

IESBA

International
Ethics Standards
Board for Accountants®

Agenda Item 5-A

ESG and Ethics

Emerging Issues and Outreach Committee

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IESBA Meeting

15 September 2021

Agenda

- 1) Scope of ESG Issues
- 2) A rapidly changing landscape
 - a) Relevant regulatory developments
 - b) Developments by Firms and PAOs
 - c) Reporting on ESG matters
 - d) Providing assurance on ESG disclosure
- 3) Role of the profession
- 4) Potential ethics and independence issues
- 5) Next steps for IESBA's consideration



Scope of ESG Issues

- Stakeholders use various terms
 - Often used interchangeably to describe non-financial reporting
- This presentation uses ESG in broadest concept possible to describe matters of
 - E** – Environmental, **S** – Social,
 - G** - Governance

Agenda Item 5 includes further information on determination of ESG



A rapidly changing landscape (1)

- Investor calls for disclosures about non-financial information (including ESG) increasing
 - Not just investors; regulators, TCWG and the general public are also focused on ESG (this is especially the case with COVID-19)
 - Trend is global; no longer limited to a few jurisdictions
- Existing global frameworks for disclosure, predominantly on a voluntary basis

Agenda Item 5 includes further information on the existing global frameworks and standards



A rapidly changing landscape (2)

- Despite existing frameworks, lack of standardized disclosure across industries and jurisdictions
 - Many jurisdictional level initiatives attempt to improve disclosures, the outcome is greater diversity and variability in ESG reporting
- There is now significant momentum towards establishing a global system for sustainability-related disclosures
 - New standards should still allow for flexibility in ESG reporting to support informative disclosures across different industries
 - Risk of “boilerplate” disclosures

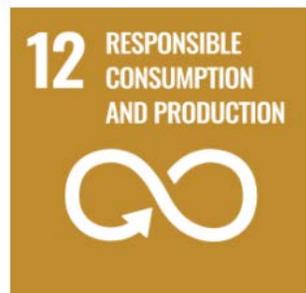
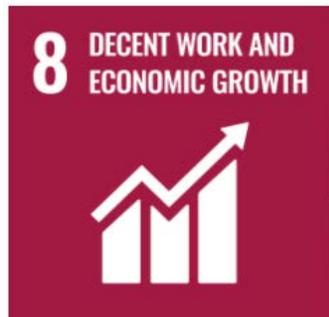


Relevant Regulatory Developments

- Regulatory environment around ESG is evolving very fast at global and jurisdictional levels
 - Amendments to the IFRS Foundation Constitution to accommodate an **International Sustainability Standards Board (ISSB)**
 - IOSCO's strong support for a global approach overseen by the existing IFRS governance structures
 - **EU** already requires certain large companies to disclose certain ESG information
 - Commission's April 2021 CSRD [proposal](#) specifies a role for auditors regarding providing "limited' assurance" on sustainability reporting
 - ESG (especially climate change) is prioritized by US **SEC** and Biden administration
 - [Public Input](#) sought on Climate Change Disclosures (March 2021); 600 + [comment letters](#)

Agenda Item 5 includes further information and reference on relevant regulatory developments

Developments by Firms and PAOs



- Accounting professionals can help elevating ESG value creation
- PAs have a role to initiate positive changes, for example, in relation to inclusion and diversity, carbon footprints, etc.
 - Firms and PAO developing relevant guidance
- Important for the profession to remain relevant and attractive
 - For PAs with different backgrounds and skills
- IFAC is proactive in promoting global consultations, stakeholder engagements and providing relevant guidance (publications)

Reporting on ESG

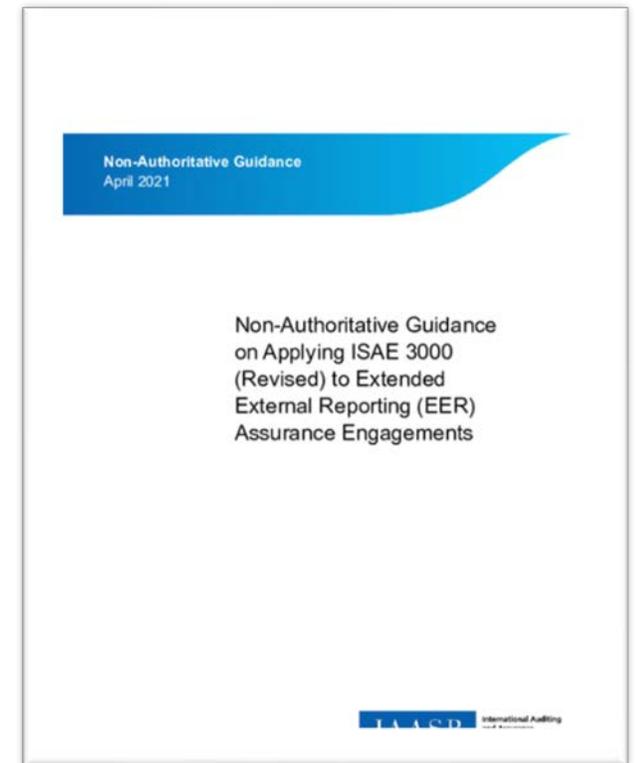
The location of disclosure on ESG information varies:

