XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Rotation provisions for sustainability assurance engagements

Questions and answers

November 2026

Copyright

Status and disclaimer

This guidance is neither mandatory nor binding on entities. It does not have the force of law, nor does it amend, or provide any binding interpretation of External Reporting Board (XRB) standards. Only the Courts can make binding interpretations of XRB standards under the Financial Reporting Act 2013. Entities subject to XRB standards are not required to observe this guidance in order to comply with XRB standards. Nor does observance of this guidance necessarily mean compliance with XRB standards. XRB standards are the definitive statement of requirements. This guidance does not constitute advice. Entities subject to XRB standards must apply their own mind to the standards and take their own advice in considering and applying them. To the fullest extent permitted by law, the XRB disclaims and shall not be liable for any mistake or omission in this guidance, nor does the XRB accept any liability to any reader or user in relation to this guidance.

Copyright

© Copyright External Reporting Board (XRB)

Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

This text reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international guidance issued by the International Ethics Standards Board for Accountants (IESBA). Questions 1 to 5 of this document have been adapted and reproduced from the IESBA's Staff Questions & Answers – International Ethics Standards for Sustainability Assurance (IESSA), with the permission of the copyright owner, IFAC.

Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IFAC at www.ifac.org or by writing to permissions@ifac.org.

This text also reproduces, with the permission of the Accounting Professional & Ethical Standards Board (APESB), parts of the corresponding guidance issued by the APESB. Questions 6 to 9 of this document have been adapted and reproduced from APESB's '*Audit Partner and Sustainability Assurance Leader Rotation Requirements in Australia – Technical Staff Questions and Answers*' document with the permission of the copyright owner, Accounting Professional & Ethical Standards Board Limited (APESB), Australia, enquiries@apesb.org.au.

For any enquiries about reproducing or using this guidance, contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/.

Contents

Page

Introduction 4

Transitional provision relating to R5540.10a 5

Firm performing only the sustainability assurance engagement 6

Different engagement teams performing the audit engagement and sustainability assurance engagement 6

Individual serving as both key sustainability assurance leader and key audit partner 8

Combination of roles across audit and sustainability assurance engagements 9

Break in service between involvement in audit and sustainability assurance engagements for the same client 9

Client services partner becoming the engagement leader 10

Signing partner different from the sustainability engagement leader 10

Introduction

Assurance practitioners who perform sustainability assurance engagements are subject to long association and rotation requirements that are consistent with those applicable to auditors of financial statements, adapted for sustainability assurance engagements.

This publication supports the implementation of the rotation requirements for sustainability assurance engagements included in Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* (PES 1). These requirements are applicable for periods beginning on or after 15 December 2026.

PES 1 also includes requirements addressing circumstances where:

- An individual is a member of both the sustainability assurance team and the audit team for the same client
- A firm has previously performed a sustainability assurance engagement for a sustainability assurance client and that engagement was not within the scope of International Independence Standards in Part 5.

The following questions draw from international guidance and FAQs[1] on sustainability assurance engagements, tailored for the New Zealand context. They cover the maximum time-on period, the applicable cooling-off period, transitional arrangements and combinations of roles.

What are rotation provisions for sustainability assurance engagements

For a sustainability assurance client that is a public interest entity (PIE), maximum time-on and minimum cooling-off periods apply for key sustainability assurance leaders.

Public interest entity

PES 1 includes specific independence requirements that apply when a client is a PIE. An entity is a PIE when it meets the tier 1 criteria in accordance with External Reporting Board Standard A1 *Application of the Accounting Standards Framework* and is not eligible to report in accordance with the accounting requirements of another tier.

Most climate reporting entities would meet the tier 1 criteria and would therefore be treated as PIEs for the purposes of the ethics and independence requirements in PES 1.

Key sustainability assurance leader

Key sustainability assurance leaders are classified as engagement leaders, engagement quality reviewers and other leaders who make key decisions or judgements on significant matters with respect to the sustainability assurance engagement.

Maximum allowed period of service and minimum cooling-off period

The following table summarises the requirements in PES 1 for audit and sustainability assurance clients that are PIEs. However, if threats to independence are identified, the general provisions must be considered (see paragraphs 5540.4 A3, R5540.12 and 5540.12 A1 of PES 1) and may override the periods outlined below.

