

Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting



OICU-IOSCO

The Board

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Executive Summary

The International Organization of Securities Commissions' (IOSCO) work on assurance and ethics (including independence) standards over sustainability-related corporate reporting has been led by a dedicated workstream under its Sustainable Finance Taskforce (STF). Through 2022, IOSCO gathered feedback from key stakeholder groups (investors, issuers, and assurance providers), holding two global roundtables and conducting targeted fact-finding exercises across multiple jurisdictions. IOSCO has also engaged actively with the international assurance and ethics (including independence) standard setters: the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) (often referred to collectively as 'the standard setters' throughout this report).

Overall, stakeholders have expressed strong support for IOSCO to play a key role in coordinating and promoting global consistency in the assurance of sustainability-related information. They have encouraged further engagement and capacity building across the ecosystem. In this report, we often use the term a 'global assurance framework' to refer jointly to the assurance and ethics (including independence) standards for sustainability-related corporate reporting.

Current landscape and future expectations

From its fact-finding and engagement with stakeholders across the ecosystem, IOSCO has noted several features of the assurance landscape today. Currently, some issuers voluntarily seek independent assurance over sustainability-related reporting, often for a subset of information, such as greenhouse gas (GHG) emissions or reporting under the Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. Larger issuers are more likely to seek assurance on their sustainability-related reporting and this is most often limited assurance.

Independent assurance may be provided by either audit firm or non-audit firm assurance providers. This report refers to 'audit firms' as the Global Public Policy Committee (GPPC) member accounting firms (Deloitte, EY, PwC, KPMG, Grant Thornton and BDO) and other professional accountants; and refers to 'non-audit firm assurance providers' as others such as ISO Certified providers, specialist firms, consultancy firms etc. that do not provide audit services over financial statements, and other non-professional accountants. Non-audit firm assurance providers are often engaged to assure more specialised information, such as sustainability-related metrics. Different standards are also used. For example, the International Standard on Assurance Engagements (ISAE) 3000 (Revised) is typically used for assurance engagements on general purpose sustainability-related reporting, while others, such as International Organization of Standardization (ISO) 14064-3, are used by some non-audit firm assurance providers for assurance over more targeted information.

The regulatory landscape today is mixed. Some jurisdictions have indicated an intention to consider voluntary or mandatory assurance over sustainability-related information in future, while others have set requirements for limited assurance on (at least some) sustainability-related information (e.g., New Zealand) or indicated a gradual approach towards reasonable assurance (e.g., the European Union (EU)).

IOSCO has also observed growing demand among investors for high-quality assurance over some sustainability-related information to enhance the reliability of corporate reporting.

investors typically see reasonable assurance as the long-term target, especially in respect of metrics such as those related to GHG emissions. However, many think that limited assurance may be the more realistic objective in the short term. Investors see consistent and comparable application of assurance and ethics (including independence) standards for sustainability-related information as key to supporting high-quality assurance engagements.

Responding to the needs of investors and other stakeholders, the standard setters are developing profession-agnostic standards for assurance and ethics (including independence) to support assurance over sustainability-related corporate reporting. The emerging standards will be designed to apply across all reporting frameworks (i.e. ‘framework-neutral’), and irrespective of whether reporting is investor-focused or directed to the information needs of wider stakeholders.

The IAASB is developing an overarching standard for assurance on sustainability-related reporting – the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. ISSA 5000 is developed as a stand-alone standard that leverages existing standards and guidance of the IAASB, such as ISAE 3000 (Revised) and ISAE 3410. The standard will address all the elements of an assurance engagement for both limited and reasonable assurance, including providing more specificity for certain priority areas. The IESBA is developing ethics (including independence) standards to support trustworthy assurance over sustainability-related information, regardless of whether such assurance is delivered by professional accountant or non-professional accountant assurance providers.

Both standard setters aim to issue exposure drafts by the end of 2023 (September 2023 for the IAASB and December 2023 for the IESBA), with a view to finalising their standards by late 2024. Early engagement across the reporting ecosystem with the standard setters on these initiatives would allow preparers and assurance providers to familiarise themselves with the content ahead of the end-2024 financial reporting period.