- a) Separate company report and annual report based on various frameworks and standards
- b) Integrated report based on [Integrated Reporting Framework](#)
 - It is not just a framework, but a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation

Integrated reporting connects material financial and non-financial information

Providing Assurance on ESG

- Global practices for sustainability assurance on a voluntary basis vary widely by jurisdiction
- ISAEs available for assurance engagements relating to non-financial information
 - ISAE 3000 (Revised)
 - ISAE 3410
- April 2021, New guidance from the IAASB, *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements*, including ESG reports
 - Responds to key stakeholder-identified challenges commonly encountered in applying ISAE 3000 (Revised) in EER assurance engagements



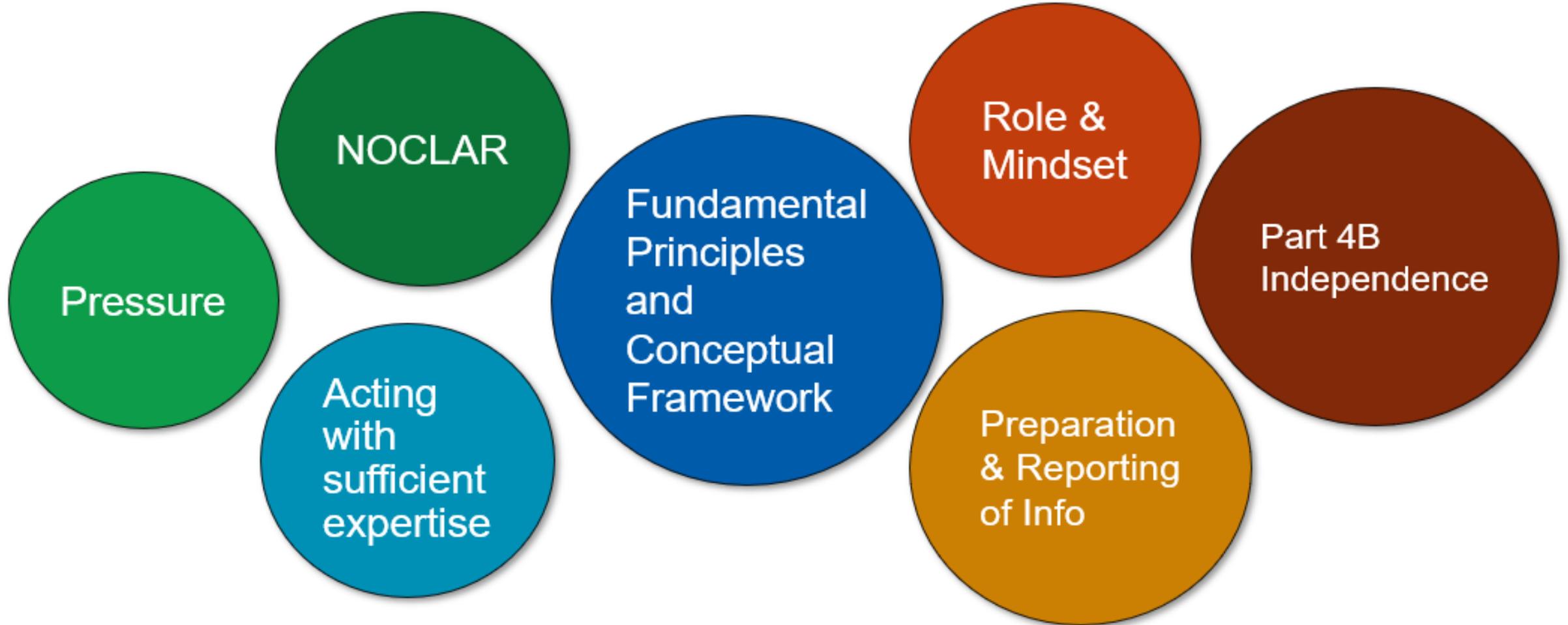
Role of Accountancy Profession

- PAs have an important role to play; but are they ready?
 - The knowledge, skills and experience of PAs are transferable
 - Professional judgment, integrity, and **code of ethics** are already in place
 - *The Code is neutral vis-a-vis the specific applicable frameworks* → PAs must comply with **fundamental principles**
- There is a need for PAs to invest time in educating themselves on risks and reliability of non-financial information, including threats from an ethics and independence perspective

“...Our role in sustainability-related reporting - and insights - represents an even greater opportunity to unlock value for companies and clients. We will have to integrate into our work new and diverse subject matters and technologies, but our core knowledge, skills, professional judgment, **integrity**, and **code of ethics** are already in place. ...”