---

[1] IESBA Staff Questions & Answers – International Ethics Standards for Sustainability Assurance (IESSA), September 2026
Audit Partner and Sustainability Assurance Leader Rotation Requirements in Australia - Technical Staff Questions and Answers, Third edition, APESB, July 2026

Role	Time-on and cooling-off periods
Engagement leader/ engagement partner	Maximum 7 year time-on period Minimum 5 year cooling-off period
Engagement quality reviewer	Maximum 7 year time-on period Minimum 3 year cooling-off period
Other key sustainability assurance leaders/ other key audit partners	Maximum 7 year time-on period Minimum 2 year cooling-off period

Combination of roles

When calculating time-on and cooling-off periods for the same client, a firm must consider relevant roles performed on both the sustainability assurance engagement and the audit of the financial statements. The calculation includes time served in those roles before 15 December 2026.

New Zealand considerations

In addition to the requirements in PES 1, the NZX Listing Rules (2.13.3 (f)) require the key audit partner to be changed at least every five years but do not specify any additional cooling-off requirements.

Transitional provision relating to R5540.10a

Question 1: A transitional provision in Schedule 1 of PES 1 sets out that if a firm has not served as the auditor of the financial statements for a sustainability assurance client, the requirement in paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement before the application date.[2] Why is there no similar requirement for a firm that was the auditor of the sustainability assurance client?

When applying the leader rotation requirements in PES 1 for a sustainability assurance client that is a PIE, a firm should take into account all the years during which an individual has served as a key sustainability assurance leader or a key audit partner on the audit engagement for the same client. This includes periods before 15 December 2026.

The reference in the transitional provision to situations where "the firm has not served as the auditor of the financial statements" was included because where the firm has served as the auditor, a key audit partner would already have been subject to the partner rotation requirements in paragraph R540.7 of Part 4A of PES 1. When determining whether the maximum seven-year time-on period has been reached, the firm should consider all the years during which the individual has served either as a key sustainability assurance leader or as a key audit partner for the client, including service before 15 December 2026. This approach ensures that prior service in any of those roles is appropriately recognised for purposes of applying the leader rotation requirements.

[2] Except for the provisions in Sections 5405 and 5406 applicable to assurance work performed at value chain components, the provisions in Part 5 of PES 1 are applicable for sustainability assurance engagements on sustainability information for periods beginning on or after 15 December 2026, or as at a specific date on or after 15 December 2026.

Firm performing only the sustainability assurance engagement

Question 2: Firm D has served as the sustainability assurance practitioner for a PIE since 2020 but is not the auditor of the entity's financial statements. An individual from Firm D has served continuously as a key sustainability assurance leader since 2020 and the sustainability assurance engagement was not within the scope of the international independence standards in Part 5 of PES 1. The entity's reporting cycle follows the calendar year. How should Firm D determine the maximum period the individual may serve as a key sustainability assurance leader for the entity if the firm enters into a sustainability assurance engagement over the GHG disclosures in climate statements required to be assured under the Financial Markets Conduct Act 2013[3] for the 2026 reporting cycle?

The transitional provision applies in determining the individual's maximum period of service since the firm did not serve as the auditor of the PIE client prior to the effective date of Part 5. Thus, in accordance with paragraph R5540.10a, the firm is required to include the years served as the key sustainability assurance leader before Part 5 is applicable.

Accordingly, the individual reaches the maximum seven-year time-on period in 2026. Because the individual will have served six or more years on a sustainability assurance engagement for the client before undertaking a sustainability assurance engagement within the scope of the International Independence Standards in Part 5 of PES 1, under paragraph R5540.10a, the individual may continue to serve as the key sustainability assurance leader for up to two additional years (2027 and 2028), provided that those charged with governance (TCWG) of the entity concur.

After that period, the individual is required to follow the applicable cooling-off period before serving again as the key sustainability assurance leader on the engagement.

Year	Role
2020	key sustainability assurance leader
2021	key sustainability assurance leader
2022	key sustainability assurance leader
2023	key sustainability assurance leader
2024	key sustainability assurance leader
2025	key sustainability assurance leader
2026	key sustainability assurance leader
2027	key sustainability assurance leader (subject to concurrence of TCWG)
2028	key sustainability assurance leader (subject to concurrence of TCWG)
2029	Off

Different engagement teams performing the audit engagement and sustainability assurance engagement

Question 3: Firm A has served as the auditor of Entity X, a PIE, since 2022. The same firm becomes the sustainability assurance practitioner for Entity X in 2024. Entity X's reporting cycle follows the calendar year. The audit of the financial statements and the sustainability assurance engagement for Entity X are carried out by different engagement teams and different partners/ leaders in the firm. How should Firm A calculate the maximum period an individual could serve

[3] This sustainability information subject to assurance would meet the criteria set out in paragraph 5400.3b of PES 1.

as a key audit partner on the audit engagement and the maximum period another individual could serve as a key sustainability assurance leader on the sustainability assurance engagement for Entity X once Part 5 becomes applicable, assuming these individuals served in those roles from the date when the firm took on those engagements?

