

IAASB Matters

14. In its March 2024 meeting, the IAASB supported the SATF’s recommendations for proposed ISSA 5000:
 - (a) Scope and applicability: To apply to all assurance engagements on sustainability information (including greenhouse gas-related (GHG) information, regardless of form) and that ISAE 3410 be withdrawn in accordance with due process, to remove the complexity that may arise when multiple standards are required to be applied for an assurance engagement on sustainability information.
 - (b) Differentiation between LA and RA: To require a risk assessment for limited assurance engagements, focused on risks at the disclosure level, to distinguish the work effort from assessing risks of material misstatement at the assertion level for a reasonable assurance engagement. The IAASB determined that this would provide a more robust basis for designing and performing further procedures, and therefore greater clarity and consistency in the work

⁴ Reference to the extant Code is to the draft 2024 edition of the IESBA Handbook, which includes the most recent IESBA-approved revisions.

effort, for limited assurance engagements. The requirement for a risk assessment for limited assurance engagements also closes what was viewed by respondents to ED-5000 as the most significant gap between ISAE 3410 and proposed ISSA 5000, and further supports the IAASB's decision for ISSA 5000 to apply to all assurance engagements on sustainability information.

15. In addition, the IAASB provided the following directions:

- (a) **Scope and applicability:** To reassess whether all requirements of ISAE 3410 have been addressed in proposed ISSA 5000, and identify application material from ISAE 3410 that could be either incorporated into proposed ISSA 5000 or repurposed as first-time implementation guidance or other support materials.
- (b) **Relevant ethical requirements and quality management standards:**
 - (i) To clarify that a practitioner's determination of whether the quality management standards applied are "at least as demanding" as ISQM 1 applies only in the absence of applying ISQM 1 or an appropriate authority's determination of professional requirements, or requirements in law or regulation, that are "at least as demanding." This clarification is intended to remove the perceived optionality for practitioners that would not be in the public interest. Application material is provided to explain the concept of "at least as demanding" to assist in making this determination (i.e., describing the quality management matters to be addressed by other professional requirements or requirements in law or regulation, and that impose obligations on the firm that achieve the aims of the objectives and requirements of ISQM 1).
 - (ii) To require documentation of the basis for the practitioner's determination of "at least as demanding."
- (c) **Materiality:** To include a conditional requirement for double materiality to more explicitly accommodate reporting frameworks that require the application of double materiality, such as the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU). The IAASB agreed with respondents to ED-5000 that, when the reporting framework requires the entity to apply double materiality, it is important for the practitioner to apply both perspectives (financial materiality and impact materiality) when making materiality judgments, including when determining whether uncorrected misstatements are material, individually or in the aggregate.
- (d) **Differentiation between LA and RA:** To better clarify the approach to risk assessment at the disclosure level for limited assurance and at the assertion level for reasonable assurance, so that the work effort is sufficient, but not disproportionately onerous, in obtaining the level of assurance needed.
- (e) **Other matters:** To include a conditional requirement for the practitioner to communicate with the auditor of the financial statements, unless prohibited by law or regulation, if the practitioner has identified material inconsistencies in the other information. Respondents to ED-5000 raised the issue of connectivity (i.e., communications) between the practitioner and the auditor of the financial statements, most often in the context of the practitioner's responsibilities for other information. The IAASB noted that communication between the assurance practitioner and the auditor of the financial statements may be prohibited in some jurisdictions by law or regulation or may be subject to the confidentiality provisions of relevant ethical requirements.

16. The decisions and directions at the March 2024 meeting will serve to further support the standard's responsiveness to the public interest with respect to timeliness, relevance, comprehensiveness, implementability, enforceability and scalability.

IESBA Matters

17. The proposed IESSA was developed under a new Part 5 of the IESBA Code as the best option to achieve the main objectives of the Sustainability project and the requirements of the Public Interest Framework⁵, including that the standards are comprehensive, scalable, clear, implementable, globally operable and enforceable. Additionally, the proposed IESSA has been developed to be:
- **Equivalent to the standards applicable to audit** – Recognizing the public interest in sustainability information that is prepared in accordance with a general purpose framework and is publicly disclosed, the IESBA believes sustainability assurance engagements over such information must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information.
 - **Profession-agnostic** – Further to the IOSCO statement mentioned above, the IESBA agreed to develop the IESSA to be profession-agnostic, meaning it should be capable of being understood and applied by all practitioners of sustainability assurance engagements.
 - **Framework-neutral** – Aligned with the IESBA Code's current approach, the IESSA was developed to be framework-neutral so it can underpin any reporting or assurance framework used to prepare or assure the sustainability information, including to ensure IESSA will be interoperable with standards developed by the International Sustainability Standards Board (ISSB) and IAASB.

Common IAASB and IESBA Matters

18. The IAASB and IESBA are in close coordination to align concepts relating to sustainability reporting and sustainability assurance engagements, including:
- (a) Definitions of sustainability information and sustainability matters.
 - (b) Determination of ethical requirements that are at least as demanding as the IESBA Code and whether a similar 3-tiered approach to quality management could be applied for relevant ethical requirements.
 - (c) Group engagements, including information from the value chain.

