

Sustainability Assurance – Sustainability Matters, Sustainability Information and Disclosures

This Agenda Item includes the analysis of comments received on Questions 5 and 6 in the Explanatory Memorandum (EM) to ED-5000, and the related SATF views and recommendations.

Background

1. In developing ED-5000 the IAASB acknowledged the importance of having clear and understandable definitions of sustainability information and sustainability matters that are reflective of the concepts embedded in various sustainability reporting frameworks and maintain framework neutrality.
2. The alignment of definitions, to the greatest extent possible, with the corresponding definition(s) being developed by IESBA in connection with its sustainability project was also an important consideration.
3. An entity's disclosures about sustainability matters may relate to several different topics (e.g., climate, labor practices, biodiversity) and aspects of topics (e.g., risks and opportunities, impacts, metrics and key performance indicators). Management of the entity determines the topics and aspects of topics to be reported and the disclosures represent the specific information reported by the entity about a topic and aspect of a topic.
4. Appendix 1 of ED-5000 explained the relationship between sustainability matters (i.e., the underlying subject matter); sustainability information (i.e., the subject matter information); and the related disclosures.

What We Asked

5. Question 5 asked respondents:

Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

114 of 143 respondents provided a response to question 5, including one Monitoring Group (MG) member. See **Agenda Item 3-I.4** for further details on the overall responses and **Agenda Item 3-J.4** for comments received on Question 5.

Question 6 asked respondents:

Is the relationship between sustainability matters, sustainability information and disclosures clear? If not, what suggestions do you have for making it clearer?

101 of 143 respondents provided a response to question 6. All four MG members were among those that did not respond. See **Agenda Item 3-I.5** for further details on the overall responses and **Agenda Item 3-J.5** for comments received on Question 6.