Considerations for globally coordinated actions to meet investors’ needs and expectations

In September 2022, IOSCO issued a statement welcoming the standard setters’ planned work to develop profession-agnostic assurance and ethics (including independence) standards for assurance over sustainability-related corporate reporting.

This report elaborates on the priority areas for standard setters’ consideration and presents further considerations for other stakeholders across the reporting ecosystem. These are preliminary considerations and may be revisited over time as IOSCO continues to engage with stakeholders on this topic. These considerations are presented under six themes – see Figure 1 and accompanying Table 1.

Figure 1. Overview of Considerations

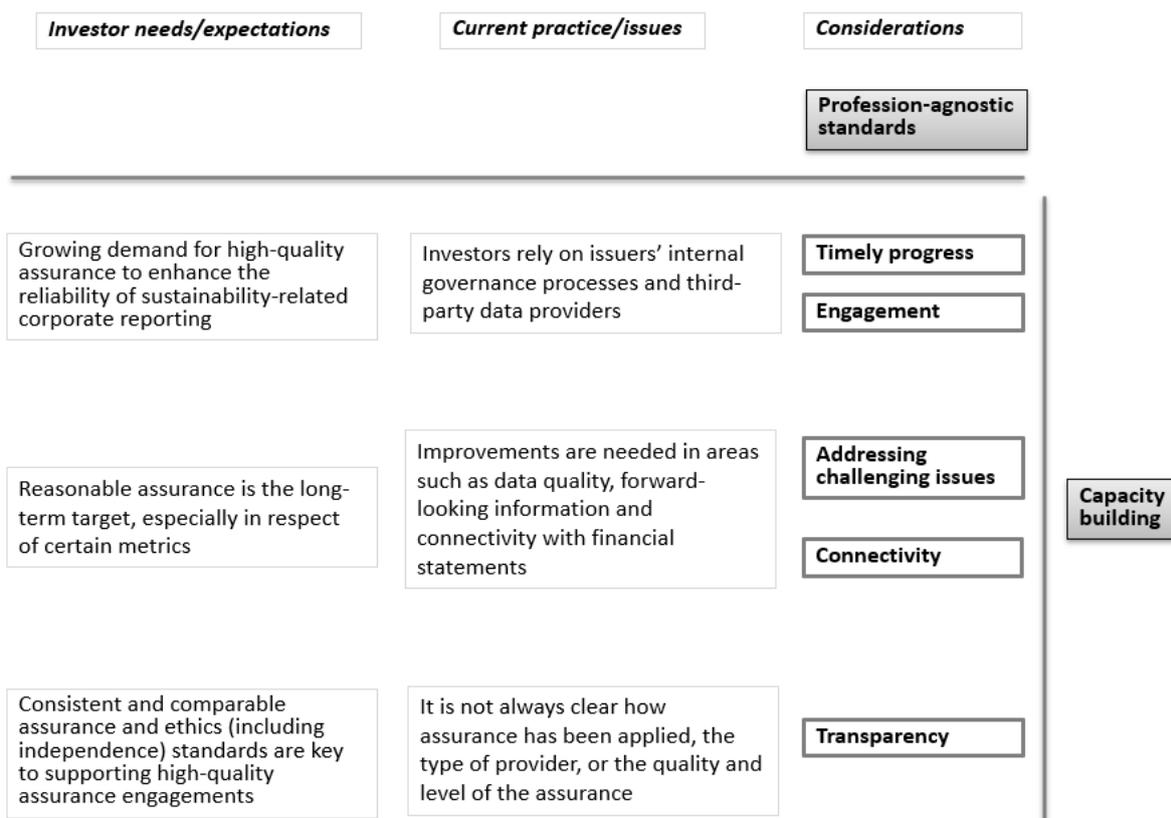


Table 1. Overview of Considerations

Profession-agnostic standards	
Issuers/Assurance providers/Standard setters	<p><i>IOSCO is encouraged by the trend towards issuers' submitting their sustainability-related disclosures for independent assurance.</i></p> <p><i>IOSCO welcomes the standard setters' work towards profession-agnostic assurance and ethics (including independence) standards that build on the requirements and principles of existing standards, and that can apply across all reporting frameworks.</i></p> <p><i>The further development of a global assurance framework will provide insight to issuers and assurance providers as they prepare for assurance engagements and support consistent, comparable, and reliable assurance over sustainability-related information.</i></p>
Timely progress	