Whether Firm A has been the auditor of Entity X before being engaged by Entity X for the sustainability assurance engagement does not impact the calculation of the time-on period an individual at the firm can serve as a key sustainability assurance leader, unless this individual has also served in any key audit partner role for the audit of Entity X previously. If an individual has served as both a key sustainability assurance leader and a key audit partner for Entity X, please see questions below.

Paragraph R540.7 in Part 4A specifies the maximum time-on period the individual from the audit engagement team could serve as a key audit partner as follows:

Year	Role
2022	key audit partner
2023	key audit partner
2024	key audit partner
2025	key audit partner
2026	key audit partner
2027	key audit partner
2028	key audit partner
2029	Off
2030	Off

If the client is a listed entity, the auditor should consider the impact of Rule 2.13.3 (f) in NZX Listing Rules, which limits the time on to five years for a key audit partner.

With respect to the individual serving as a key sustainability assurance leader on the sustainability assurance engagement, the maximum time-on period is calculated by applying paragraph R5540.10a, as follows:

Year	Role
2022	-
2023	-
2024	key sustainability assurance leader
2025	key sustainability assurance leader
2026	key sustainability assurance leader
2027	key sustainability assurance leader
2028	key sustainability assurance leader
2029	key sustainability assurance leader
2030	key sustainability assurance leader
2031	Off

The length of the specific cooling-off period will depend on the specific key audit partner or key sustainability assurance leader role (or combination of such roles) served in accordance with paragraphs R540.13 to R540.20 in Part 4A and R5540.13 to R5540.20 in Part 5.

Individual serving as both key sustainability assurance leader and key audit partner

Question 4: Firm B has served as the auditor of the financial statements of a PIE since 2022. In 2026, Firm B is also appointed as the sustainability assurance practitioner for the same entity. An individual from Firm B has served as a key audit partner on the audit engagement since 2022 and, for the reporting period beginning on 1 January 2027, also serves as the key sustainability assurance leader on the sustainability assurance engagement (in addition to serving as key audit partner on the audit engagement for the same period). How should Firm B determine the maximum time-on period the individual may serve as both key audit partner and key sustainability assurance leader for the same entity?

The firm should reach the same conclusion that the individual reaches the maximum seven-year time-on period as key audit partner and key sustainability assurance leader in 2028, whether applying paragraph R540.7 under Part 4A or paragraph R5540.7 under Part 5. From 2029, the required cooling-off period begins and the individual may not serve as key audit partner or key sustainability assurance leader until the end of the cooling-off period.

Year	Role
2022	key audit partner
2023	key audit partner
2024	key audit partner
2025	key audit partner
2026	key audit partner
2027	key audit partner (R540.7) key sustainability assurance leader (R5540.7)
2028	key audit partner (R540.7) key sustainability assurance leader (R5540.7)
2029	Off

If the entity is a listed entity, the NZX Listing Rules (2.13.3 (f)) require the key audit partner to be changed at least every five years.

Question 5: Firm C has served as the sustainability assurance practitioner for a PIE since 2023, performing assurance engagements over GHG disclosures in climate statements[4]. In 2027, the firm is also appointed as the auditor of the financial statements for the same entity for the financial year starting from 1 January 2027. An individual from Firm C has served as an engagement leader since 2023 and, from 2027, also serves as a key audit partner. How should Firm C determine the maximum time-on period the individual may serve as both key audit partner and key sustainability assurance leader for the same entity?

If Firm C has been the auditor of the PIE client, and the individual has already served as a key sustainability assurance leader and a key audit partner, the application of paragraph R5540.7 in Part 5 and paragraph R540.7 in Part 4A in PES 1 leads to the same conclusion.

Accordingly, the individual reaches the maximum seven-year time-on period at the end of the 2029 reporting period and, therefore, may last serve as a key audit partner or a key sustainability assurance leader in 2029 before the required cooling-off period begins.