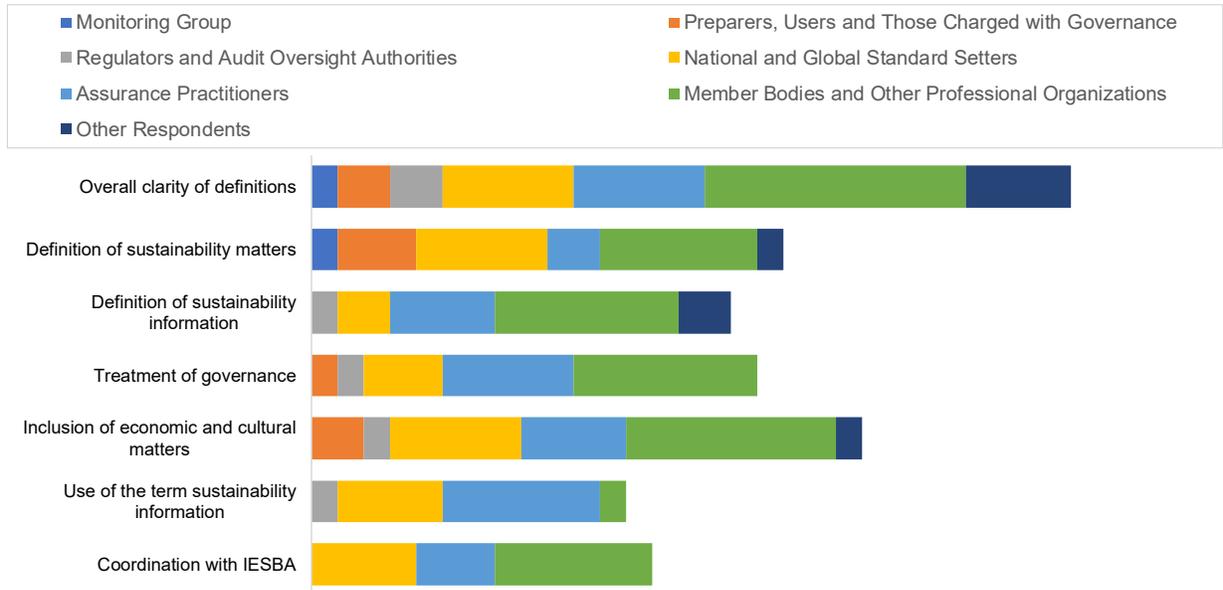
What We Heard

Highlights

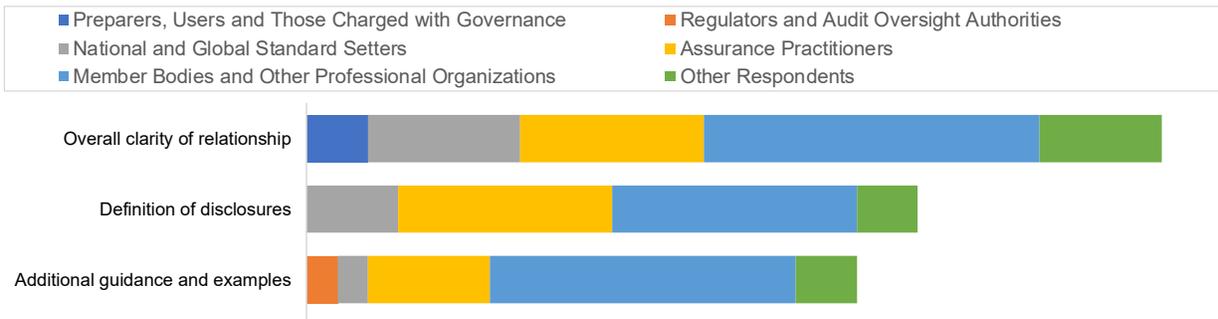
- Support for including “governance” as one of the core elements of the definition of sustainability matters, which would make the definition more consistent with the commonly understood reference to environment, social and governance (ESG) matters.
- Some confusion about the inclusion of “cultural” and “economic” matters in the definition of sustainability matters.
- Concerns about the term “sustainability information” being used inconsistently in ED-5000, with suggestions to use “sustainability information” when referring to the reported sustainability information as a whole and a term such as “sustainability information subject to assurance” when specific clarity is needed in referring to the information that is within the scope of the assurance engagement.
- Strong support for the clarity of the relationship between the terms, and in particular Appendix 1.
- The term “disclosures” may be confused with financial statement disclosures, and therefore suggestions to replace the term with “sustainability disclosures.”

6. The charts below show a breakdown of comments on questions 5 and 6 by theme and stakeholder group.

Definitions of Sustainability Information and Sustainability Matters



Relationship between Sustainability Matters, Sustainability Information and Disclosures



Monitoring Group Comments

7. A Monitoring Group member agreed with the definitions but commented that it is not clear what “economic matters” refer to in a sustainability matters context. Other respondents had a similar view, as noted below.

Other Respondents’ Comments

8. Respondents expressed support for the definitions of sustainability information and sustainability matters, but had specific comments about, or suggestions to improve, the clarity of the definitions.
9. There was widespread agreement among respondents across stakeholder groups that the relationship between sustainability matters, sustainability information and disclosures is clear. Respondents noted the following:
 - (a) These or similar terms are often defined and explained in sustainability reporting frameworks. Therefore, practitioners will most likely be referring to the framework or other applicable criteria as necessary.
 - (b) Appendix 1 of ED-5000, including the diagram, is useful in understanding the relationship among these terms, including topics and aspects of topics. Some respondents had suggestions for revisions to the diagram to improve its clarity. Other respondents recommended including the appendix or the diagram in the body of the standard, or providing additional examples to illustrate the link between sustainability matters and sustainability information. Respondents also suggested providing additional guidance or examples to supplement the list of topics and aspects of topics in paragraph A32 of ED-5000.
 - (c) Although ED-5000 is intended to be framework neutral, the IAASB should consider aligning the diagram in Appendix 1 with the four pillars (Governance, Strategy, Risk Management, and Metrics and Targets) used in certain global sustainability reporting frameworks.
 - (d) The relationship between sustainability matters, sustainability information and disclosures will be further clarified if the suggestions for revisions to the definitions of sustainability matters and sustainability information are taken into account.
10. Specific comments and suggestions provided by respondents on Questions 5 and 6 fell into the key themes summarized below.

