

April 3, 2025

Ms. Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017

Mr Lee White FCA
CEO
International Federation of Accountants
529 5th Avenue
New York, New York 10017

Dear Gabriela and Lee,

Re: Follow up to GAA meeting on 28 March 2025

On behalf of the Global Accounting Alliance (GAA), I am writing to you both in relation to the upcoming summit that you are co-hosting on April 14 in Paris.

About the GAA

The GAA was formed in November 2005 and serves as a forum for 10 leading professional accountancy bodies, representing 1,400,000 members in over 180 countries around the globe. Professional accountants play an important role in global capital markets, helping organizations meet the evolving information needs of investors and other stakeholders, including on environmental, social, and governance (ESG) issues.

The GAA's purpose is to serve the public interest by leading the advancement of a high-quality accounting profession by sharing information and collaborating, among GAA members, and advocating on international issues important to the profession.

The GAA's members include the following professional accountancy bodies:

- Association of International Certified Professional Accountants
- Chartered Accountants Australia and New Zealand
- Chartered Accountants Ireland
- Chartered Professional Accountants of Canada
- Hong Kong Institute of Certified Public Accountants
- Institut der Wirtschaftsprüfer in Deutschland e.V.
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Japanese Institute of Certified Public Accountants
- South African Institute of Chartered Accountants

We thank Gabriela for taking the time to attend part of our Board meeting on Friday 28 March in Edinburgh which we hope was insightful. As Gabriela is aware, we highlighted at the meeting a number of our concerns over recent and current IESBA projects, and we have set these out in full in the attached appendix which contains our key messages. In advance of the forthcoming IFAC/IESBA summit in Paris on April 14, we thought it would be useful to share these with you for the purposes of transparency.

As highlighted above, we represent 1.4 million professionally qualified accountants many playing important roles in ensuring the effective functioning of capital markets around the globe as well as serving the needs of SMEs and other private entities, in addition to entities in the public and third sectors.

We firmly believe, as you do, that it is in the public interest for IESBA to produce a high-quality Code of Ethics (including, international independence standards). The accounting profession has embraced this responsibility to society over a number of years and this has provided a foundation of trust in the profession by the public. We staunchly support high-quality ethics standards and the public interest; however, it is essential that the Code remains principles-based and that IESBA acts within its terms of reference which state:

“1.1 The International Foundation for Ethics and Audit (the Foundation) was formed to house the International Ethics Standards Board for **Accountants** (IESBA) to function as an expert and objective independent standard-setting body under the oversight of the Public Interest Oversight Board (PIOB). The IESBA is designated as the responsible body, under its own authority and within its stated terms of reference, to develop and issue in the public interest **high-quality ethics standards for professional accountants** for adoption and application around the world.

1.2 The PIOB has approved, and the Foundation's Board of Trustees has adopted, these terms of reference[1]. Any proposed changes thereto shall require public consultation (unless the changes are of an inconsequential or operating nature) and PIOB approval.”

We therefore have concerns over IESBA's recent pronouncement, the IESSA, which provides professionally agnostic standards for use by sustainability assurance practitioners. There is a real risk that unless appropriate action is taken by jurisdictional regulators to hold others to account, as and when necessary, that professional accountants providing such services will be at a disadvantage to those also doing such work who are not members of our profession. From a public interest perspective, the risk is that work performed by non-professional accountants may not be at the same level of independence and quality, so undermining public confidence which will reflect badly on both the effectiveness of the sustainability standards and the accountancy profession, leading to erosion of trust; this threat is particularly acute in the current geopolitical climate. There is also ultimately the threat of greenwashing and lack of progress on sustainability efforts, particularly with respect to climate change which presents an existential threat to the planet.

We would also highlight that we have similar concerns that IESBA's current project on firm culture and governance is ultra vires. We firmly believe that IESBA should confine its work to ethical standards and non-authoritative content for professional accountants as stated in its terms of reference and as required by the PIOB's Public Interest Framework.

Additionally, there is an urgent need for a significant period of stability where no changes are made to the Code, including in relation to IESBA initiatives on firm culture and governance, and CIVs and Pension Funds, to allow for the various actors in jurisdictions across the globe the necessary time to undertake the work to allow the changes to the Code to be implemented. Such an approach would then allow IESBA to undertake post implementation reviews on a number of key areas, including NOCLAR, to properly assess the effectiveness of these standards.

