

Briefing Memo – Part I
IESBA
March 13-17, 2023
In-Person Meeting

Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB/CAG meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB/CAG meeting observation and to help maintaining consistency and continuity of oversight.

The Agenda includes the following topics:

- 2 – STRATEGY AND WORK PLAN (SWP) 2024-2027
- 3 – SUSTAINABILITY REPORTING AND ASSURANCE
- 5 – USE OF EXPERTS
- 6 - EIOC
- 7 – PIE ROLLOUT

Part II of this BM will be prepared once the relevant documentation is available (Agenda items: 4 – External Presentations, 8 - Communications, 9 – IESBA-IAASB Coordination).

Please refer to the PIOB's Public Interest Issues on the individual IESBA projects, as of December 2022, published in the PIOB website:

[PIOB PI Issues on IESBA projects - December 2022](#)

2 – STRATEGY AND WORK PLAN (SWP) 2024-2027

Objective: the IESBA's current Strategy and Work Plan (SWP) will end in December 2023. The IESBA needs to approve the new SWP for 2024-2027 by December 2023.

Background and Status: The IESBA issued a survey in April 2022 to gather input on its SWP. The working group is made up by the Planning Committee. A revised draft Consultation Paper on its 2024-2027 SWP will be presented for approval by the IESBA in March 2023.

The Planning Committee also used input from the CAG (and will request additional input before finalization at the March CAG meeting) and from meetings with other stakeholders. They coordinated the development of the SWP with the IAASB.

Notes/key points from the review of the documentation for this meeting

The revised draft Consultation Paper comprises the proposed strategy and the proposed Work Plan for 2024-2027 and a list of questions for respondents (items 2-A, marked, and 2-C clean). The documentation also includes a summary of board member questions and responses (item 2-B).

Key elements and substantive content of the draft Consultation Paper have not changed since December 2022. Main revisions include:

- Revision and alignment of some of the questions with those of the IAASB's Strategy and Work Plan Consultation Paper;
- Some refinements in the descriptions of the strategy and of some workstreams/projects;
- Addition of Custody of Data and Communication with TCWG as new potential workstreams;
- Elimination of the targeted deadlines for completion of projects from the tables, as most are not approved yet or are possible workstreams (however the targeted deadlines of completion of approved projects is retained in the text describing the project), indicating possible targeted deadlines/milestones in Appendix 3. They plan to review the status of the Work Plan in 2024;
- Elimination of the "Other Possible Work Streams" (given that there are already a high number of possible new projects), but including a specific question on any other topics that should be considered by IESBA;
- Addition of Appendix 2 with rationale for the anticipated level of demand of resources of each project/workstream (disclosed in Table C).

Public Interest Issues

Please refer to [PIOB PI Issues on IESBA projects - December 2022](#) on Assurance on non-financial information (IESBA project) and External experts, as of December 2022, published in the PIOB website.

PIOB Staff comments on PI

The draft Consultation Paper on the SWP, the strategic drivers and themes identified emphasize the importance of enhancing the trust both in sustainability reporting and assurance and in audit of financial information. This is in line with PIOB's views and

responds to the recommendation to the IESBA to take a leadership role in sustainability reporting topics, from an ethical perspective.

In terms of priority topics, we note that the IESBA has already committed to start work on sustainability reporting, use of experts, analysis of CIVs and Pension funds even before the start of the strategy period, which address some of the recommendations raised by the PIOB and other stakeholders. We note the addition of two new important projects, and the elimination of the "Other possible workstreams", as the potential list of projects is quite long, given that some of the currently ongoing projects will require significant resources to meet stakeholders' demands. IESBA needs to ensure that prioritization and allocation of resources is done in a transparent manner and appropriately takes into account these expectations and the need to deliver high quality standards.

3 – SUSTAINABILITY

Objective/scope, Background and Status: the Sustainability WG was established in March 2022 and the project proposal was approved in December 2022. The Sustainability work was split in three workstreams: two workstreams within Sustainability (ethics standards for sustainability reporting and assurance (workstream 2); profession-agnostic independence standards for sustainability assurance (workstream 1)), and one separate project for the Use of Experts (see agenda item 5).

Notes/key points from the review of the documentation for this meeting

The IESBA will receive a presentation on common issues and specific themes from the two sustainability workstreams (items 3-A – 3-C), an update from the IAASB on the Sustainability project, as well as an update about the "State of Play" research conducted by IFAC on the sustainability assurance landscape (supplement 3-2) and a briefing paper in preparation of roundtables (supplement 3-1, not distributed yet).