Definition of Sustainability Matters

11. Respondents commented that excluding governance as one of the core elements of the definition could result in confusion as the term “ESG” (environmental, social and governance) is widely used and accepted globally.
12. With respect to governance, respondents also noted that:
 - (a) Including governance as a core element of the definition would align with established sustainability reporting frameworks.
 - (b) Governance is more about business conduct and as such may warrant treatment as a topic alongside environment and society.
 - (c) Governance is not only a matter of internal process but a wider issue of how the entity engages with and maintains its relationships with stakeholders.
 - (d) Adding governance as a category would highlight the importance of all aspects of governance, including anti-corruption and anti-bribery, data security and cyber risk.
13. Some respondents supported the broadening of the definition to include economic and cultural matters, noting that this acknowledged the evolving landscape of sustainability matters. However, consistent with the comment from the Monitoring Group member (see paragraph 7 above), respondents across stakeholder groups indicated a lack of clarity about the reference to “economic” as one of the core sustainability matters in the definition. It was noted that “economic” is a broad term that could be confusing because any sustainability topic that relates to the usage or creation of resources will have an economic impact, and “economic” may be interpreted as relating to financial information or the financial statements. These respondents suggested deleting the reference to “economic” in the definition or otherwise providing application material to explain it.
14. Respondents also expressed some confusion about the meaning of “cultural” matters, indicating that this could be viewed as a subset of social matters. These respondents suggested deleting the reference to “cultural” or otherwise providing guidance or examples. Some respondents also pointed out that the definition of sustainability matters does not refer to human rights and is therefore not aligned with global reporting frameworks.

Definition of Sustainability Information

15. Respondents that expressed support for the definition of sustainability information nonetheless commented that:
 - (a) It may help to come up with a different term that will not be confused with the entirety of the sustainability information, some of which may be outside the scope of the assurance engagement.
 - (b) It is not sufficiently clear that sustainability information relates only to information resulting from measuring or evaluating sustainability matters against the applicable criteria. Clarity could be improved by combining the first two sentences of the definition.
16. Respondents that were of the view that the definition lacked clarity noted the following:
 - (a) The term “sustainability information” is not used consistently within ED-5000 and therefore is confusing. For example, the reference to sustainability information in certain requirements

(such as obtaining a preliminary knowledge in paragraph 69) does not align with the statement in the third sentence of paragraph 4 because it is in the context of all sustainability information expected to be reported by the entity rather than the information subject to the assurance engagement.

- (b) While acknowledging the IAASB’s intent to avoid the repeated use of long terms throughout the standard, the need for clarity and understandability takes precedence over length. Some respondents suggested using “sustainability information” when referring to the reported information as a whole and using a term such as “sustainability information subject to assurance” when specific clarity is needed in referring to the information that is within the scope of the assurance engagement.
- (c) The definition is too broad, which may lead to inconsistent application. Clarity could be provided through examples covering different scenarios in practice. Other respondents noted that the definition is too brief and suggested supplementing it with explanations provided in other parts of ED-5000 (e.g., the introduction and scope sections).

Link to Sustainability and Sustainable Development

- 17. Some respondents suggested adding a definition of “sustainability,” noting a perceived misalignment between the ED-5000 definitions and the concepts of “sustainability” and “sustainable development.” In that regard, one respondent noted that using the term “sustainability matters” when referring to information about sustainability-related risks and opportunities could lead to confusion as this diverts away from the globally accepted and used term of “sustainability” as meaning sustainable development in relation to economies, society and the environment.¹
- 18. A few respondents also indicated a lack of clarity in ED-5000 about the relationship of the definitions in ED-5000 to the concept of sustainability-related risks and opportunities in global sustainability reporting frameworks and the effects of those risks and opportunities on the entity’s business model or strategy and on its capability to achieve its goals and targets and to create value. They noted that information about these sustainability-related risks and opportunities (including both dependencies and impacts) is important to users in making decisions about providing resources to the entity.

Other Comments on the Definitions of Sustainability Matters and Sustainability Information

- 19. Respondents also noted or suggested the following:
 - (a) The definitions should not refer to “other IAASB assurance standards” as it is inconsistent with the intent for ED-5000 to be stand-alone and may be misunderstood to mean that other standards also apply to a sustainability assurance engagement.
 - (b) Clarify that the definitions and terminology in ED-5000 are intended to be consistent with similar definitions and terminology in the reporting framework or other applicable criteria. It could be highlighted that practitioners will be guided by the specific terminology in the applicable criteria.
 - (c) The IAASB should continue to work with other standard setters to ensure consistency of definitions and terminology, and interoperability with national laws and regulations. In

¹ Respondents noted that a well-known and widely used definition of “sustainable development” is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (*Brundtland, 1987*)

particular, it will be important to align definitions (in particular, the definition of sustainability information) and terminology with the IESBA proposals to the extent possible to promote consistent understanding and implementation.

