



National Association of State Boards of Accountancy

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May 8, 2024

International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017

Via Website: www.ethicsboard.org

Re: *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*

Dear IESBA Members and Staff:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the IESBA Exposure Draft on *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* (Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments on the Exposure Draft.

General Comments

As noted in the Explanatory Memorandum to the Exposure Draft, the IESBA has engaged closely with the International Auditing and Assurance Standards Board (IAASB) to address matters of mutual interest to ensure that the IESBA's final sustainability-related standards will be consistent and interoperable with the proposed International Standard on Sustainability Assurance (ISSA) 5000.

While NASBA commends the IAASB's and the IESBA's efforts on developing foundational standards for sustainability assurance engagements and establishing some level of standards with accountability and consistency, since the framework is open to all, including non-CPAs, the concern is enforceability of the proposed ISSA and IESSA.

We refer you to NASBA's comment letter dated November 23, 2023, on the *Proposed International Standard on Sustainability Assurance 5000 – General Requirements for Sustainability Assurance*

Engagements and Proposed Confirming and Consequential Amendments to Other IAASB Standards. Noted in NASBA’s response to the proposed ISSA, a 2021 joint benchmarking study sponsored by the International Federation of Accountants (IFAC) and the American Institute of Certified Public Accountants (AICPA) titled “The State of Play in Sustainability Assurance” considered a range of subjects including the use of the ISAE 3000 standards by non-CPA service providers. The report indicated that over 50% of the reports by other non-CPA service providers utilized alternative language to reference their use of the ISAE 3000 standards. In other words, less than 50% directly stated that their work was “in accordance with” ISAE 3000. The others utilized language such as “based on”, “commensurate”, “including” and “utilized the same verification principles”. While the motives of those utilizing the alternative language are not fully known it can be assumed that in a number of cases it serves as an admission that they do not or were not otherwise able to meet the “at least as demanding” thresholds related to independence or quality management. That behavior does not appear to meet the spirit or the substance of the requirements of the proposed ISSA 5000 nor the proposed IESSA and would not be in the public interest.

There is an established framework for enforceability with respect to those that have CPA licenses. Unanswered questions exist as to what enforceability mechanisms exist for non-CPAs. The proposed ISSA and IESSA are predicated on the notion that non-CPAs are going to follow the standards to the same rigor and equivalency as CPAs. There is a risk to the public that non-CPA practitioners will not adhere to the requirements set forth in the proposed ISSA and IESSA and then it would be left up to individual jurisdictions to determine if they have the authority to take any disciplinary action. There is a further risk that the public may be misled as to the adherence to the standards by non-CPAs and may place unwarranted reliance on their work.

Request for Specific Comments

Sustainability Assurance

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? [See paragraphs 19 and 20 of this document]

(b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of this document]

NASBA agrees that the proposals in Chapter 1 of the Exposure Draft are equivalent to the ethics and independence standards for audit engagements in the extant Code. As noted previously, while profession-agnostic and framework-neutral standards may work, NASBA is concerned about enforceability outside of the CPA framework.

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? [See paragraph 23 of this document]

NASBA agrees that the proposals in Chapter 1 of the Exposure Draft are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics.

Definition of Sustainability Information

3. Do you support the definition of "sustainability information" in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

NASBA supports the definition of "sustainability information" in Chapter 2 of the Exposure Draft, believing it is not too narrow and leaves room for interpretation by the practitioner.

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? [See paragraphs 30 to 36 of this document]

As long as there is uniformity and consistency between the ethics sustainability standards and the extant attest standards, NASBA agrees with the proposed scope for the ethics standards in Part 5, believing that the ethics standards in the new Part 5 (Chapter 1 of the Exposure Draft) should cover not only all sustainability assurance engagements provided to sustainability assurance clients but also to all other services provided to the same sustainability assurance clients.

5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements 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? [See paragraphs 38 to 43 of this document]

NASBA agrees with the proposed criteria that the International Independence Standards (IIS) in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements for such engagements in paragraph 5400.3a standards for sustainability.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

NASBA supports including Section 5270 in Chapter 1 of the Exposure Draft; however, as previously mentioned, the proposed standard is predicated on the notion that non-CPAs are going to follow the standards to the same rigor and equivalency as CPAs while there is no defined enforceability framework for non-CPAs.