The Sustainability Workstream 1 (WS1) includes 3 IESBA members and 3 Technical Advisors, while the Workstream 2 (WS2) includes 4 IESBA members and 3 Technical Advisors. The scope of the two workstreams/Task Forces is included in agenda item 3.

IESBA representatives have met with ISO and with the Institute of Electrical and Electronics Engineers (IEEE), on which they will report at the meeting.

In addition to the four in-person roundtables planned for late March-April (full-day events), there will be two virtual ones in mid-April (three-hour events). Both formats will include break-out sessions and report back.

The targeted participants of the global roundtables include different groups of stakeholders: investors, TCWG, regulators, standard setters, assurance service providers (both within and outside the accountancy profession), preparers and academia.

The IESBA will also discuss whether and how to constitute a Reference Group (with PAs and non-PAs), similar to those created by the IAASB for the Sustainability project, with the aim to get input from assurance providers who are not PAs and facilitate wider adoption of the Code. A call for interest could be announced at the roundtables or afterwards, and the IAASB Reference Groups could be approached as well.

INDEPENDENCE (WORK STREAM 1)

Back in September 2022, the IESBA discussed the options for presenting new ethics and independence standards for sustainability assurance engagements: integrated approach (within the Code of Ethics), and stand-alone approach (separate Code).

At this meeting, the TF will present a narrower number of options for the presentation of the ethics and independence standards for sustainability assurance and its proposed approach (item 3-A), with the aim to develop profession-agnostic standards, which are framework-neutral (both from a reporting and assurance perspective).

The premises for the different options (which will be discussed at the roundtables as well), are: using terms which are relevant both for PAs and other assurance providers; equivalence of ethics and independence requirements as for PAs performing audits of financial statements. PIF qualitative characteristics sought are: comprehensiveness, scalability, clarity, implementability, global operability and enforceability. Three options are described in the presentation (item 3-A), with relevant advantages and disadvantages/risks. To summarize:

- Option 1 – Integrated approach in the Code:
 - Part 1 applicable to PAs and Sustainability Assurance Providers (SAPs)
 - Part 2 applicable to PAIBs
 - Part 3 applicable to PAPPs and SAPs
 - Part 4A applicable to audit, reviews and sustainability assurance engagements; Part 4B unchanged.

The main advantage is one single set of provisions for PAs and other SAPs, while it may add complexity to the independence standards.
- Option 2 – Integrated approach in the Code:
 - A Guide to all users of the Code (new)
 - Part 1 applicable to PAs
 - Part 2 applicable to PAIBs

- o Part 3 applicable to PAPPs
- o Part 4A and 4B as in extant Code
- o New Part 5, ethics and independence standards applicable to sustainability assurance engagements to all SAPs (including PAs). The slides (# 16-17 in 3-A) provide more details on further split of Part 5 (Part 5A Ethics and Part 5B Independence, with different options of applicability).

The main advantage is to have a separate part, while it will create duplication in the Code.

- Option 3 – Standalone approach:
 - o A separate Code of Ethics and Independence standards for Sustainability Assurance Engagements.

Similar advantages as option 2, with the additional disadvantage that it may require a longer time for adoption by jurisdictions, given that the new provisions will be outside the extant Code.

The documentation includes an overview of the SAPs landscape (supplement 3-2). Assurance providers (other than PAs) provide a number of consulting services, they provide ISO certifications (for GHG emissions), and also assurance in compliance with ISAE 3000 or ISAE 3410. Those providers generally do not comply with the Code of Ethics but apply their own Code, less detailed, or abide by their own professional body Code or different independence statements. An overview of the regulations on ESG/sustainability topic is presented in the supplement, with some specific jurisdictions provided as examples.

The TF is considering (item 3-B) whether threats to independence in Part 4A of the Code could be also applied in the context of sustainability assurance engagements and whether terms in Part 4A (e.g. engagement partner) should be more neutral for all SAPs. Other important aspects being considered are the different relationships (towards audit clients) addressed in Part 4A (e.g. financial interest, business relationship, long association), as well as how NAS provisions could apply in the context of sustainability assurance engagements (e.g self-review threat, prohibition to assume management responsibilities, potential threats to independence when auditors of financial statements perform sustainability assurance engagements).

The next steps envisaged by the TF include: coordination with global standard setters (e.g. IAASB and ISO) in April/May 2023, a report back on roundtables and preliminary proposed changes in June 2023, a first draft of proposed changes in September 2023, and the approval of an ED in December 2023.