Disclosures

20. The minority of respondents that expressed concerns about the clarity of the relationship between sustainability matters, sustainability information and disclosures often pointed to the inconsistent use of “disclosures” in ED-5000. Specific comments included the following:
- (a) The term “disclosures” could be misunderstood or confused with financial statement disclosures, particularly when sustainability information is presented in the same document as the audited financial statements. These respondents suggested changing the term “disclosures” to “sustainability disclosures” and using that revised term throughout ED-5000 to provide clarity. One respondent noted that by doing so the three terms (sustainability disclosures, sustainability information, and sustainability matters) would be presented together in the Definitions section of the standard, which may help with overall understanding of how these terms are related and are to be interpreted.
 - (b) A few respondents also noted a lack of clarity about how disclosures are differentiated from sustainability information (i.e., disclosures are described in Appendix 1 as specific “pieces” of information about an aspect of a topic and therefore in their view are the same as sustainability information).
21. One respondent expressed concern about how “disclosures” is used in ED-5000 when referring to information at a more granular level (e.g., planning and risk procedures). This respondent noted that the ISAs² refer to “classes of transactions, account balances and disclosures” when dealing with more granular information, while ED-5000 has no corresponding term. It was suggested that a term such as “areas” might be helpful.

Observations from the Survey

The survey asked respondents whether they agreed with the terminology for sustainability matters, sustainability information and disclosures in ED-5000. Survey respondents that agreed cited similar points as comment letter respondents, including support for the references to “impacts” in the definition of sustainability matters, and that Appendix 1 is useful in understanding the relationship among these terms.

Those that disagreed noted the following:

- The definition of sustainability matters is inconsistent with certain reporting frameworks by not including governance more prominently.
- The list of sustainability matters in ED-5000 (e.g., paragraph A32) is not sufficiently comprehensive and may therefore limit the perspective of assurance practitioners.
- The terminology and definitions in ED-5000 is trying to capture all information and in doing so is misleading. The use of the word “sustainability” should always mean capturing information about

² International Standards on Auditing

- impacts on people and the planet, otherwise it is not helpful.
- The proposed definition of sustainability matters is written broadly to accommodate the diverse sustainability information that may be reported and in scope for assurance. The definition is positioned at a sustainability topic level (e.g., climate and biodiversity) and not at an entity-wide level covering information such as the reporting entity’s organizational overview, external environment, business model, risks and opportunities, strategy and resource allocation, performance, and governance, all of which are areas required to be disclosed in the reporting entity’s integrated report.
 - The terminology may be clear to those close to the assurance process, but not for users of the assurance report. The distinction seems to be what is in scope for the assurance effort and what is not. This distinction may be clear to the practitioner, but will have no meaning for analysts and end users. It was recommended to include a description of sustainability information in the report, as well as the sustainability information in scope for the engagement.
 - ED-5000 lacks a proper differentiation between dependencies (resources the entity relies on for value creation) and impacts (external effects experienced by other parties due to the entity’s products or services). This distinction is crucial as it forms the basis for many sustainability reporting frameworks. As currently written, there is a risk that the proposed standard may not be neutral regarding reporting frameworks, instead leaning heavily towards what is traditionally considered financial materiality and not adequately addressing the external costs borne by the entity’s stakeholders.

SATF Views and Recommendations

Relevant Paragraphs in Agenda Item 3-H		
Introduction and Requirements	Application Material	Related Definitions
4	A16, A32, Appendix 1	17(a2), 17(h), 17(i), 17(uu), 17(vv)

Definition of Sustainability Matters

22. The SATF is of the view that targeted revisions to the definition of sustainability matters are needed to respond to the comments received. For purposes of the IAASB discussion, the SATF notes the following:
- (a) The SATF and Board previously discussed broadening the definition based on input (from Reference Group #1 and others) that the reference to “ESG” was not consistent with the current environment and evolving views of sustainability matters, as described in paragraph 30 in the EM to ED-5000.
 - (b) Several respondents supported the broader definition in ED-5000, including the treatment of governance. However, respondents across stakeholder groups cited possible confusion from the definition not being in alignment with the definition in sustainability reporting frameworks

and different from what is viewed as a common understanding of sustainability matters (i.e., ESG).