– Kevin Dancey, CEO, IFAC

Robust and Applicable Principles in Code



Applicability of the Code to Reporting on ESG matters

- No consistent reporting framework for ESG yet
 - PAs must be aware of the requirements arising from the underlying ESG framework
- Heightened need to make judgments and exercise discretion in preparing and presenting non-financial information, including about ESG matters
- When the PA knows, or has reason to believe that ESG information with which they are associated is misleading, they must take action to resolve the issue

Section 220, Preparation and Presentation of Information already provides guidance for PAIBs

➤ *Whether this guidance is appropriate/sufficient for reporting on ESG matters?*

Applicability of the Code to Providing Assurance on ESG

- When providing assurance on ESG matters, Part 4B of the Code applies
 - Revised Part 4B is aligned to IAASB's ISAE 3000 (Revised)
- IAASB's guidance to help apply ISAE 3000 (Revised) in providing assurance on non-financial reporting refers to situations addressed by the IESBA Code (see paragraphs 115 - 121)

Be mindful of conforming and consequential amendments to Revised Part 4B arising from NAS and Fees projects; will be effective in December 2022.

Questions or Views?



Potential Ethics Issues (1)

- **Terminology**

- Whether the current definition of professional activity covers preparation and presentation of ESG matters?
- In the context of the Code, whether ESG information falls under the category of financial/non-financial or other information?
- Is the language of the Code skewed towards preparing and presenting disclosures about financial information only?

Professional activity:
“An activity requiring accountancy or related skills undertaken by professional accountant, including accounting, auditing, tax, management consulting, and financial management.”
(Glossary to the Code)

Potential Ethics Issues (2)

- **Knowledge and Skills**

- Whether PA or his or her team possesses the relevant skills and expertise to do the work appropriately (e.g., measuring carbon footprints)
 - Especially when there is connectivity between ESG information and the financial statements

- **Use of experts and technology**

- Increased risks that PAs might over rely on non-financial information that is provided by ESG experts or ESG-related information that is produced by technology
 - Whether the current guidance on “use of experts” is appropriate for information provided by ESG experts?
- Technology Task Force is already considering this issue; important that approach is principles-based

Potential Ethics Issues (3)

- **Materiality**

- When ESG matters are considered material, issuers should disclose the impact or potential impact on their financial performance and value creation
 - In case of ESG, important to consider *Financial materiality & ESG materiality*
 - Materiality and ESG metrics depend on the specific sector and industry
- Traditionally, PAs are more comfortable making judgments about **quantitative materiality** (i.e., the numbers); reporting on ESG increases the focus on **qualitative materiality** (i.e., non-financial information)
- Section 950 of the Code directs assurance providers to consider ISAE 3000 (Revised) in determining materiality
 - Do PAIBs also need guidance to determine what areas are material/important in preparing and presenting ESG disclosures?

Questions or Views?



Potential Independence Issues (1)

Relevant provisions in Part 4B

- As the importance of ESG information increases for stakeholders, do the independence requirements in Part 4B need to be further revised to cover specific types of ESG assurance engagements?
 - Can the firm expressing opinion on the client's financial statements provide assurance over the client's ESG information?
 - Does revised S950 provide sufficient guidance to address the threats to independence created when the firm that provides assurance on ESG also provides another service(s) (e.g., IT-related services) to the client?
 - Need for specific requirements for network firms?

Potential Independence Issues (2)

PIEs

Distinction between PIEs and non-PIEs

- Stakeholders have heightened expectations regarding assurance on ESG information of certain entities, especially of listed entities
 - Greater focus on public interest concept in relation to assurance engagements other than audits
- Whether there is a need to draw a distinction between assurance engagements from the public interest perspective (similar to PIE and non-PIE distinction)?
 - Whether there should be different requirements?

Questions or Views?



Potential Next Steps

- Awareness raising
 - NAM / IESBA messages to highlight applicability of key principles and provisions in the Code?
 - Provide input (ethics- and independence-related) to support IFAC's work?
- Fact-finding and research
 - Understand what standards setters are doing re ESG
 - Determine implications for ethics and independence
- Development of IESBA's SWP Survey for 2024-2028
 - ***Key strategic priority?***



Input Requested

IESBA members views and input requested on IESBA's next steps regarding ESG matters, with special regard to *timing of actions*





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