

Sustainability Assurance – Relevant Ethical Requirements and Quality Management Standards

This Agenda Item includes the analysis of comments received on Question 4 in the Explanatory Memorandum (EM) to ED-5000, and the related SATF views and recommendations.

Background

1. In developing ED-5000, paragraph 5 of ED-5000 explained the two fundamental premises on which ED-5000 is based. These premises are that:
 - The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and
 - The practitioner who is performing the engagement is a member of a firm that is subject to ISQM 1,¹ or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as ISQM 1.
2. The IAASB recognized the importance of the fundamental premises in ED-5000 and the need for a consistent understanding of the related requirements and the concept of "at least as demanding" to underpin the performance of quality sustainability assurance engagements in the public interest. The IAASB also acknowledged that regulators and national standard setters share the responsibility for determining what may be considered "at least as demanding" in their respective jurisdictions.

What We Asked

3. Question 4 asked respondents:

Is ED-5000 sufficiently clear about the concept of "at least as demanding" as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm's responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?

119 of 143 respondents provided a response to question 4, including three Monitoring Group (MG) members. See **Agenda Item 3-I.3** for further details on the overall responses and **Agenda Item 3-J.3** for comments received.

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

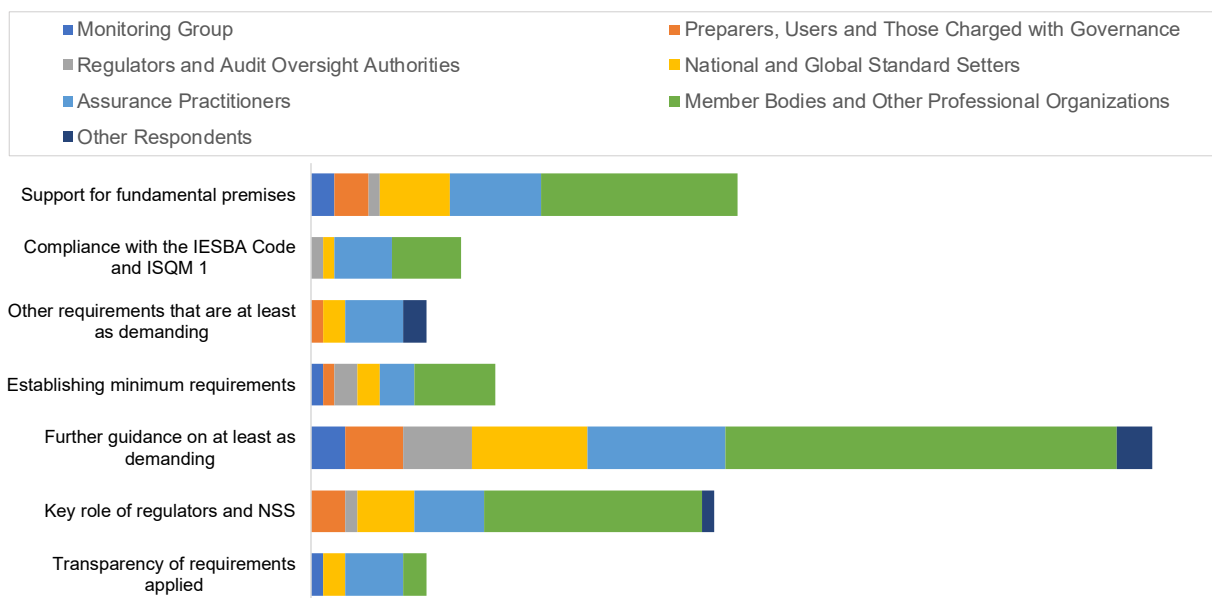
What We Heard

Highlights

- Support for the fundamental principles of requiring the application of robust ethical and quality management requirements by practitioners.
- Various requests to either require compliance with ISQM 1 and the IESBA Code, establish minimum baseline requirements, or endorse alternative requirements as being at least as demanding.
- Further guidance is needed on how an evaluation of “at least as demanding” can be performed and by whom. National regulators or standard setters have an important role to play.
- Transparency within the assurance report is needed to describe other relevant ethical requirements applied when not the IESBA Code (such a requirement was included in ED-5000 with respect to quality management).