We acknowledge and agree that the culture of an organisation, and not just within accounting firms, is crucial to providing an environment to promote ethical behaviour by individuals. However, there is a danger that placing too much focus on such matters within accounting firms leads to IESBA creating an audit firm governance code rather than ethics provisions; which, we again question whether this falls within the purview of IESBA or is even capable of enforcement by PAOs. Even if IESBA continues with this project we do not believe it to be appropriate for IESBA to be exploring detailed matters such as whether or not accountancy firms should be introducing Independent Non-Executives into their governance structures, even if this is only included as a potential safeguard in a list of potential safeguards. Rather, we believe that IESBA could set out the pros and cons of doing so in non-authoritative material which sits outside the Code. Further, it is clear to us from the feedback provided by stakeholders at the firm culture and governance roundtables that our views are not unique in that regard.

It is not in the public interest to have standards which are not proportionate. The needs of SMPs and SMEs need to be given greater consideration. Anecdotally, the vast majority of entities in jurisdictions around the globe are small and it is imperative that professional accountants within such organisations can easily understand and comply with the provisions of the Code. Governments across the globe are currently placing considerable focus on economic growth and what may be seen as regulatory barriers are being removed or scaled down, with the proposed EU Omnibus legislation to scale down the requirements of the CSRD and CSDDD examples of that.

Finally, it is essential that IESBA effectively engages with stakeholders at all stages of the development of a new standard. Due process and consultation are incredibly important to creating good standards. Consultation means clearly articulating the need for a standard, listening to all stakeholders and making compromises or adjustments where warranted. We would therefore encourage enhanced engagement with the profession as well as strengthened collaboration between IESBA, IAASB, IFAC, and stakeholders to support the development, adoption and implementation of international ethics and audit and assurance standards. At present, we are encouraged by the first engagement with GAA but we don't believe that IESBA as an independent standard setting body has been effectively engaging and consulting with PAOs and stakeholders from the accounting profession, which is its largest constituent and stakeholder group, and this is a matter that needs to be addressed.

We encourage you to take on board the above points and we would be happy to meet at any time to facilitate further discussion.

We look forward to continuing our engagement with you on the points raised above.

If you have any questions or would like to further discuss any issues, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Jim Knafo". The script is fluid and cursive, with the first name "Jim" and last name "Knafo" clearly distinguishable.

Jim Knafo CPA CA CGMA
Chief Executive Officer
Global Accounting Alliance

APPENDIX

GAA Key Messages for IESBA

3 April 2025

Profession agnostic standards

- 1 The International Ethics Standards Board for Accountants (IESBA)'s function, and long-established modus operandi, is to serve the public interest by setting high-quality ethics and independence standards for professional accountants as is reflected in its terms of reference. The evolution to consider the development of profession-agnostic ethics standards for sustainability assurance (including International Independence Standards) was seen by some stakeholders as a practical step given the urgency due to the pace of sustainability standard development elsewhere. However, we believe it is imperative that the Code of Ethics for Professional Accountants remains focused on the accountancy profession, which has established appropriate and related regulatory and enforcement mechanisms.
- 2 IESBA's move towards the development and adoption of "profession-agnostic standards" therefore causes us concern. To be truly categorised as such, and not create an unlevel playing field, any standards introduced must be capable of uniform interpretation, implementation, monitoring and enforcement. We have concerns about the potential distortion of markets relating to financial assurance and other assurance services, in which some providers are subject to monitoring by a professional/statutory body with a Code of Ethics and transparent enforcement mechanisms, and others are not. In particular, we note that the profession-agnostic sustainability standards recently introduced by IESBA are heavily predicated on terminology and concepts which have been specifically derived from the accountancy profession and which may be unfamiliar to those with a different background and training. There is a real danger of fragmented implementation in jurisdictions and lack of uniformity in the application of such standards.
- 3 Allowing unlicensed practitioners to perform the same engagements as Professional Accountants (PAs) potentially diminishes the value of the PA's license and is counterintuitive to the attractiveness issues that the profession is experiencing in certain jurisdictions. If anyone can perform such engagements, there is a risk that individuals may decide not to make the extra effort to become a PA and be subject to an appropriate monitoring and enforcement regime. Profession-agnostic standards also allow for less experienced and trained individuals performing the same services, which is not in the public interest.

- 4 We do not believe that IESBA should be developing new standards or revising the Code with users other than Professional Accountants (PAs) in mind. IESBA should regard sustainability assurance to be an exception. For any new projects, there needs to be full due process on whether to extend the project beyond the accountancy profession. If IESBA intends to generally change its remit, this needs to be discussed not only through a major due process in public, but also with IFAC, the Forum of Firms and the accountancy profession worldwide because this would involve changing its terms of reference.

