

Submitted via IAASB website

Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York, United States

RE: Comment Letter to the IAASB on its Proposed International Standard on Sustainability Assurance (ISSA) 5000 - *General Requirements for Sustainability Assurance Engagements*

Dear Mr Seidenstein:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Auditing and Assurance Standards Board's (IAASB) Exposure Draft, the Proposed International Standard on Sustainability Assurance (ISSA-5000) - *General Requirements for Sustainability Assurance Engagements*.

The IAIS has a strong interest in promoting high-quality auditing and professional standards for assurance providers and is supportive of the work of the IAASB in setting such standards.

The IAIS' Climate Risk Steering Group (CRSG) addresses climate-related risks that impact the insurance industry. The CRSG is tasked with coordinating the overall IAIS strategy to address climate-related risks, focusing on increasing awareness amongst insurance supervisors of the accelerating transition and physical risks associated with climate change and on ensuring that insurers take appropriate action to mitigate these risks.

As the IAASB works on finalising the proposed ISSA-5000, it may wish to consider the following points:

General comments

The IAIS recognises that sustainability reporting is rapidly becoming a topic of global importance and that its reliability is a key issue for a diverse range of stakeholders. The IAIS understands that timeliness is one of the significant constraints for this project, given that such requirements for sustainability assurance are to be agreed upon in the near future.

The IAIS, therefore, supports the IAASB's timely issuance of ISSA-5000 in response to the public interest need. We also encourage the IAASB to continue to move forward with this sustainability project by allocating it sufficient resources. This is all the more important given that sustainability frameworks are new, and that insurers' disclosures and the type and scope of assurance will likely develop over time.

The IAIS views this work as critical, given that assurance over climate disclosures will enhance the quality and verifiability of climate-related information, which will, in turn, increase the trust in such disclosures of market participants. This is relevant to insurers both as preparers and users of disclosures. Insurers may be better prepared to manage climate risks when they receive high quality and reliable disclosures from their stakeholders.

Approach to assurance

The IAIS believes that an international sustainability assurance standard that is principles-based but provides sufficient detail to promote consistent application and behaviour by all assurance practitioners can positively contribute to high assurance quality. The IAIS also supports:

- The IAASB's approach to produce a single standard that is profession agnostic, takes account of different potential users and covers both limited and reasonable assurance engagements;
- The IAASB's adherence to the complexity, understandability, scalability and proportionality drafting principles and guidelines when developing ISSA-5000. This will help ensure consistent application of ISSA-5000 regardless of the nature, size and complexity of the insurer, which is in line with the IAIS' response to the IAASB's Exposure Draft - ISA 570 *Going concern*; and
- The proposed approach that all assurance providers should be held to the high common standards for ethics and quality management. In addition, we believe that the requirements of the International Standards on Auditing (ISA) provide an adequate framework for assurance for sustainability reporting.

Recommendations

The IAIS recommends that the IAASB consider taking steps to expand and clarify the requirements and application material in areas such as estimates, groups and fraud. For example, the IAIS recommends that the IAASB consider elevating application guidance on significant data, methods and assumptions to the standard level (as in ISA 540 (revised) Auditing accounting estimates and related disclosures). The IAIS also suggests that the IAASB consider whether it would be beneficial to users of sustainability information to address key audit and assurance matters ("KAAMs") in a limited manner, for example where reasonable assurance is provided for listed entities. In addition, the IAIS suggests some enhancements related to communication, including communication with regulatory bodies and with an insurer's statutory auditor.

The annex to this letter provides further detail and responses to those questions raised in the ISSA-5000 Exposure Draft, where the IAIS had specific comments.

This comment letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG), chaired by Markus Grund of BaFin, in consultation with IAIS Members. If you have further questions regarding this letter, please contact Lydia Kimumwe at the IAIS Secretariat (tel: +41 61 280 8679; email: lydia.kimumwe@bis.org).

A handwritten signature in black ink, appearing to read "Shigeru Ariizumi".

Shigeru Ariizumi
Chair, Executive Committee

A handwritten signature in black ink, appearing to read "Matt Walker".

Matt Walker
Chair, Policy Development Committee

About the IAIS

The IAIS is a global standard-setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions. Learn more at www.iaisweb.org.

Annex – Specific Questions

Question 4. Is ISSA-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?

The IAIS believes that the standard can benefit from providing greater clarity on what is meant by “at least as demanding” to foster greater consistency in its application across audit and non-audit practitioners. For example, it may not be clear whether all requirements of the relevant IESBA codes or ISQM1 should be applied in the application of ISSA-5000 or whether insurers should apply only material elements. If only some key elements are required, then the standard could be clearer in identifying these and listing what actions should be taken when gaps are identified.