- (c) Respondents that expressed confusion about “economic and cultural” matters indicated that additional clarity could be provided in the application material. However, the SATF is of the view that it may be easier to revise the definition rather than trying to develop additional application material to explain the various components of “sustainability matters.”
23. The SATF further noted that revisions to the definitions of sustainability matters and sustainability information will need to be coordinated with IESBA staff, consistent with the views of respondents to ED-5000 as described in paragraph 19(c) above. Therefore, any proposed revisions to these terms should be considered working definitions only, subject to further revision based on ongoing discussions with IESBA staff.
24. In response to the comments received, the SATF has proposed a revised definition of sustainability matters as shown in paragraph 17(vv) of **Agenda Item 3-H** (reproduced here for ease of reference with deletions in strikethrough and additions underlined):
- (vv) Sustainability matters – Environmental, social and governance ~~economic and cultural~~ matters, including:
- (i) ~~The impacts of an entity's activities, products and services on the environment, society, economy or culture, or~~ How such matters ~~the impacts on the entity's strategy, business model or performance;~~
 - (ii) The impacts of ~~an~~ the entity's activities, products and services on the environment, society, and ~~economy or culture;~~ and
 - (iii) The entity's related ~~performance,~~ plans, goals and targets ~~governance relating to such matters.~~

For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the ~~applicable~~ criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards.

25. In proposing these revisions, the SATF considered the following:
- (a) The SATF agreed with the views of respondents that “cultural” matters can be viewed as a subset of “social”, and that “economic” is a broad term that may be confusing and may lead to an unintended widening of the scope of sustainability matters. Therefore, both “cultural” and “economic” can be deleted.
 - (b) The revised definition is more closely aligned with the definition of sustainability matters in European Sustainability Reporting Standards (ESRS) (shown below for reference) and therefore could be viewed as being less framework-neutral:

Environmental, social and human rights, and governance factors, including sustainability factors defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council.³

³ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

However, on balance, the SATF is of the view that the proposed revised definition is responsive to comments that the definition should be more reflective of the common understanding of “ESG.” The SATF also concluded that “human rights” could be viewed as a subset of “social” and therefore did not include it as a separate element in the revised definition.

- (c) The ISSB standards (e.g., IFRS S1) do not define “sustainability matters” but refer to “sustainability-related financial disclosures” as providing information about the reporting entity’s sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term. Although there is no direct reference to sustainability-related risks and opportunities in the definition of sustainability matters, the SATF noted that “risks and opportunities” are listed as aspects of topics in paragraph A32 of ED-5000. The SATF further noted that the references to impacts on the entity’s strategy, business model or performance may help to address comments about the relationship of the definitions in ED-5000 to the concept of sustainability-related risks and opportunities. In addition, the SATF is of the view that it would be more appropriate to “bridge” the definition in ED-5000 to concepts and terminology in the global sustainability reporting frameworks in implementation or educational materials.

26. The SATF also considered whether a more appropriate way to address the mixed views, and lessen the debate about whether specific points should or should not be included in the definition, would be to present a simpler and more straightforward definition of sustainability matters limited to the “core” elements of environmental, social and governance matters. If that alternative approach was followed, the definition would be as follows:

- (vv) Sustainability matters – Environmental, social, and governance matters. For purposes of the ISSAs, sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of “underlying subject matter” in other IAASB assurance standards.

Additional details, including the double materiality notion of impacts, risks and opportunities, could be addressed in the application material. This alternative approach would still be aligned, at a high level, with global sustainability reporting frameworks. It may also help with matters of alignment or consistency of terminology in the IESBA Code.

Definition of Sustainability Information

27. In response to the comments received, the SATF has proposed a revised definition of sustainability information as shown in paragraph 17(uu) of **Agenda Item 3-H** (reproduced here for ease of reference with deletions in strikethrough and additions underlined):

- (uu) Sustainability information – Information ~~about sustainability matters. Sustainability information~~ that results from measuring or evaluating sustainability matters against the applicable criteria.

For purposes of the ISSAs, sustainability information reported by the entity and that is the subject of the assurance engagement is the equivalent of “subject matter information” in other IAASB assurance standards. Sustainability information not subject to the assurance engagement that is included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon is other information. (Ref: Para. A32)

28. The proposed revisions to this definition are responsive to comments received and are intended to:

- (a) Shorten the core definition by more directly referencing information that results from measuring or evaluating sustainability matters against the criteria.
 - (b) Address confusion with the perceived inconsistent use of the term in paragraph 4 of ED-5000 (see related revisions to that paragraph in **Agenda Item 3-H**). The SATF agrees with respondents that noted that “subject matter information” is commonly viewed as the information that is the subject of the assurance engagement. Therefore, the proposed revisions are more aligned with ISAE 3000 (Revised)⁴ and the EER Guidance.⁵
 - (c) By moving the last sentence of paragraph 4 of ED-5000 to the definition, help to differentiate the sustainability information subject to the assurance engagement (i.e., the subject matter information) from sustainability information reported but not subject to the assurance engagement (i.e., other information).
29. The SATF did not support using the term “sustainability information subject to assurance” throughout the proposed standard, as suggested by some respondents. The SATF was of the view that the changes to the definition, coupled with the proposed changes to paragraph 4 of proposed ISSA 5000, would help to address the comments without the need to use the longer term throughout the standard. However, the SATF will consider whether there may be places in the standard where it may be necessary to revise the wording or to specifically refer to “sustainability information subject to assurance” for clarity.