ETHICS (WORK STREAM 2)

While it is clear that the IESBA will be developing profession-agnostic standards for sustainability assurance, it intends to seek strategic input on the decision whether to develop ethics standards also for sustainability reporting.

One document (item 3-D) describes the case for developing or not developing profession-agnostic standards for sustainability reporting. It recalls the support from IOSCO, through its statement, on profession-agnostic standards on sustainability assurance, but stresses the fact that there is no regulatory call for profession-agnostic standards on sustainability reporting. The WS2's issues paper provides the pros and cons for revising the Code and setting a common baseline also for non-professional accountants involved in the preparation and reporting of sustainability information. Among the greatest benefits, a higher degree of integrity and reliability of the information which form the basis of the assurance engagements. Among the difficulties in applying the same rules to non-professional accountants, there are the lack of regulatory demand and the differences in the various jurisdictions.

The WS2 concludes that more research is needed. In the meantime, the scope of the WS2 will be limited to ethics on sustainability reporting which affects professional accountants only. The roundtables will be used to gather input and explore whether there is a market demand and whether the IESBA is considered the appropriate standard setter to address it.

A crucial issue is the coordination with the IAASB and the need to align definitions. For this purpose, the IESBA has been considering the IAASB's approach, as well as the definitions developed by other standard setters (i.e. ISSB and EFRAG). The draft definition of sustainability information, proposed by the WS2 (included in 3-C) retains a broad reference to ESG, to short, medium and long term, and intends to be framework neutral. The rationale behind it is to adopt a definition which could be understandable by all stakeholders and assurance providers.

In addition to the definition of sustainability information, the two TFs will present, for discussion, the definitions of sustainability assurance engagement, sustainability assurance team, sustainability assurance client, sustainability assurance practitioner, professional activity. Coordination and alignment are needed, both among the TFs, including the Use of Experts one, and with the IAASB. When dealing with the definition of "sustainability engagement team" (slide # 7 in item 3-B), for example, a decision will need to be taken about the external experts (currently out of the definition of Engagement Team and, as such, not subject to independence requirements).

Both WS1 and WS2 will be provided input during the IESBA-NSS liaison group meeting which will be held in June.

Public Interest Issues

Please refer to the [PIOB PI Issues on IESBA projects - December 2022](#) on the Sustainability project, as of December 2022, published in the PIOB website.

PIOB Staff comments on PI

WS1 – Independence

The options presented by the TF, with their pros and cons, need to be carefully balanced. The elements of the PIF could be used as a preliminary tool to evaluate potential advantages and disadvantages. The IAASB used it, for example, when deciding the approach to develop the overarching standard on sustainability assurance, assessing the characteristics of the PIF which could be matched with the different options. It is important to gather the views of non-PAs, to understand which options would work better and would ensure a broader adoption. It is also essential to assess the feasibility, in terms of timing, and given the resources available, of the different options. In principle, duplication of provisions already existing in the Code should be avoided. Moreover, the potential longer times needed for the adoption of a separate part of the Code, needs to be taken into account and may not play in favor of option # 3 (proposed by the TF).

The IESBA needs to quickly make a decision on the approach/options (whose discussion started last year), to ensure a timely completion of the project. The input from the roundtables will be valuable in that sense, as well as the potential advice from a Reference Group.

An important aspect is also the terminology used in the Code. The approach to reach as much as neutrality as possible, is preferable. Consideration of this by the TF is really important, in view of an extension of the Code to non-PAs.

The timing of the ED, planned to be approved in December 2023, should allow the completion of the project by the end of 2024, in line with the IAASB Sustainability Assurance standard (ISSA 5000).

WS 2 – Ethics

The WS2's conservative approach, to limit the scope of the project to professional accountants only who are involved in the sustainability reporting, may be considered adequate at the moment, given the limited resources and the urgency of the project.

However, the input from the roundtables will be crucial and the IESBA will need to react quickly, with the possibility to broaden the scope and include also non-professional accountants in the revised provisions. That would be in line with the approach undertaken by the WS1, which deals with independence provisions affecting all assurance providers (both professional accountants and not).

If common rules need to be applied to all sustainability assurance providers, the same principle should be followed for assurance preparers. It is a difficult goal, as the IESBA Code has its remit on professional accountants only. However, the IESBA may use the roundtables and the outreach to play a more active role, advocating and promoting the Code of Ethics, as a robust set of ethics and independence rules which can ultimately benefit the integrity of sustainability reporting as well as the quality of sustainability of assurance engagements.

Time alignment among WS1 and WS2, as well as with the Use of Expert workstream, should be sought.