4. The chart below provides a breakdown of the comments on Question 4 by theme and stakeholder group.

Relevant Ethical Requirements and Quality Management Standards



Monitoring Group Comments

5. The MG member that agreed with the concept of “at least as demanding” commented that it is in the public interest that the same level of requirements for quality management and ethics (including independence) apply to all practitioners providing assurance on sustainability reporting, regardless of the profession to which they belong. However, this MG member also noted that they are currently not aware of other quality management requirements that are “at least as demanding as” or “equivalent” to ISQM 1 that are currently in use by non-accountant assurance practitioners. They also noted, consistent with the overarching theme below, that it is not clear how practitioners currently

using other quality management requirements or standards will make the determination of equivalency or can be held accountable. The MG member recommended that ISSA 5000 provide criteria for making such assessments. Similar challenges were noted regarding the IESBA Code.

6. Two other MG members also supported the principles but noted that the assessment of at least as demanding is a matter of judgment and is subject to interpretation, giving rise to a risk of inconsistency. While recognizing that the concept of “at least as demanding” is not new, both called for greater clarity in ISSA 5000 about “at least as demanding” and questioned whether the intent was that other standards need to contain all the requirements of the IESBA code and ISQM 1, or only material elements (and if so which) and what actions need to be taken when gaps are identified. The shared responsibility of national standard setters for making this determination was also noted. One MG member commented that if only some key elements are required, then the standard could be clearer in identifying these. One MG member also noted that:
 - (a) The requirements could be clarified by stating that the IESBA Code requires firms to comply with the fundamental principles and be independent, to better align with the clear objective described for ISQM 1.
 - (b) Other ethical standards applied, including their jurisdiction of origin, should be disclosed in the assurance report and be publicly available to enable users of assurance reports to assess the ethical and professional requirements applied by the practitioner.

Other Respondents’ Comments

7. A majority of respondents that commented, many of which explicitly expressed support for the principles underlying the fundamental premises as a whole, called for more guidance on the concept of “at least as demanding,” including how this can be done on a consistent basis and by whom.
8. A minority of respondents did not support basing the fundamental premises on the concept of “at least as demanding” on the grounds that they are not aware of any existing requirements that are at least as demanding, and variously commented that the requirements are unduly onerous, neither realistic or operable, will lead to inconsistent implementation, and create a barrier to a profession-agnostic standard. These respondents, spread across member bodies, national standard setters, regulators and accounting firms, suggested:
 - (a) Removing the concept of “at least as demanding;”
 - (b) Referring only to requiring compliance with ethical requirements required by law, regulation or by a professional body;
 - (c) Adopting a more profession-inclusive proportionate approach based on principles and establishing more practicable requirements or a common baseline;
 - (d) Not creating a direct link to any single framework, i.e., the IESBA Code; and
 - (e) Making clear that individual practitioners should not be permitted to make the determination of “at least as demanding.”
9. The specific comments or suggestions provided by respondents fell into the overall key themes summarized below. The themes have been organized into two groups:
 - (a) Establishing additional or endorsing alternative requirements; and

- (b) Clarifying the requirements or providing further guidance, including with respect to the role of jurisdictional/national regulators and standard setters.

Establishing Additional or Endorsing Alternative Requirements

Requiring Compliance with the IESBA Code and ISQM 1

- 10. Respondents across many stakeholder groups suggested requiring outright compliance with ISQM 1 and the IESBA Code to eliminate the risk of inconsistencies in practice when making a determination of “at least as demanding,” and address a lack of transparency of requirements that have been applied (see related discussion on transparency below). This was also suggested as a necessary outcome if it was widely considered that there are no other requirements that exist that are at least as demanding, or if the IAASB is unable to clarify how to evaluate whether alternative requirements are at least as demanding. The importance of consistency in requirements across a group sustainability assurance engagement was highlighted. Some respondents also noted that other requirements could instead be applied only where a recognized authoritative body had designated alternative requirements prescribed by law, regulation or a national standard setter as being at least as demanding (see related theme on the role of regulators and national standard setters below).

Identify Other Requirements That Are At Least as Demanding

- 11. Some respondents suggested that the IAASB identify or state alternative requirements that are deemed to be at least as demanding, for example, certain ISO standards or the International Federation of Inspection Agencies Compliance Code, or to undertake outreach to conduct global mapping exercises to assess equivalence.

Establishing Minimum Requirements (or Baseline Principles)

- 12. Several respondents recommended a different approach, requesting the IAASB to establish minimum requirements that would be deemed sufficient to comply with general ethical and quality management principles. Some respondents similarly referred to the establishment of baseline principles. Suggestions included:
 - (a) Requiring compliance with the fundamental principles of the IESBA Code;
 - (b) Translating key concepts from ISQM 1 into ISSA 5000 in a profession-neutral manner;
 - (c) Requiring compliance with the quality objectives of ISQM 1; or
 - (d) Requiring alternative requirements to address the eight components addressed in ISQM 1.