Issuers/Assurance providers	<i>IOSCO encourages early engagement with the standard setters' initiatives across the sustainability reporting ecosystem to support readiness to apply the final assurance and ethics (including independence) standards soon after they have been finalised in late 2024, including on a voluntary basis.</i>
Standard setters	<i>IOSCO encourages the standard setters to continue work to develop high-quality standards in a timely manner and in accordance with robust due process, engaging with stakeholders to help develop standards that are fit for purpose and meet the public interest.</i>
Engagement	
Issuers/Assurance providers	<i>IOSCO encourages issuers and assurance providers to engage with, and provide feedback to, the standard setters, throughout the development of the standards.</i>
Standard setters	<i>IOSCO encourages the standard setters to continue engaging with stakeholder groups across the ecosystem, including in emerging markets.</i> <i>IOSCO suggests establishing arrangements to support coordination between the IAASB, the IESBA and providers of other relevant frameworks and standards, within the parameters of existing governance, due process and public interest mechanisms.</i>
Addressing challenging issues	
Issuers	<i>IOSCO is encouraged by the increased understanding of the type of high-quality sustainability-related information and analysis that is most helpful to assurance providers' ability to complete their work, and encourages continued dialogue on this issue, including among audit committees.</i>
Assurance providers	<i>IOSCO encourages consultation with other stakeholder groups across the ecosystem to share information and experience on practices and approaches that can effectively address challenging reporting issues.</i>

Standard setters	<p><i>IOSCO encourages the standard setters to address challenging issues in developing their standards, leveraging existing frameworks where possible.</i></p> <p><i>IOSCO encourages the standard setters to consider input from investors, regulators and other stakeholder groups identified in this report, including those in emerging markets, developing additional guidance as necessary as practice develops.</i></p>
Connectivity	
Issuers	<p><i>IOSCO encourages audit committees to assess how well sustainability-related reporting and the financial report work together to describe the issuer’s material risks, strategies and prospects.</i></p>
Assurance providers	<p><i>IOSCO encourages assurance providers to consider the connectivity between sustainability-related information in the narrative sections of companies’ reporting and the financial statements.</i></p>
Standard setters	<p><i>IOSCO encourages the assurance and ethics (including independence) standard setters to continue to engage with the International Sustainability Standards Board (ISSB) and the International Accounting Standards Board (IASB) to ensure the reporting standards have regard to the assurability of sustainability-related information.</i></p>
Transparency	
Issuers	<p><i>IOSCO encourages audit committees to support assurance providers in meeting their responsibilities, which may include reporting deficiencies, uncertainties and key assumptions.</i></p>
Assurance providers	<p><i>IOSCO encourages assurance providers to support investors’ understanding of the scope and nature of the assurance carried out, including by specifying the elements assured and the standards applied, and applying consistently relevant transparency requirements in the assurance and ethics (including independence) standards.</i></p>

Standard setters	<p><i>IOSCO encourages the IAASB to set clear reporting requirements that promote transparency around the assurance engagement, including disclosure of the standards and requirements applied.</i></p> <p><i>IOSCO encourages the IESBA to establish clear transparency requirements to enable audit committees and other stakeholders to assess the independence of assurance providers.</i></p>
Capacity building	
Issuers	<p><i>IOSCO encourages audit committee members and other directors to support the building and maintaining of appropriate knowledge of sustainability-related reporting and assurance, and related skills, tools and analytical capabilities.</i></p>
Assurance providers	<p><i>IOSCO encourages assurance providers to continue to build capabilities and upskill in this area.</i></p>
Standard setters	<p><i>IOSCO encourages the standard setters to continue their:</i></p> <ul style="list-style-type: none"> • <i>outreach work, including with key stakeholder groups, accounting and other relevant bodies, and providers of education</i> • <i>development of guidance, as needed</i> • <i>consideration of the needs of emerging markets and other stakeholders that may be less familiar with assurance over sustainability-related information.</i>

IOSCO's role

IOSCO encourages the entire sustainability reporting ecosystem to consider this report as it readies for new international sustainability-related reporting standards and associated assurance over sustainability-related information.

