Securities Regulation Daily Wrap Up, ESG NEWS—Global accounting group proposes new ethics standards to reduce greenwashing, (Jan 29, 2024)

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The proposed ethics standards would work in concert with sustainability reporting and assurance standards to ensure the integrity and objectivity of sustainability information.

The International Ethics Standards Board for Accountants (IESBA) is seeking comment on the "first comprehensive suite" of global standards on ethical considerations in sustainability reporting and assurance. The proposed standards aim to foster greater trust in publicly communicated sustainability information through the application of a consistent ethical approach.

According to IESBA, the proposed standards would mitigate greenwashing by providing a clear framework of expected behaviors and ethics provisions. The standards would be used by professional accountants as well as sustainability assurance practitioners from other professional backgrounds.

"From investors looking for transparent and credible information, to consumers wanting to ensure the reliability of companies' narratives about the sustainable credentials of their products and practices, and companies wanting to be trusted, all users of sustainability disclosures have a vested interest in ensuring ethical choices by the preparers and assurers of such information," said Gabriela Figueiredo Dias, chair of the IESBA. "These proposed standards will serve as a cornerstone of ethical behavior with far-reaching benefits."

IESBA released two exposure drafts, International Ethics Standards for Sustainability Assurance ED and Using the Work of an External Expert ED.

The proposed standards were developed after extensive global outreach including significant participation by non-accountants, IESBA said.

Ethics standards. Set out in a 250-page document, the proposed standards address a broad range of ethics topics including fees, conflicts of interest, gifts, and business and personal relationships.

The standards provide guidance on identifying threats to objectivity and independence, including self-interest, close relationships, and intimidation. Threats can sometimes be addressed by eliminating the source of the threat or applying safeguards. Sometimes, however, a threat can only be addressed by declining or ending a professional activity.

The standards provide specific guidance for responding to non-compliance with laws and regulations.

External experts. A separate proposal addresses the use of external experts.

The Public Interest Oversight Board (PIOB) said it has seen an increase in the use of sustainability experts. The PIOB believes it is in the public interest to assess whether the nature of the work of experts and their contribution to the audit/assurance opinion should trigger a requirement for them to be subject to independence requirements, similar to other individuals who are part of the engagement team.

IOSCO reaction. Jean-Paul Servais, chair of the Board of the International Organization of Securities Commissions (IOSCO), said he was "delighted to welcome" the proposals. He called on issuers, investors, and assurance providers to participate in the IESBA's consultation.

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“Sustainability disclosures are undeniably high on the agenda of investors globally,” said Servais. “Trust in such disclosures will be enhanced when they receive external assurance based upon globally accepted standards regarding ethical behavior and independence, that have been developed in the public interest.”

Next steps. Comments can be submitted on the IESBA’s website by April 30, 2024 for Using the Work of an External Expert ED, and by May 10, 2024 for the Sustainability ED.

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