Clarifying Requirements and Providing Further Guidance

Further Guidance on At Least as Demanding

- 13. As noted above, a majority of respondents called for clarity on how to interpret the requirements as well as further guidance on how, and whether it is in fact possible, to make an assessment of whether alternative requirements are “at least as demanding” as the IESBA Code and ISQM 1. Comments received in support of the need for additional guidance included:
 - (a) The lack of a framework or criteria for evaluating “at least as demanding.”
 - (b) Clarity is needed about who is responsible for making the determination.

- (c) The judgment is too open to interpretation and risks inconsistent judgments and application.
- (d) The concept of “addressing the requirements” is not clear.
- (e) The IAASB should prescribe factors that need to be considered.
- (f) Whether every requirement of the IESBA Code or ISQM 1 needs to be addressed by other requirements to be deemed at least as demanding, which imposes a barrier to non-accountant assurance practitioners, or whether achieving the overall objectives of ISQM 1 would be sufficient.
- (g) The standard describes the content of the IESBA Code and ISQM 1 but does not give any direction on how an assessment of equivalence might be undertaken.
- (h) There are challenges in succinctly describing in application material the expectations and responsibilities when requirements other than the IESBA Code and ISQM 1 are followed.
- (i) The assessment should not be a self-assessment by practitioners (consistent with the views of those who disagreed with the fundamental premises).
- (j) Examples or case studies should be provided demonstrating the application of the premises in different scenarios.
- (k) There is no guidance on considerations for group sustainability engagements or when using the work of another practitioner if different requirements are followed by different practitioners.

Key Role of Regulators and Jurisdictional/National Standard Setters

- 14. Many respondents noted the important role of jurisdictional/national regulators and standard setters in determining whether requirements were “at least as demanding” as the IESBA Code or ISQM 1, with many citing that ultimate responsibility rests at this level. At the same time, some respondents noted that such bodies need a mechanism or guidance to enable such a determination to be made, as well as acknowledging that practitioners can issue reports under global standards that may not be subject to local regulations.
- 15. In addition to the calls for further guidance in the standard, many respondents separately called on the IAASB to engage with global and jurisdictional/national regulatory bodies to provide guidance for those bodies on how to evaluate whether jurisdictional/national codes or requirements meet the “at least as demanding” threshold, which could include specifying minimum requirements.
- 16. A minority of respondents disagreed with delegating responsibility for such assessments to jurisdictional/national regulators and standard setters, noting the need for global consistency and for the IAASB and IESBA to maintain sovereignty over their respective standards to avoid the risk of watering down the fundamental premises on which proposed ISSA 5000 is based, resulting in an overall lowering of quality.
- 17. Several respondents also specifically highlighted the role of regulators and standard setters in regulatory oversight and enforcement, encouraging the IAASB to engage in dialogue with relevant national and global oversight bodies on this matter.

Transparency of Requirements Applied

18. Some respondents referenced the [IFAC study](#) that highlighted that in 2021 almost two thirds of non-accountant assurance practitioners provided no indication of complying with ISQC 1² or equivalent or did not reference the IESBA Code or an equivalent standard of ethics. Such respondents highlighted this as an indicator that the approach adopted in ISAE 3000 (Revised)³ was not functioning as intended. These and other respondents, including one MG member as described in paragraph 6(b) above, therefore called for additional transparency in the assurance report that describes the ethical and quality management requirements that have been applied when these do not comprise the IESBA Code or ISQMs. While this was required in ED-5000 with respect to quality management requirements, only the jurisdiction of origin of the ethical requirements applied was required to be disclosed.

Other Comments on Ethical Requirements and Quality Management Principles

19. Respondents also noted or suggested the following:
- (a) The importance of close coordination with the IESBA;
 - (b) Requiring documentation of the assessment of “at least as demanding” when made by the firm/engagement team;
 - (c) The need for further implementation support material (which also was a key theme noted in the global outreach activities).
 - (d) Consideration of the need for a conforming amendment to the scope of ISQM 1 to accommodate non-accountant assurance practitioners.

Observations from the Survey

The survey asked respondents whether, in their view, the concept of “at least as demanding” is clear. 45% of respondents that expressed a view said yes, while 41% said no. Comments from respondents were entirely consistent with the themes identified from respondents to ED-5000. Comments, indicating mixed views, included:

- Overall support for the fundamental premises.
- Questioning whether any requirements exist that are “at least as demanding.”
- That the approach is not realistic or credible.
- Calls for further guidance on assessing “at least as demanding”, including criteria and/or examples.