IOSCO will continue its work, including engagement with stakeholders, with a focus on the following key areas:

Timely progress

IOSCO welcomes the standard setters' progress and will consider whether their standards constitute a robust and effective global framework for assurance that meets investors' needs and expectations.

The standard setters have committed extensive resources to the development of high-quality international, profession-agnostic assurance and ethics (including independence) standards to support assurance over sustainability-related information.

The standard setters' aim, reiterated at IOSCO's December 2022 roundtable, is to complete the work by late 2024. Through early engagement with the standard setters' work, issuers and assurance providers may be able to familiarise themselves with the standards such that they are able to apply them, at least voluntarily, soon after they are finalised.

IOSCO has previously stated that it would like to see both international sustainability-related corporate reporting standards and international sustainability-related assurance and ethics (including independence) standards ready for use for the end-2024 financial reporting period. IOSCO also emphasizes that the process for developing these standards must be transparent and the standard setters must adhere to robust due process that uses the Public Interest Framework as an integral part of their standard-setting process.

In addition, IOSCO recognises that once the reporting, assurance and ethics (including independence) standards are developed, application dates may be later in some jurisdictions due to domestic standard setting and consultation periods. In some cases, the standards may be available for use on a voluntary basis.

It is desirable that all three sets of standards be available for at least voluntary reporting and assurance in a timely manner, without compromising quality in the standard-setting process. IOSCO therefore encourages pace in this area, subject to established robust due processes ensuring the development of high-quality standards.

IOSCO may consider whether the final assurance and ethics (including independence) standards could form a sound basis for assurance engagements over general purpose sustainability-related reporting. To do so, IOSCO will need to consider whether the standards are sufficiently robust to support assurance engagements that meet investors' needs for reliable information. If considered fit for purpose, IOSCO could encourage members to assess the extent to which they might adopt, apply, or otherwise be informed by the standards on a voluntary or mandatory basis in their jurisdictions.

Engagement

IOSCO will continue its engagement with reporting, assurance and ethics (including independence) standard setters and use its convening role to bring stakeholders together.

IOSCO will continue to engage actively with the standard setters as they work towards delivering to their timeline. In addition, IOSCO will continue to engage with other key stakeholders, including the ISSB. IOSCO expects to use its convening role to bring stakeholders together as appropriate.

Capacity building

IOSCO will continue to support capacity building on sustainability-related information across the ecosystem.

IOSCO will explore how to embed assurance into its existing capacity building programme for the implementation of the ISSB's standards, and consider its role in supporting the development of technical expertise across key stakeholder groups. As part of this, IOSCO will consider the role of technology in helping to support the development of systems, processes and data analytics tools that can help support an effective reporting and assurance ecosystem.

Role of securities regulators and other relevant authorities

IOSCO will support securities regulators and other relevant authorities' consideration of assurance and ethics (including independence) standards.

To foster effective implementation of the standards globally, IOSCO will support securities regulators as they consider how to adopt, apply or otherwise be informed by the standards.

Within their respective jurisdictions, securities regulators may also wish to engage with other relevant authorities that have a role to play in the implementation of assurance and ethics (including independence) standards, including the oversight of assurance by both audit firm and non-audit firm assurance providers.

Important considerations for securities regulators and other relevant authorities in the implementation of such expectations will be: (i) the scaling and phasing of any new requirements or, where appropriate, encouraging voluntary use, taking account of matters such as the size, nature and sustainability-related profile of the reporting entity and the overarching objective of ensuring consistent, comparable and reliable sustainability-related information that meets investors' needs; and (ii) how to help issuers manage liability and other risks as they begin to build capabilities and adapt to new reporting and assurance expectations.