Definition of Criteria

30. The SATF also has proposed revising the definition of criteria and creating a separate definition of “applicable criteria” (see paragraph 17(a2) of **Agenda Item 3-H**). Although this was suggested by only one respondent, it is consistent with the change to the definitions of sustainability information and sustainability matters to refer to “criteria” instead of “applicable criteria,” which was suggested by other respondents to help differentiate between sustainability information as a whole and sustainability information subject to assurance. The reference to “criteria” is also consistent with the definitions of subject matter information and underlying subject matter in ISAE 3000 (Revised).

Definition of and Reference to Disclosures

31. Based on a suggestion from respondents, the SATF made the following minor revision to the definition of disclosures in paragraph 17(i) of **Agenda Item 3-H** to align the wording with Appendix 1:

Disclosure(s) – Specific sustainability information ~~related to~~ about an aspect of a topic. (Ref: Para. A15-A16)

32. The SATF and Board previously discussed whether to change the term “disclosures” to “sustainability disclosures” based on input that “disclosures” could be confused with financial statement disclosures. The agreed approach for ED-5000 was to add application material (paragraph A16) to explain that the term “disclosure(s)” as used in this ISSA is not intended to have the same meaning as “financial

⁴ ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

⁵ Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements

statement disclosures” as defined or described in financial reporting frameworks.

33. Respondents found this application material helpful, but some respondents expressed concerns that the term “disclosures” could be misunderstood or confused with financial statement disclosures. One respondent suggested moving paragraph A16 to the definition of disclosures to further illustrate the relationship of sustainability information and disclosures.
34. After considering the comments received, the SATF has not changed the term to “sustainability disclosures.” The SATF remains of the view that there is no other way to interpret the use of the term “disclosures” in proposed ISSA 5000 as a stand-alone assurance standard other than in the context of disclosures about aspects of topics of sustainability matters (i.e., the sustainability information comprises a set of disclosures).
35. The terms “disclosure,” “disclosures,” or “disclosure(s)” are used more than 300 times throughout the standard. If a change was made, it may not be necessary to add “sustainability” in each of these instances. As an alternative, the SATF discussed looking at the places where the term is used in the standard and considering whether the reference to “disclosures” in that context may imply something other than the defined term (i.e., may be confused with financial statement disclosures). If any such circumstances are identified, different wording could be used for clarity.
36. The SATF also considered, but rejected, moving the application material in paragraph A16 to the definition. Although doing so may make the point more prominent, it is merely geography and is better kept as application material.

Appendix 1

37. The SATF has proposed limited changes to paragraph 3 in Appendix 1 of **Agenda Item 3-H** to clarify the wording. These changes should be considered by the Board along with proposed changes to the acceptance and continuance section of the standard, particularly the preliminary knowledge in paragraph 69 of **Agenda Item 3-H**, and references to the entity’s “materiality assessment.”
38. Staff and the SATF will consider the more detailed suggestions from respondents on the diagram in paragraph 2 of Appendix 1 and will share an updated version of the diagram with the Board for discussion in June. This will include consideration of the suggestion from respondents to consider aligning the diagram in Appendix 1 with the four pillars (Governance, Strategy, Risk Management, and Metrics and Targets) used in certain global sustainability reporting frameworks (see paragraph 9(c) above).
39. The SATF discussed the suggestions from some respondents to integrate the Appendix into the body of the standard. The view of the SATF is that the best approach is to leave the material in the Appendix, while updating the diagram and making other revisions as needed.
40. Respondents also asked for additional practical examples of disclosures (including about specific topics and aspects of topics in paragraph A32 of ED-5000). The SATF noted that it may be best to provide such examples in implementation or educational materials.

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 above, and in particular:
 - (a) The definition of sustainability matters (paragraphs 24-28 above).
 - (b) The definition of sustainability information (paragraphs 29-31 above).
 - (c) The definition of and reference to disclosures (paragraphs 33-38 above).