² International Standard on Quality Control 1, the predecessor standard to ISQM 1

³ ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

SATF Views and Recommendations

Relevant Paragraphs in Agenda Item 3-H		
Introduction and Requirements	Application Material	Related Definitions
29, 68(aa)	A48, A58A-A58B	17(nn)

Establishing Additional or Endorsing Alternative Requirements

Requiring Compliance with the IESBA Code and ISQM 1

20. The SATF noted the number of respondents that called for requiring direct compliance with the IESBA Code and ISQM 1 by all assurance practitioners using ISSA 5000. The SATF concluded that this is not a viable proposition, as this would contravene the objective of developing a profession-agnostic standard. It would likely also further exacerbate concerns from respondents about creating barriers to entry in the assurance market. Doing so would also be inconsistent with auditing standards, and some jurisdictions have not adopted the IESBA Code or ISQM 1 for all auditors of financial statements.

Identify Other Requirements That Are “At Least as Demanding”

21. The SATF recognized that third-party requirements exist. However, aside from some limited references to ISO standards in the responses to ED-5000, the feedback indicated that respondents are not aware of any such requirements that may be considered at least as demanding as ISQM 1. The SATF is of the view that it is not feasible, based on the overall timeline of the project and resources necessary, for the IAASB to conduct global mapping exercises to determine whether there are alternative requirements deemed to be equivalent to the IESBA Code and ISQM 1 and to make a statement to that effect within the standard. Such an exercise would also require cooperation with external bodies responsible for establishing alternative requirements, as both parties would likely wish to be involved in making any such determination.

Establishing Minimum Requirements (or Baseline Principles)

22. Taking into account the nature of the fundamental premises, the SATF is of the view that it is impractical to extract individual requirements from either ISQM 1 and, in particular, the IESBA Code and to assert that compliance with such “minimum” requirements would be sufficient to be able to use ISSA 5000. To do so would undermine the premises underpinning the IAASB’s existing audit and assurance standards, which were established to support overall engagement quality. Such an approach would also require close coordination with IESBA and may be subject to differences of opinion across jurisdictions, thereby not achieving the consistency respondents have indicated is desirable. However, taking respondents comments and suggestions into account, alongside the significant number of comments from respondents seeking clarification of what “at least as demanding” means, the SATF considered possible clarifications to the requirements and application material, as described below.

Clarifying Requirements and Providing Further Guidance

Clarified Requirements

23. The SATF discussed the views of respondents raising concerns about the existence of any requirements that are at least as demanding as the IESBA Code and, in particular, ISQM 1, and the feedback around the important role of national regulators and standard setters in sharing responsibility for making this assessment. The SATF reaffirmed its view that the fundamental premises are appropriate, but considered whether the requirements, in respect of ISQM 1, could better illustrate the potential circumstances that a practitioner may be faced with, while also directly acknowledging the role of national authorities.
24. The SATF has proposed restructuring paragraph 29 of **Agenda Item 3-H** to explain that a practitioner is a member of a firm that applies:
- (a) ISQM 1,
 - (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding, or
 - (c) Professional requirements, or requirements in law or regulation, that are otherwise determined to be at least as demanding.

The requirements in (a) and (c) are consistent with the intent of ED-5000. The addition of (b) is seeking to respond to comments supporting the important role of jurisdictional/national regulators and standard setters (“appropriate authorities”) (see also paragraphs 36-39 below).

25. The concept of at least as demanding remains critical to (b) and (c) in the proposed restructured requirement, and has also been addressed by the SATF (see also paragraphs 30-35 below).
26. Brief application material has been proposed, drawn from ISA 700 (Revised),⁴ to explain who may constitute an appropriate authority (see paragraph A58A of **Agenda Item 3-H**), and that a network, firm or other professional body may have made a determination or issued guidance on whether other professional requirements, or requirements in law or regulation are at least as demanding as ISQM 1 (see paragraph A58B of **Agenda Item 3-H**).
27. The SATF discussed whether the changes described above to reflect the role of regulators and national standard setters should be replicated with respect to professional requirements, or requirements imposed by law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. The SATF concluded that this was not within its remit to determine without consultation with the IESBA.
28. IAASB Staff subsequently discussed this matter with IESBA Staff as part of the ongoing coordination. IESBA Staff expressed the view that the determination of whether professional requirements, or requirements imposed by law or regulation are at least as demanding as the IESBA Code, should not be a judgment that individual practitioners are allowed to make, as this could lead to inconsistent decisions and fragmentation in standards applied. The SATF will further discuss this with IESBA Staff after the March meeting.