WS1 and WS2

In mid-February, the ISSB announced that “its initial IFRS Sustainability Disclosure Standards, S1 and S2, will become effective starting January 2024”. Later in February, the G20 made a reference to the ISSB standards.

The ISSB’s announcement, and the fact that the European Sustainability Reporting Framework will be effective in 2024, makes the development of ethics and assurance standards even more relevant. The IESBA and the IAASB are pressed more than ever to produce global standards. The IAASB has already revised the timing of the Sustainability Assurance standard (ISSA 5000). The IESBA may need to revise, in the meantime, the expected completion time of the two workstreams. Coordination is crucial, among the SSBs, and within the IESBA TFs, also to avoid duplication of efforts.

Of particular relevance are outstanding matters for discussion, which the WS2 TF has listed in the presentation, such as relationships with audit clients and NAS, to be dealt with in the context of sustainability assurance engagements (vs. audits of financial statements).

5 – USE OF EXPERTS

Objective: to address ethics and independence considerations concerning the use of experts in the preparation and assurance (including audit) of information, including sustainability information.

Background and Status: At the September 2022 meeting the IESBA agreed to establish a separate project to address considerations on the use of experts. This project will run in parallel with the two workstreams on Sustainability. The Project Proposal was approved in December 2022. The IESBA expects to approve an exposure draft in December 2023.

At the March 2023 meeting, the task force (TF) will present its preliminary views on certain matters and will request input from IESBA.

The roundtables planned for the Sustainability project will be used to also gather input on external experts.

Notes/key points from the review of the documentation for this meeting

The presentation (item 5-A) and the issues paper (5-B) provide TF's preliminary views on:

- Matters relating to ethical and independence behavior expected of experts used by PAs – this includes:
 - o What are experts and how they are used.
 - o Existing ethics and independence considerations in the Code (Sections 220/320), that address appropriateness of using an expert, and the ISAs (ISA 620, proposed ISA 500) that require assessing that the experts have the necessary competence, capabilities and objectivity.
 - In addition, the Code (ET/GA provisions) subjects (internal) experts to independence requirements if they are individuals that are part of the audit or assurance team (i.e. those that can directly influence the outcome of the audit and those who perform audit/assurance procedures), but excludes external experts (those with experience in fields others than accounting or auditing).
 - It is noted that independence is linked to the fundamental principles of Integrity and Objectivity.
- Proposed framework to guide PAs in the determination of whether the use of experts is appropriate – The TF highlights the PI perceptions around the use work of external experts, and has considered whether they should be independent, in particular in the case of audits and other assurance engagements. The TF proposes to enhance the robustness of the assessment of experts used:

- o For all experts – Building on the Conceptual Framework, the PA should consider:
 - (a) how the expert will be used and define the scope of the work – the provide illustrative definitions (expert, expertise, internal expert, external expert) and guidance on how experts might be used.
 - (b) identify potential threats for the PA – they provide illustrative drafting with examples of situations that may create specific threats (e.g. insufficient understanding of the expert’s work may create a self-interest threat)
 - (c) evaluate whether the use of the expert is appropriate around competence and objectivity (linked to independence)

They also provide an illustrative example of how the evaluation process would work.

- o For external experts used in audit and other assurance engagements – the TF has considered whether the independence “guardrails” should be extended to external experts and concludes affirmatively as it would strengthen and safeguard their objectivity. 3 possible approaches are suggested:
 - a. Requiring they meet full independence requirements in Part 4A,
 - b. Complying with Part 4A within a limited perimeter (approach analogous to ET/GA out-of-network individuals), or
 - c. Complying with a select set of independence requirements.

The TF’s preferred approach would be C as they consider it “balanced”. They provide a table with pros and cons, however no reference to PIF elements to assess PI responsiveness of each approach has been included.

To allow for scalability, the assessment of the independence would also be limited to those external experts whose work can “*significantly influence the outcome of the engagement*” (that is, those that do not significantly influence the outcome of the engagement, would not be required to be independent). Illustrative drafting on how to make this determination is provided an includes elements such as nature, scope and objective of the work, criticality of the work to the outcome of the engagement, complexity and subjectivity, responsibility over inputs, assumptions and methodologies, whether it is based on generally accepted standards or law/regulation, expert’s relevant financial interests, business relationships, etc.

The issues paper also offers key facts and circumstances from the independence provisions that would be required to be assessed under approach C, such as financial interests, loans and guarantees, business relationships, family and personal relationships, recent services with the client, serving as director or officer of the client, and employment with the client.