1. Introduction

This report sets out IOSCO’s vision for a global assurance framework for sustainability-related corporate reporting. It summarises the insights from IOSCO’s fact-finding work on assurance over sustainability-related information, elaborating on the priority areas for the international assurance and ethics (including independence) standard setters’ consideration highlighted in IOSCO’s September 2022 statement¹. The report also sets considerations for other stakeholders.

1.1. Assurance as part of a comprehensive sustainability-related corporate reporting framework

IOSCO’s work on assurance builds on its vision² for a global framework of high-quality sustainability-related reporting standards to meet investors’ need for consistent, comparable and reliable information. IOSCO considers the development of a robust, global assurance framework as an important part of the ecosystem towards reliable corporate reporting practices.

1.2. IOSCO’s work to date

Alongside its review of a global framework of sustainability-related reporting standards developed by the ISSB and the future assessment of the ISSB standards for potential endorsement once finalized, IOSCO established a dedicated workstream under its STF to support and promote the development of a sustainability-related assurance framework. From IOSCO’s perspective, the primary focus of the work set out below has been information directed at investors and other providers of capital in general purpose reports.

At an initial roundtable on sustainability-related assurance held in February 2022 – bringing together over 140 stakeholders in different industries and geographies – participants expressed strong support for IOSCO to play a key role in coordinating and promoting global consistency in the assurance of sustainability-related corporate reporting.

IOSCO carried out further fact-finding and engagement among key stakeholder groups – investors, issuers, and assurance providers – across different regions globally to better understand investor needs, current practices and future expectations for a global assurance framework (see Sections 3, 4 and 5). IOSCO also continued to engage with the international assurance and ethics (including independence) standard setters – the IAASB and the IESBA – on their developing work programmes in this area.

IOSCO held a second global roundtable in December 2022 to gather feedback on the priority areas for the standard setters’ consideration identified in IOSCO’s September 2022 statement.

Overall, stakeholders have encouraged greater engagement and capacity building across the ecosystem. Key messages are reflected in this report and IOSCO has built on these to identify

¹ See “*IOSCO encourages standard-setters’ work on assurance of sustainability-related corporate reporting*”, IOSCO Statement, September 2022, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD713.pdf>

² See “*Report on Sustainability-related Issuer Disclosures: Final Report*”, June 2021, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf>

considerations for each of the stakeholder groups (see Figure 1 and Table 1 in the Executive Summary).

1.3. The need for sustainability-related assurance and ethics (including independence) standards

Responding to the needs of stakeholders, the standard setters are enhancing their existing international assurance and ethics (including independence) standards to support independent assurance over sustainability-related reporting. IOSCO supports these initiatives.

From its fact-finding exercises, IOSCO observed that different assurance and ethics (including independence) standards are currently being used depending on the jurisdiction, type of assurance provider and type of information being assured. IOSCO supports the development of a global assurance framework over general purpose sustainability-related reporting that can be used by assurance providers to provide high-quality assurance services over such information.

As elaborated in Section 6, the assurance and ethics (including independence) standards are being developed in a manner that is agnostic to any particular disclosure framework. Among its considerations, IOSCO encourages the standard setters to engage with bodies that support assurance frameworks to promote interoperability.

1.4. Structure of the report

IOSCO encourages the entire sustainability-related reporting ecosystem to consider this report as it readies for new international sustainability-related reporting standards and associated assurance over sustainability-related information.

The report is structured as follows:

- Section 2 provides background and context on the **current landscape** for sustainability-related assurance
- Section 3 summarises the input received from engagement with **investors** on their current practices, views and expectations surrounding the assurance of sustainability-related information
- Section 4 summarises the key messages from fact-finding and considerations for **issuers** in supporting quality assurance over sustainability information, including the importance of issuer capabilities and readiness, and sets out areas for issuers' consideration
- Section 5 considers the current practices and future capabilities and direction of **assurance providers**, and sets out areas for assurance providers' consideration
- Section 6 provides the context to the work of **the standard setters** and sets out IOSCO's priorities and areas for the standard setters' consideration
- Section 7 closes with **the next steps for IOSCO** as it monitors the work of the standard setters, encourages dialogue and capacity building in the reporting ecosystem and works towards assessing whether the emerging assurance and ethics (including independence) standards could form a sound basis for assurance over general purpose sustainability-related corporate reporting.