International Ethics Standards for Sustainability Assurance Engagements (IESSA)

- 5 The need for a level playing field (as a public interest issue) is an important aspect IESBA needs to openly flag in order to inform jurisdictional policy decisions regarding who may supply sustainability assurance services (PA vs non-PAs). Whilst IESBA cannot mandate the application of the entire IESBA Code for non-PAs who provide sustainability assurance services, those elements of the wider Code which are relevant to non-PAs but not in the IESSA should be identified and made applicable to them. IESBA's "encouragement" is neither a viable nor practicable solution, as non-PAs will not read through the entire Code to decipher whether there are further matters to address in the individual engagement circumstances. Ensuring a level playing field is essential for the public interest, but mandating and enforcing ethical requirements for a cohort (professional accountants) will have cost and professional service pricing implications. While we believe this should have little or no bearing on the decision to require professionals to behave ethically and appropriately, we do believe there is a balance to be achieved with the requirements, that if not addressed, may create an imbalance in the marketplace for reliable professional services.
- 6 Obtaining accurate and complete value chain information is a problematic issue for most reporting entities and sustainability assurance practitioners alike. In many cases one or more parts of value chain information will likely be material, in certain industries more than others. The provisions in the Code exacerbate the problem by making it impossible, in practical terms, for the group practitioner to perform work at the value chain even when the quality of the engagement would be enhanced were this permitted. There has been acknowledgement by legislators in some jurisdictions, e.g. the European Union, that reporting on sustainability activities in a value chain is problematic, to the extent that standards and requirements are being revisited. We could call for IESBA to consider doing the same as a practicable solution is needed.
- 7 If IESBA's intent is for the Code is to evolve towards becoming framework-neutral and profession-agnostic in application - an intent with which the GAA would disagree - the GAA believes it essential for IESBA to engage broadly across both transnational and national regulatory environments to ensure the equivalent public protections are in place so that public trust in the profession is not eroded. We see this as essential to the broadest possible adoption of IESSA, its application within a level playing field of assurance providers and the preservation of both the public interest and market confidence.

Code moving away from being principles based

- 8 We are concerned that the Code continues to move away from being truly principles-based, as is evidenced by its length which is increasing considerably. This is a worrying trend and cannot be conducive to satisfying the understandability principle as well as compliance and enforcement. The length

of the Code now stands at some 350 pages and is simply impracticable for many smaller practitioners to use. The addition of Part 5 will result in a few hundred further pages being added to the Code.

Lack of reflection on use and enforceability of provisions in the Code

- 9 There appears little reflection by IESBA on the use and enforceability of provisions in the Code but new workstreams continue to be added at the apparent urgency of regulators. This prolongs the timelines to carry out Post Implementation Reviews, which are crucial in evaluating effectiveness of previous provisions introduced, and affects IESBA's prioritization of work on the Code to ensure that it remains fit for purpose. It also increases the risk of overlap and additional ambiguity when the Code expands into matters that are sometimes regulated or legislated for at national levels, e.g. tax planning or corporate governance requirements. The result is an unnecessary increase in regulatory burden, which has implications for adaptability and effectiveness. There remain misinformed ongoing perceptions of the profession's influence which are not in line with reality.

Needs of SMPs and SMEs not properly considered

It is not clearly evident that the particular needs of SMPs and SMEs are properly considered by IESBA. Large firms have dedicated Independence/Compliance departments to implement new standards and monitor compliance. The Code should allow for small/medium firms without such resources to be able to do so on a proportionate basis. This is a long-standing issue that has not been properly addressed. The continuing expansion of the Code appears to be focusing more on PIEs and firms that audit PIEs e.g. potentially to the detriment of SMPs and SMEs. We are very supportive of having one Code, with principles that are universally applicable across the accountancy profession and would regret the necessity of a different approach having to be applied due to the expanding scale and complexity of the Code. There is also a bigger issue. What is the ethical and independence standard setting end game? At some point, the value proposition of becoming a member of the profession will no longer make sense - that is, the ethical and independence structures will cause difficulties in attracting new entrants to the profession. This is already becoming an issue; the profession is having difficulty recruiting new students due to other occupations not being subject to the profession's onerous requirements. This is exacerbated by the lack of common sense de minimis exceptions to some of the independence requirements.

Regulators input prioritised over practitioners

- 11 Whilst we appreciate that the new standard setting model is still in its infancy, we believe there is a need for a more balanced approach to considering both practitioner and regulatory perspectives. IESBA seems to prioritise the input of regulators when deciding on projects and setting standards, and not what is also practical for PAs to implement. New standards should be based on research supporting where the Code is deficient and why changes are needed. We would also highlight the lack of consideration by IESBA of implementation costs associated with any revisions to the Code.