Matters for SAC Consideration

IAASB Matters for SAC Consideration

1. SAC members are asked whether there are any other considerations, including from a public interest perspective, that the IAASB should take into account in finalizing proposed ISSA 5000 regarding:
- (a) ISSA 5000 being the sole standard for assurance on sustainability information.

⁵ Refer to the [Monitoring Group recommendations](#), pages 22-23, for the PIF characteristics.

- (b) A required risk assessment for limited assurance engagements.
- (c) The determination of “at least as demanding” for quality management standards and ethical requirements.
- (d) The practitioner’s consideration of double materiality.
- (e) Connectivity with the auditor of the financial statements.

IESBA Matters for Consideration

2. Given the public interest in sustainability assurance, SAC members are asked for their views on whether:
 - All sustainability assurance practitioners should be subject to the same ethics and independence standards irrespective of their backgrounds.
 - The proposed standards in the IESSA should be as robust as those for audits of financial statements.
3. SAC members are asked for their views on the challenges for jurisdictions to adopt the IESSA as the baseline ethics and independence standards for sustainability assurance. How might the IESBA address those challenges?

Common IAASB and IESBA Matters for SAC Consideration

4. SAC members are asked for their views on whether they agree with the approach to matters for further co-ordination between IAASB and IESBA on:
 - (a) Definitions of sustainability information and sustainability matters.
 - (b) Determination of ethical requirements that are at least as demanding as the IESBA Code.
 - (c) Group engagements, including information from the value chain.

Way Forward

IAASB Way Forward

19. The SATF and staff are analyzing the comments on the remaining questions from the EM and preparing recommendations in response, along with recommendations to address the matters discussed at the March 2024 meeting. These will be presented in a full draft of proposed ISSA 5000 at the June 2024 IAASB meeting. The themes from the remaining questions address:
 - Public interest responsiveness
 - Preconditions for the assurance engagement
 - Estimates & forward-looking information
 - Fraud (including “greenwashing”)
 - Reporting and communication
20. The IAASB plans to approve the final standard at its September 2024 meeting.

21. The SATF is also intending to commence work on implementation support materials to assist practitioners when applying proposed ISSA 5000. The table below contains an initial list of the planned implementation support materials and the planned timing for their publication.

Implementation Support Materials	Timing of Publication
Basis for Conclusions	To be issued with the final standard after PIOB certification of ISSA 5000
Fact sheet	
First-Time Implementation Guide	
Non-authoritative guidance on the scope and applicability of ISSA 5000 (targeted at jurisdictions)	To be issued in due course after ISSA 5000 is published
Non-authoritative guidance on quality management relevant to sustainability assurance	
Updated ISSA 5000 FAQs	

IESBA Way Forward

22. Following the close of the comment period for the IESBA Sustainability ED, the IESBA will consider an overview of key themes from the comments received on the IESBA Sustainability ED at its June 2024 meeting.
23. At its September 2024 meeting, the IESBA will consider an analysis of the significant comments received on the IESBA Sustainability ED and undertake a first read of the proposed final standards and revisions to the Code. The IESBA plans to approve the final pronouncement at its December 2024 meeting.
24. The IESBA will also provide implementation support at the same time or soon after the release of the final pronouncement, including the Basis for Conclusions, Implementation Guide, Frequently Asked Questions as well as global webinars.

Material Presented

For Discussion

Agenda Item C.1: IAASB and IESBA Presentation

Appendix 1

Project Details and History

Project: IAASB – International Standard on Sustainability Assurance

Link to IAASB Project Page: [IAASB | Sustainability Assurance](#)

Task Force Members

- Josephine Jackson (Chair)
- Wolf Bohm
- Warren Maroun
- Neil Morris
- Chrystelle Richard

IAASB Staff Assigned to Project

- Claire Grayston
- Dan Montgomery
- Fadi Mansour
- Thokozani Nkosi

Summary

	SAC Meeting	IAASB Meeting
Information Gathering		March 2022 June 2022
Project Proposal		September 2022
Development of Exposure Draft		December 2022 March 2023 April 2023 June 2023
Development of Final Pronouncement		December 2023 March 2024

Project Details and History

Project: IESBA Sustainability Project

Link to IESBA Project Page: [Sustainability | Ethics Board](#)

Task Force Members

Workstream 1 – Independence

- Mark Babington, Chair, IESBA Member
- Jens Poll, Former IESBA Member
- Channa Wijesinghe, IESBA Member

Workstream 2 – Ethics

- Christelle Martin, Chair, IESBA Member
- Rich Huesken, IESBA Member
- Vania Borgerth, IESBA Member
- Sung-Nam Kim, IESBA Member

IESBA Staff Assigned to Project

Workstream 1 – Independence

- Sylvia Sramko
- Keith Billing

Workstream 2 – Ethics

- Laura Leal
- Jon Reid

Summary

	SAC Meeting	IESBA Meeting
Information Gathering		March 2022 June 2022 September 2022 November 2022
Project Proposal		December 2022 March 2023 June 2023 September 2023
Development of Exposure Draft		December 2023
Development of Final Pronouncement		March 2024