

RESPONSE TO CONSULTATION ON PROPOSED IAASB INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE (ISSA) 5000

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.8 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

Reporting on sustainability information has become a matter of global importance and the reliability of such reporting is a key issue for many stakeholders.

IA members invest on behalf of millions of savers in the UK and around the world, seeking investments that deliver long-term value. Investors are increasingly taking a more holistic approach to assess the enterprise value of their existing and potential investee companies that involves a wide range of material sustainability issues including environmental, social and governance (ESG) issues which present risks and opportunities to the long-term value of the company. This approach is reliant on investors having access to meaningful, comparable and consistent sustainability reporting. Without such disclosures, investors are not able to factor these material issues into their investment and stewardship processes, reducing the efficiency of asset valuations. Hence, the need to provide a global baseline for sustainability assurance engagements that will increase the confidence in consistency, harmony and comparability of sustainability reporting.

The ISSA 5000 follows the work of the ISSB to develop standards for a global baseline of sustainability disclosures that facilitates interoperability across jurisdictional reporting requirements and enable users of financial reporting to assess the effects of sustainability-related risks and opportunities on enterprise value. The ISSA 5000 aims to represent a global sustainability assurance standard to enhance the confidence intended users (such as investors and other stakeholders) have in sustainability information reported by entities.

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We welcome the IAASB effort to define an overarching standard for sustainability assurance and we appreciate that IAASB consulted ISSB to ensure compatibility. However, we would like to draw the IAASB's attention to the need for any proposed definitions to be interoperable with national laws and regulations and adaptable to sustainability information shared by any entity across industry and sector, regardless of the applicable international reporting framework. This interoperability is increasingly important to ensure that standards can be applied across a range of different regimes. In addition, we would appreciate if the IAASB could recognise the potential challenges for users to understand, compare, and assess the reliability and completeness of the assured disclosures. We would like to call for more transparency and clarity from assurance providers on what has been assured and how. Finally, we would encourage the IAASB to collaborate with local audit regulators on the adoption of this standard. This collaboration is crucial to ensure the effective implementation and widespread acceptance and adoption of the standard.

Perception of compatibility between sustainability disclosure standards and sustainability assurance standards (ISSA-5000)

The ISSB standards focus on sustainability-related risks and opportunities that could affect an entity's financial position, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. IA members as global investors, investing in companies around the world have supported the ISSB standards and are seeking their global adoption, so there is a globally comparable reporting standard for all companies. This will help to deliver consistent and decision useful sustainability reporting.

ISSA 5000 adopts a broader view and is developed on the basis that it can be applied for all reporting mechanisms and all sustainability topics (such as environmental, social, economic and cultural matters) and aspects of such topics (such as risks and opportunities, governance, processes, strategy, scenario analysis and KPIs), leaving the entity the discretion to decide what sustainability information is relevant for its stakeholders.

We have noted some difference in the terminology to define "sustainability information" where ISSA-5000 includes several different definitions while ISSB refers to "sustainability-related financial disclosures". We encourage the IAASB to recognise that the differences in language and terminology between the two standards, ISSA-5000 and ISSB, could create a perception of incompatibility. This perceived incompatibility could potentially discourage entities from adopting the ISSB reporting standard or ISSA assurance standard. However, it's important for the IAASB to stress that these differences in terminology should not act as a deterrent to the adoption of the ISSB standard. Furthermore, we encourage IAASB to clearly communicated that the ISSA-5000 standard is indeed applicable and compatible with the ISSB standard.

The perception of incompatibility also extends to the concept of materiality, as the ISSA 5000 supports the assurance of both single and double materiality disclosures, which means that it considers both the impact of the entity's activities on its financial position and the impact of its activities on the environment, society, and other stakeholders. The ISSB, on the other hand, uses a single materiality approach, which means that it focuses only on the impact of the entity's activities on its financial position.

It's crucial for the IAASB to ensure that any definition proposed is interoperable with national laws and regulations, adaptable to sustainability information shared by any entity across industry and sector, and consistent with the applicable international reporting framework. This is increasingly important to ensure this standard is interoperable with a range of different regimes and framework-neutral, so that it can be used for assurance on sustainability information prepared using any framework criteria (ISSB, CSRD, ESRS, SEC etc), entity-developed criteria or a combination of both. For example, the European Sustainability Related Standards (ESRS) are currently being transposed into national laws by EU member states, so preparers and their investors will be seeking appropriate assurance.

As sustainability disclosures continue to evolve, the assurance standard must remain relevant and adaptable, taking into account the latest developments in sustainability practices and the changing needs of the users.

We recognise that the IAASB have worked with ISSB to develop the standard. It will be important for IAASB to clearly communicate the interoperability of the assurance standards with all reporting standards including ISSB to encourage all preparers to get their sustainability reporting appropriately assured.

Limited and reasonable assurance

The proposed ISSA 5000 is a principles-based, overarching standard suitable for both limited and reasonable assurance engagements on sustainability information reported across any sustainability topic. When assurance practitioners review sustainability information, they aim to make sure that the information is accurate and trustworthy. They do this by obtaining either reasonable assurance or limited assurance. The assurance practitioner designs and performs procedures to obtain evidence about whether the sustainability information is free from material misstatement. Misstatements may be qualitative or quantitative and include omitted information or information that obscures or is misleading. The IA welcomes the approach the IAASB has taken in defining and differentiating the practitioner's work effort for limited and reasonable assurance which translated in different level of confidence users can get from an assured sustainability report. Reasonable assurance provides a higher level of confidence than limited assurance, as it involves more extensive and rigorous procedures to collect and evaluate evidence, recognising the need and demand for different levels of assurance in certain jurisdictions.

While ISSA-5000 offers guidance to assurance practitioners on the procedures for limited and reasonable assurance engagements, users of sustainability reporting may still face challenges. Understanding the difference between limited and reasonable assurance can be difficult for users, leading to potential misinterpretation. They might assume both assurance levels offer the same degree of confidence in the reliability of sustainability disclosures, which could result in decisions based on incomplete or inaccurate information.

Comparability of sustainability disclosures also presents a challenge. The level and quality of assurance can vary depending on the assurance provider, framework, and professional standards applied. This variation can reduce the usefulness and comparability of the sustainability information, impacting users' ability to assess the entity's exposure to sustainability-related risks and opportunities, and its impact on enterprise value.

To address these challenges, we recommend that the IAASB integrate the need for assurance providers to clearly communicate what has been assured, the degree of assurance provided and what the assurance encompasses into their standards. This transparency would allow users to better understand the reliability and completeness of sustainability disclosures, empowering them to make informed decisions. It also enhances the credibility of the sustainability disclosures, fostering trust between the entity and its stakeholders.