They still need to consider several matters of the framework such as how to deal with individuals vs organizations, PIEs vs non-PIEs, group engagements, breaches of independence, scalability, documentation, profession-agnostic standards in relation to sustainability assurance.

The presentation also includes a list of potential questions for the Sustainability roundtables related to the use of experts and ask for feedback on any other question that could be included.

Public Interest Issues

Please refer to the [PIOB PI Issues on IESBA projects - December 2022](#) on the External Experts project, as of December 2022, published in the PIOB website.

PIOB Staff comments on PI

As noted in our PI issues, the responsiveness of IESBA to start this project addressing the ethical and independence considerations when using experts is very encouraging. The broad scope of the project, encompassing both the preparation and the assurance of information, including sustainability information, is also welcome as the use of experts may have significant implications, not only in the audit/assurance of financial information, but also in its preparation, and even more likely in the preparation and assurance of sustainability information.

Adequately addressing all aspects covered under this broad scope will also be challenging, as the needs (and ethical considerations) of using experts in different areas or fields within a very well established practice such as audit or other assurance engagements performed by PAs might be different to those of sustainability reporting, where the fields of expertise are much wider and, in many cases less developed, and even more on the assurance side, that also needs to be neutral in respect of the provider (not just PAs), as noted in the Sustainability project.

The preliminary approach proposed by the TF goes in the right direction, focusing on the Code's Conceptual Framework and applying an extended framework to external experts that takes into consideration independence requirements. Nevertheless, the conclusion reached on which approach to follow seems to lack clarity on how PI responsiveness has been assessed in reaching that "balanced" approach.

Additional clarity would also be needed on which requirements apply to internal experts vs. external. If an internal expert provides consultation for a matter that is not deemed significant to the outcome of the audit, will they not be subject to any independence requirements? Will the same assessment of significant influence be needed for internal experts?

The further outreach and roundtables are welcome as this is an evolving and rapidly growing area and views from many and diverse stakeholders are needed and will be

very helpful to continue developing the current proposals for audit/other assurance, as well as to start considering those for the use of experts in sustainability reporting and assurance.

6 – EIOC

The Emerging Issues and Outreach Committee (EIOC) will provide an update (item 6-A) and promote the discussion on three themes: FTX Failure, ChatGPT, Fraud. The documentation includes a number of readings related to those topics (items 6-C – 6-I, for reference only), as well as a compilation of jurisdictional developments (item 6-B), prepared with the input of IESBA members.

The objective of the EIOC presentation is to discuss the potential ethical issues (as root causes) of the cases included in the documentation, and the possible impact on the provisions in the Code of Ethics, as well on other projects (i.e. ISA 240) undertaken by the IAASB. Some of these topics may require future actions by the IESBA.

7 – PIE ROLL-OUT

Objective: to consider an update on Track 1 of the IAASB’s PIE project and on the implementation activities of the IESBA’s PIE pronouncements.

Background and status: The IESBA approved the PIE final pronouncements in December 2021 (approved by the PIOB in April 2022). The IAASB approved a project proposal to address PIE matters in March 2022 and issued an exposure draft (ED) on its transparency proposals (track 1) in June 2022. IAASB will be discussing feedback from respondents in March 2023.

The IESBA met in February 2023 to discuss some of the feedback received to the IAASB’s ED and agreed to retain the transparency requirement applicable to both audits and reviews.

Notes/key points from the review of the documentation for this meeting

The issues paper (item 7) provides a summary of feedback received on the IAASB’s PIE ED and preliminary views from the task force (for more details refer to the Briefing Memos for IAAB CAG and IAASB meetings of March 2023). The IAASB expects to approve the final pronouncement in June 2023.

The issues paper also provides an update on adoption and implementation of IESBA's PIE revisions. They share preliminary results of a questionnaire distributed by IFAC to several jurisdictions in Q1 2023. The IESBA staff is also updating the database of PIE definitions by jurisdiction (prepared in November 2021 before the approval of the revisions).

Public Interest Issues

There are currently no outstanding PI issues in respect of IESBA PIE project, as this is a completed project. There are specific PI issues raised in respect of the IAASB's PIE project.

Please refer to the [PIOB's Public Interest Issues](#) on the individual IAASB's projects, as of December 2022, published in the PIOB website.

PIOB Staff comments on PI

A matter to be followed up with IESBA, that arises from the materials distributed by IAASB, refers to how to achieve the public disclosure required by para. R400.20 of the Code when the auditor's report is not made public, as the provisions envisaged by IAASB only refer to this mechanism (i.e. including a specific disclosure in the auditor's report).

There are no PI issues identified at this point from the implementation activities carried out by IESBA.