⁴ ISA 700 (Revised), paragraph A57

29. Notwithstanding the decision not to propose a clarified requirement related to relevant ethical requirements, in response to suggestions from respondents, the SATF has proposed some streamlining of the definition of relevant ethical requirements to avoid creating a perception of a two-tier approach between professional accountant and other assurance practitioners (see paragraph 17(nn) of **Agenda Item 3-H**).

Further Guidance on “At least as Demanding”

30. Almost all respondents that requested further guidance did so without providing any specific recommendations for what that guidance might comprise, with the exception of a few suggestions to develop examples or case studies for different scenarios, or reissuing the ISQM 1 implementation guidance updated to reflect sustainability assurance.
31. The SATF discussed the application material in ED-5000 and noted that the language used may be specifically causing many of the questions from respondents by implying that each and every requirement of ISQM 1 and the IESBA Code needs to have an equivalent that is at least as demanding.
32. Specifically, with respect to quality management, the language in ED-5000 was adopted from ISAE 3000 (Revised), which was updated as a result of the Quality Management (QM) conforming and consequential amendments. ED-5000 therefore refers to other professional requirements, or requirements in law or regulation, “addressing the requirements of ISQM 1.”
33. The SATF considered the equivalent application material from ISAE 3000 (Revised) prior to the QM conforming and consequential amendments and concluded that it represented a more appropriate construct that provides greater clarity about what is expected to be addressed in an assessment of “at least as demanding.” In proposing these revisions, the SATF is seeking to respond to the questions from respondents on this matter, while at the same time not seeking to undermine the overall fundamental premises. To that end, to further reinforce that other requirements need to be sufficiently robust to support quality engagements, the SATF has proposed emphasizing that such other requirements need to achieve the aims of the objectives of ISQM 1 but also the aims of the requirements of ISQM 1.
34. For consistency, the SATF made an equivalent change with respect to references to the IESBA Code. Accordingly, the application material reverts to the previous language in ISAE 3000 (Revised) (see paragraph A48 of **Agenda Item 3-H**).
35. As noted in paragraph 27 above, no further changes have been proposed with respect to assessing requirements that are at least as demanding as the IESBA Code, pending further discussion with IESBA on this matter.

Key Role of Regulators and Jurisdictional/National Standard Setters

36. The SATF noted that the suggested edits to the requirements, as described above, seek to reinforce the primacy of the role of national regulators and standard setters in determining whether jurisdictional requirements are at least as demanding in preference to the judgment of individual practitioners.
37. The SATF acknowledged the views of respondents that the judgment of whether other requirements were at least as demanding should not be left to individual practitioners (also see paragraph 28 above regarding the views of IESBA Staff). However, the SATF noted that prohibiting this would be

inconsistent with ISAE 3000 (Revised) and would create a vacuum in jurisdictions where an appropriate authority does not make any local determination, meaning assurance practitioners that did not comply with ISQM 1 would be unable to assert compliance with ISSA 5000.

38. The SATF also acknowledged the views, across a broad range of stakeholder groups, that the IAASB should engage in further outreach with regulators and standard setters on this topic and to provide guidance on how they may assess equivalence. The SATF is of the view that the proposed amendments to the requirements and application material in **Agenda Item 3-H** as described in the sections above may address concerns raised, and the benefits of any further outreach with stakeholders can be assessed in light of the Board's views.
39. The SATF does, however, support the views of respondents that further dialogue with national and global regulators, such as IFIAR and IOSCO, should be used as an opportunity to reinforce messaging regarding the importance of regulatory oversight of sustainability assurance practitioners, in particular with respect to compliance with quality management and relevant ethical requirements that are at least as demanding as ISQM 1 and the IESBA Code.

Transparency of Ethical Requirements Applied

40. Paragraph 170(d)(iv) of ED-5000 was drawn from ISA 700 (Revised) requiring that the practitioner's report (emphasis added) "*identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.*" Some respondents noted that this is not as robust as the existing ISAE 3000 (Revised) requirement, and called for the requirement to be enhanced to require the report to identify the ethical requirements applied. The SATF agrees and has proposed reverting to the language from ISAE 3000 (Revised) (see paragraph 170(d)(iv) of **Agenda Item 3-H**). This suggested change addresses the request of the MG respondent and would also align with the requirement applicable to quality management requirements (see paragraph 170(d)(v) of **Agenda Item 3-H**).

Documentation

41. The SATF agreed with the suggestion from respondents that, in circumstances when the practitioner has determined that other professional requirements, or requirements imposed by law or regulation are at least as demanding (either with respect to ISQM 1 or the IESBA Code), the practitioner should be required to document the basis for this determination. See paragraph 68(aa) of **Agenda Item 3-H**.

Matters for IAASB Consideration

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000, as described in paragraphs 20-41 above.