[4] The sustainability information subject to assurance met the criteria set out in paragraph 5400.3b of PES 1.

Year	Role
2023	key sustainability assurance leader
2024	key sustainability assurance leader
2025	key sustainability assurance leader
2026	key sustainability assurance leader
2027	key sustainability assurance leader (R5540.7) key audit partner (R540.7)
2028	key sustainability assurance leader (R5540.7) key audit partner (R540.7)
2029	key sustainability assurance leader (R5540.7) key audit partner (R540.7)
2030	Off

Combination of roles across audit and sustainability assurance engagements

Question 6: Individual W has served as the engagement quality reviewer for the audit of the financial statements of a sustainability assurance client for four years. The client is a PIE. Individual W was then appointed as the engagement leader for the sustainability assurance engagement for this client for three years. How long is the cooling-off period for individual W?

To determine the appropriate cooling-off period for individual W, it is necessary to consider W's role in the context of both the audit engagement and the sustainability assurance engagement performed for the same client.

The individual has served on the audit engagement and the sustainability assurance engagement for the same sustainability assurance client for a total of seven cumulative years. Over these years, the individual held a combination of engagement leader and engagement quality reviewer roles, during which they were the engagement leader for three years. Therefore, the individual must serve a cooling-off period of five consecutive years before they can return to either the audit engagement or the sustainability assurance engagement of the sustainability assurance client (see paragraph R5540.19(a) of PES 1).

Break in service between involvement in audit and sustainability assurance engagements for the same client

Question 7: Individual J served as the engagement partner for the audit of the financial statements for seven years and has not been involved with an audit or activities with the client for two years. The client is a PIE but is not a listed entity. Can individual J be appointed as the engagement leader of the sustainability assurance engagement for the next reporting period?

No, individual J would not be able to be appointed as the engagement leader of the sustainability assurance engagement for the next reporting period. The individual has served on the audit engagement for a total of seven cumulative years. While the individual has completed two years off the engagement, this break in service does not constitute cooling-off as it is lower than the five consecutive years off required to meet the cooling-off requirement for the engagement partner (see paragraphs R540.8 and R540.13 of PES 1).

Therefore, the individual must complete a further three years' cooling-off before they can be involved with either the audit engagement or the sustainability assurance engagement for the client (see paragraphs R540.13 and R540.23 of PES 1).

Client services partner becoming the engagement leader

Question 8: Individual X has been the client services partner for a PIE audit client for four years. For the upcoming sustainability assurance engagement for that audit client, individual X will serve as the engagement leader. How many years may they serve on the engagement as the engagement leader?

The rotation requirements in PES 1 apply to time spent as an engagement leader and/or a key audit partner. In principle, individual X can serve for seven years as an engagement leader or key audit partner[5]. However, the firm will need to evaluate whether the role of client services partner meets the definition of a key audit partner. Consideration should be given to whether individual X made key decisions or judgements on significant matters with respect to the audit engagement.

The firm should also consider the general provisions of Part 5 of PES 1 to evaluate the threat created by long association, including the overall length of individual X's association with the client, how long they have been on the engagement team and the roles that they have played should be taken into account (see paragraphs 5540.4 A3 and R5540.12 of PES 1). A firm may decide that it is appropriate to rotate individual X from the role of sustainability assurance leader at the end of three years as the engagement leader, due to their prior association with the PIE audit client when acting as the client services partner.

Signing partner different from the sustainability engagement leader

Question 9: PES 1 defines the engagement leader as the individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. In the situation where the partner who signs the sustainability assurance report (the signing partner) is not the same individual as the engagement leader, which cooling-off provisions apply to the signing partner?

The signing partner, if different, would normally also be treated as an engagement leader and would be subject to the same requirements as the engagement leader. This is the case, for example, where the signing partner is also the engagement partner responsible for the audit engagement performed for the same client.

Where more than one individual is required to sign the sustainability assurance report, it may not be reasonable or appropriate to treat all the individuals signing as engagement leaders. In this case, determining which cooling-off provisions apply would depend on engagement circumstances and the reasons why there are additional signing partner(s). At a minimum, however, any signing partner who is not the engagement leader would be a key sustainability assurance leader and therefore subject to a minimum two-year cooling-off period as applicable to the sustainability assurance engagement of a PIE.

---

[5] If the client is a listed entity, the maximum time-on period for key audit partner is only five years in accordance with NZX Listing Rules (2.13.3 (f)).