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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? [See paragraphs 56 to 67 of this document]

NASBA understands 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. From a regulator perspective, those provisions would close a communication loophole that currently exists. However, given the diversity of legal frameworks among jurisdictions, there could be a significant challenge in implementation. The requirement for a professional service provider to communicate NOCLAR to another professional service provider could be subject to limitations of other laws and legal requirements based on the jurisdiction.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) [See paragraph 68 of this document]

NASBA supports expanding the scope of the extant requirements for PAIBs.

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? [See paragraphs 80 to 85 of this document]

NASBA agrees with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements.

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. [See paragraphs 86 to 92 of this document]

(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?

NASBA supports the IIS in Part 5 specifically addressing group sustainability assurance engagements; however, NASBA believes that consistency with audit standards and consistency in the use of terminology will assist the practitioner when performing and regulators when providing oversight over group sustainability assurance engagements. While the considerations for group assurance engagements can be challenging for CPAs that are familiar with the concepts under the auditing standards, NASBA questions how non-CPAs will become sufficiently knowledgeable in order to effectively implement and comply.

(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)?

NASBA supports 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.

(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? [See paragraph 88 of this document]

NASBA agrees 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”)?

NASBA agrees with the proposed defined terms in the context of group sustainability assurance engagements.

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? [See paragraphs 93 to 101 of this document]

NASBA agrees with the proposed independence provisions set out in Section 5406; however, NASBA believes that implementation will be challenging and likewise could be challenging from a regulatory enforcement standpoint.

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? [See paragraphs 102 and 103 of this document]

NASBA believes that the concept of sustainability assurance could be broadly applied, and its application will be a challenge to the practitioner. As such, NASBA believes the definition of "value chain" in the context of sustainability assurance engagements should not rely solely on examples, but instead should provide concepts that the practitioner can utilize in determining who or what is part of the value chain.

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? [See paragraphs 104 to 110 of this document]

NASBA supports the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity.

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?

NASBA agrees 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? [See paragraphs 111 to 114 of this document]

NASBA supports 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. NASBA believes that there is a need for supplemental implementation guidance to assist practitioners with a better understanding of a value chain entity.

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)? [See paragraphs 115 and 116 of this document]

NASBA agrees with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG).

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

(a) Do you agree with the coverage of such services and the provisions in the Subsections?

NASBA agrees 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?

NASBA has not identified any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements.

Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements 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)? [See paragraphs 123 to 131 of this document]

NASBA believes that if the sustainability work is part of the disclosures in the audited financial statements or their accompanying filing, it would make sense to look at the fees on a holistic basis. The fees for the audit and the sustainability work should be aggregated because, in essence, the fees are part of one engagement, and if the firm's independence is evaluated based on fees, it does not make sense to disaggregate those fees.

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?

NASBA believes that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the Exposure Draft could be improved with the addition of examples. One such example might be the performance of group audits performed in multiple countries.

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

NASBA has not identified any other matters to raise concerning the remaining proposals in Chapters 1 to 3 of the Exposure Draft.

Sustainability Reporting

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? [See paragraphs 133 to 135 of this document]

NASBA believes that the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information by conducting additional outreach to all preparers of sustainability information, including non-CPAs. It would be in the public interest for all preparers to have standards to follow with respect to ethics and objectivity. If the scope is expanded to preparers of sustainability information, then consideration must be given to the assurance providers' responsibilities for ensuring the preparers are complying with the standards.

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? [See paragraph 138 of this document]

NASBA agrees that the proposals in Chapter 4 of the Exposure Draft are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics.

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? [See paragraphs 139 to 141 of this document]

NASBA has no objections to the proposed revisions to Section 220.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]

NASBA has no objections to the proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information.

(c) Other proposed revisions? [See paragraph 155 of this document]

NASBA agrees with the other proposed revisions in paragraph 155.

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

NASBA has no other matters to raise concerning the proposals in Chapter 4 of the Exposure Draft.

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?

NASBA supports the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Handwritten signature of Stephanie M. Saunders in black ink.

Stephanie M. Saunders, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink.

Ken L. Bishop
NASBA President and CEO