Question 7. Does ISSA-5000 provide an appropriate basis for performing both limited assurance and reasonable assurance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the assurance engagement? If not, what do you propose and why?

Yes. The IAIS believes that ISSA-5000 provides an appropriate basis for performing both limited assurance and reasonable assurance engagements. We also agree with the IAASB’s approach to produce a single standard that covers both limited and reasonable assurance engagements.

Question 12. Do you agree with the approach in ISSA-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?

The IAIS agrees in general terms with the approach taken by ISSA-5000 whereby the practitioner determines materiality (including performance materiality) for quantitative disclosures and the need to consider materiality for qualitative disclosures. The examples provided of factors that may be relevant to the practitioner’s consideration of materiality for quantitative disclosures (A279-A281) and qualitative disclosures (A278) are relevant.

Question 13. Do you agree with the differentiation in the approach in ISSA-5000 for obtaining an understanding of the entity’s system of internal control for limited and reasonable assurance engagements? If not, what suggestions do you have for making the differentiation clearer and why?

The IAIS agrees that in relation to understanding the system of internal control in ISSA-5000, it makes sense for there to be a differentiation in the requirements for limited and reasonable assurance engagements. This reflects the different responsibility of the assurance provider in each case, with a more detailed understanding of the entity’s internal control system likely to be necessary in the latter case.

Question 16. Do you agree with the approach to the requirements in ISSA-5000 related to estimates and forward-looking information? If not, what do you propose and why?

The IAIS suggests that the IAASB consider elevating application guidance on significant data, methods and assumptions to the standard level (as in ISA 540 (revised) *Auditing accounting estimates and related disclosures*) to ensure that the standard places appropriate requirements on assurance practitioners and ensures they are held to a standard equivalent to that of an auditor under ISAs.

In addition, the IAIS suggests aligning the use of “shall” with ISA 540 (revised) to strengthen and more closely align the requirements where relevant.

Question 18. Recognizing that ISSA-5000 is an overarching standard, do you agree that the principles-based requirements in ISSA-5000 can be applied for assurance engagements on the sustainability information of groups or in other circumstances when “consolidated” sustainability information is presented by the entity? If not, what do you propose and why?

The IAIS believes that there would be value in the IAASB considering taking certain steps to expand and clarify the requirements and application material to ensure more consistent application when carrying out engagements on sustainability information of groups or, in other circumstances, when information may be disclosed relating to entities outside an insurer’s accounting reporting boundary (eg about entities in its value chain). For example, we recommend examining the extent to which certain concepts of ISA 600 (revised) *Special considerations – audits of group financial statements (including the work of component auditors)* should be added to the principle-based requirements in ISSA-5000.

Question 19. Do you agree that ISSA-5000 appropriately addresses the topic of fraud (including “greenwashing”) by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

The IAIS welcomes the references to fraud in the requirements and application material that are noted in paragraph 109 in the explanatory memorandum and that highlight a practitioner’s consideration of the risks of material misstatements due to fraud and responding appropriately. The reference to fraud could also be clarified within ISSA-5000. The use of examples promotes consistent practice and behaviour amongst practitioners. The IAIS recommends that the IAASB considers ISA 240 (*The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*) to determine whether there are any key requirements that should be added to ISSA-5000 to ensure assurance practitioners are held to an appropriate standard.

Question 20. Do you support the high-level requirement in ISSA-5000 regarding communication with management, those charged with governance (TCWG) and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

The IAIS is supportive of ISSA-5000 addressing communications with TCWG, along with the related application material, given the evolving nature of sustainability assurance engagements and the different topics that may be disclosed by the entity.

We would, however, suggest some enhancements, including on communicating with regulatory bodies and with an insurer's statutory auditor. The latter is important given the connectivity between climate disclosures and an insurer's financial statements.

Question 22. Do you agree with the approach in ISSA-5000 of not addressing the concept of "key audit matters" for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?

While the IAIS agrees that the requirement to include KAAMs would not be relevant for all sustainability assurance engagements, we recommend that the IAASB consider whether it would be beneficial to users of sustainability information if ISSA-5000 would address KAAMs in a limited manner. That is, at least for engagements of listed entities where reasonable assurance is provided. We also recommend that the IAASB consider extending the requirement to reasonable assurance engagements for public interest entities as defined by local jurisdictions, particularly for unlisted insurers.