Need for a period of stability

- 12 There is a need for a period of stability. Revisions to the Code are now too frequent and then require considerable effort from firms, professional bodies and regulators downstream. For them, endorsement of the finalised standard by the PIOB is merely the start of the process; there is training, possible translation, development of guidance etc. thereafter. Additionally, as has been expressed at the IESBA board, there would be merit in considering whereby new or revised elements of the Code only take effect at set intervals.
- 13 Pausing the development of new standards would allow IESBA to undertake a considered implementation review of existing standards. IESBA frequently discusses the need for post-implementation reviews but continues to prioritize standard setting, so such reviews are not performed. For example, IESBA's Firm Culture and Governance Working Group's Final Report cites the Role and Mindset pronouncement as extant provisions that address the topic of firm culture and governance, but a post-implementation review has not been performed to determine if it is effective or if revisions to the Code are necessary. Post-implementation reviews should be just as important as new standards, if not more so. Although exposure drafts are issued and comment letters submitted on proposed new standards, this is still really a "theoretical" stage. It is much more common for issues to be identified in practice and post-implementation reviews would identify such issues, allow the standard to be revised if necessary, or clarify non-authoritative materials to be released. Such reviews should have clear criteria and procedures and be transparent. It would also be very helpful to know what implementation issues professional accountants, firms and regulators are experiencing when implementing and complying with the standards.

Uptake of Code low outside Forum of Firms

- 14 There are concerns that the uptake of the Code outside the Forum of Firms may be relatively low compared with the international standards on auditing (ISAs). The Code is too granular, often ethics is governed by legislation and is far more principles based. IESBA needs to understand where in the world the Code is applied and why uptake globally is less than for other global standards. Is a rethink needed to position it as a global baseline? Furthermore, IFAC member bodies are considering whether claiming compliance with the Code under the Statement of Membership Obligations is still a viable proposition.

Regular Review for Obsolete Content

There should be a mechanism for ensuring that the Code is reviewed at regular intervals to identify potentially obsolete content. Where identified, appropriately developed criteria should be applied to determine whether such content should be removed from the Code.

Firm Culture and Governance

- 16 Specifically in relation to the 'Firm Culture and Governance' project there is a risk that IESBA is operating outside of its purview. The focus on governance of firms is not an ethics matter per se. The public trust is in the fundamental principles (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour) that a professional accountant is required to comply with; compliance with which impacts positively on a firm's culture.

- 17 The International Standards on Quality Management (ISQM) already deal with several aspects of firm culture and governance and so IESBA needs to be mindful to liaise appropriately with the IAASB and not exceed their remit here. This subject matter also needs to be subject to an appropriate due process. There is a belief that this topic was taken following a push from regulators in reaction to individual events. There is a lot of concern that this is inappropriate and unjustifiably detrimental to the reputation of the entire profession. A root cause analysis was not done to establish that the Code was deficient and therefore warrants revision. There is a need to ensure there are no conflicts with the quality management standards and understand why the proposed requirements of IESBA were not considered necessary by IAASB. Effective coordination with IAASB will be essential as ISQM 1 already incorporates measures relating to firm governance.
- 18 Several jurisdictions which follow the IESBA Code already have their own Audit Firm Governance Codes which deal with at least some of the matters that IESBA is considering as part of this project. IESBA will need to engage with these jurisdictions to ensure that it is informed of the lessons that have been learned and does not complicate the regulatory environment. The example standards illustrated in the Final Report are firm requirements, which would be inoperable in certain jurisdictions and with many regulators, as only individuals can be held accountable, not firms. Additionally, competition laws in certain jurisdictions would also prohibit adoption of several of the proposed requirements.
- 19 Given IESBA's recent focus on the larger firm-sector, solutions need to be proportionate and not disadvantageous to SMPs. Consideration needs to be given to proportionality and the potential impact on smaller firms.
- 20 Extensive additional requirements will be costly to firms, both from a quantitative measure and qualitative perspective (e.g. firm morale, and pipeline issues). Additional compliance costs could be passed on to clients and may require additional time from clients to provide further evidence and documentation. The example standards illustrated in the Final Report appear prescriptive, especially those relating to Independent Non-Executives.
- 21 There is concern that the enforceability principle will not be satisfied where a local enforcement body's purview is to individual behaviour not firm behaviour. This limitation could also result in fractured adoption thus compromising the ability to implement any such revisions to the Code in an effective and consistent manner.