

IESBA CAG Meeting Observation Memo

Hybrid/New York, March 6, 2023

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Disclaimer: The observer applies his own judgment in identifying and communicating matters of public interest and due process at the meeting, and is responsible to the PIOB Technical Committee in doing so and in reporting on the observation. The views and opinions expressed in this Observation Memo are personal and belong solely to the observer and do not necessarily reflect or preclude the PIOB Board's position.

Summary of key issues from the meeting:

The IESBA CAG meeting was held in a hybrid format, on March 6, 2023, at the IFAC offices, in New York, USA. Approximately half of the group was at the meeting in person with the rest joining by video conference. The meeting was chaired by the IESBA CAG Chair. The meeting ran very smoothly and allowed for the active participation of all attendees.

The agenda was as follows:

- A – REPORT BACK
- B– STRATEGY AND WORK PLAN (SWP) 2024-2027
- C – USE OF EXPERTS
- D – EMERGING ISSUES AND OUTREACH COMMITTEE
- E - SUSTAINABILITY – ETHICS
- F – SUSTAINABILITY – INDEPENDENCE

A – REPORT BACK

This session included a report-back to the CAG on the following projects: Engagement Team-Group Audits (certification approved by the PIOB in February 2023), Technology-Related Revisions to the Code (approved by the IESBA in December 2022, and tabled for certification by the PIOB at the April 2023 meeting), Tax planning and Related Services (currently under exposure).

B – 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.

IESBA CAG Key discussion points

There was a discussion of the draft Consultation Paper (CP) and the significant changes to the CP since the last discussion on this topic. There was general support for the CP and its approach to addressing the public interest. There was a good deal of discussion around the mission of IESBA. The staff and board took the feedback from the CAG and will discuss it with IESBA at their meeting next week. We also discussed the plans to issue the CP soon and the timeline of this project.

Public Interest Issues

The draft CP emphasizes the importance of enhancing the trust both in sustainability reporting and assurance and audit of financial information and is consistent with the public interest. As IESBA gathers feedback from their stakeholders, it will be important to transparently prioritize the work that it plans to accomplish in the 2024-2027 work plan.

C – USE OF EXPERTS

Objective

The objective of this session was to address ethics and independence considerations concerning the use of experts in the preparation and assurance (including audit) of information, including sustainability information.

IESBA CAG Key Discussion points

The task force (TF) presented its preliminary views on certain matters and requested input from CAG representatives. There was discussion of the current state of the rule regarding the use of experts by management and practitioners. There was discussion about the expectation that with sustainability reporting becoming more common, that it is expected that the use of experts will increase. The TF discussed possible approaches for addressing the independence and objectivity of external experts. The CAG had a robust discussion of the approaches that the Task Force identified and

expressed a variety of views on the approaches. The TF also discussed their plans for outreach through upcoming sustainability roundtables.

Public Interest Issues

I acknowledged the importance of this project and the significant progress that has been made by the TF. I stated that as IESBA considers the approaches to addressing independence of experts, it is important that the Board consider the public interest impact of each approach so that an informed decision can be made. I supported the TF's plan to perform additional outreach with the expert community through the upcoming roundtable discussions to assess the impact of any changes that may be proposed by the Board.

D – EMERGING ISSUES AND OUTREACH COMMITTEE

Objective

The objective of this session was to discuss certain current developments and how they may impact future activities of the IESBA.

IESBA CAG Discussion points

The Emerging Issues and Outreach Committee (EIOC) provided an update on three themes: FTX Failure, ChatGPT, Fraud. On the FTX failure, the CAG had a discussion about whether there were possibly independence or ethics issues related to the provision of assurance services to FTX. It should be noted that the discussion was based on what has been reported in the press and no conclusions were offered. There was a related discussion about Proof of Reserves assurance reports and whether those reports could have been misleading. On ChatGPT, the discussion was to brief the CAG on some of the current uses of ChatGPT and to discuss possible areas of ethics and independence that may be impacted by the use of such technologies. There was a discussion about fraud and whether members of the CAG felt there were changes needed in the code to address the area of fraud. The discussion was useful. While no areas of improvement for the code were identified, it was emphasized that fraud is a significant issue and that PAs and PAIBs need constant reminders of their responsibilities with respect to fraud.

E-F – SUSTAINABILITY

Objective:

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 (item E – workstream 2); profession-agnostic independence standards for sustainability assurance (item F – workstream 1)), and one separate project for the Use of Experts (see agenda item C).

E - SUSTAINABILITY – ETHICS

The WS presented the case for whether or not to develop profession-agnostic standards for sustainability reporting. The WS2's issues paper provides the pros and cons of 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 concluded 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 upcoming 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.

IESBA CAG Discussion points

There was discussion surrounding the conclusion of WS2. In part, the discussion was around how pervasive is the preparation of sustainability information by PAs. There was discussion about how the upcoming roundtables will inform this WS to provide meaningful guidance.

Public Interest Issues

I acknowledged the importance of this project to the public interest and shared my appreciation for the extensive work that has been done by the workstream. The workstream's 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 upcoming 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. 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.

F – SUSTAINABILITY – INDEPENDENCE

Objective:

The TF presented a number of options for the presentation of the ethics and independence standards for sustainability assurance and its proposed approach, with the aim to develop profession-agnostic standards, which are framework-neutral (both from a reporting and assurance point of view).

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, briefly:

- 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
 - Part 3 applicable to PAPPs
 - 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 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.

These approaches were discussed by the CAG and will be discussed in the upcoming roundtables.

IESBA CAG discussion points:

Members of the CAG had a variety of views on the approaches as described. Some members supported the first option while others supported Option 2. An alternative option was also offered for IESBA to consider. It was noted that IESBA will gather the feedback received from the CAG and the roundtables and decide on a path forward in the near future.

Public Interest Issues

I acknowledged the importance of this project to the public interest and shared my appreciation for the extensive work that has been done by the workstream. It will be important to gather the views of non-PAs on these topics to understand which options would work better and would ensure broader adoption and therefore further the public interest. It is also essential to assess the feasibility, in terms of timing, and given the resources available, of the different options. IESBA needs to quickly make a decision on the approach/options to ensure a timely completion of the project.