2. Background and context

2.1 IOSCO's vision for the sustainability-related corporate reporting ecosystem

Investors have asked for high-quality information on sustainability-related matters to inform their decision-making. Assurance can be an important part of the ecosystem to deliver the complete, consistent and high-quality disclosures that investors expect.

In 2021, IOSCO set out a vision for a sustainability standards board under the IFRS Foundation that would develop a global framework of investor-focused sustainability standards to improve the consistency, comparability and reliability of sustainability-related corporate reporting.

IOSCO signalled the potential role of assurance from the outset. It identified three priority areas for improvement in sustainability-related corporate disclosures: encouraging globally consistent standards; promoting comparable metrics and narratives; and coordinating across approaches, including facilitation of independent assurance of companies' disclosures.

In that sense, IOSCO's assessments of the developments of the sustainable finance reporting ecosystem, including the instrumental work of the ISSB, will include related assurance considerations, as explained further in this report (see Section 6).

2.2 Current status of sustainability-related assurance internationally

The sustainability reporting landscape is evolving quickly. With an increase in disclosure of sustainability-related information there is increased focus on assurance to enhance the reliability of the information. In fact-finding work published in July 2021, IOSCO observed that there is often a disconnect between companies' reported financial and sustainability performance, as well as inconsistency in both the location and timing of reports, and assurance over the information.

Further, different assurance providers are using different frameworks, and issuers may engage either their auditor or an independent assurance provider to provide assurance over parts of their sustainability-related disclosures. The type of provider used often depends on the specific part of the disclosure that is being assured, geography or size of the company.

Other studies have highlighted similar inconsistencies in whether and how assurance is applied in different jurisdictions.

2.2.1 Proportion of companies obtaining independent assurance

The International Federation of Accountants (IFAC), along with the Association of International Certified Professional Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA), published findings from an initial global benchmarking study on The State of Play in Sustainability Assurance, in June 2021. These findings were updated in July 2022, with the most recent analysis published in February 2023.

The February 2023 report considered 1,350 of the largest companies across 21 jurisdictions, based on 2021 reporting, to better understand the assurance landscape. The most recent data showed that while 95% of companies report some sustainability-related information (up from 91% in the initial report), only 64% of companies obtain some level of assurance on at least a subset of that information (up from 51% in the initial report).

This is consistent with findings by the Hong Kong Institute of Certified Public Accountants (HKICPA) on the assurance landscape, dated December 2021. The HKICPA found that of the 55 Hang Seng Index-constituent companies included in the exercise, 49 (89%) had published sustainability-related information in annual reports for 2020/21 (as at 28 June 2021). However only around 47% sought independent assurance on the information disclosed. This dropped to 4.5% when reviewing 1,897 listed companies of all sizes in Hong Kong with 31 December 2020 year ends.

Another study by The Conference Board in collaboration with ESGAUGE and Heidrick & Struggles, on US publicly traded companies' reporting in 2021, found that MidCap companies were less likely to obtain assurance – with only 6% S&P MidCap 400 companies obtaining assurance of any of their Environmental, Social and Governance (ESG) data.

2.2.2 Level and scope of assurance

Most companies that currently seek assurance over sustainability-related information typically seek *limited* as opposed to *reasonable* assurance (see Box 1), and only seek assurance over a subset of the information. IFAC's most recent analysis found that 57% of engagements were performed by audit firms, and of these 97% resulted in limited assurance reports. 58% of engagements conducted by non-audit firm assurance providers resulted in limited assurance. This is consistent with HKICPA's analysis which found 68% of assurance engagements were limited assurance, while 14% were reasonable assurance and the remaining 18% had not been indicated. A report from the Association of Chartered Certified Accountants (ACCA) suggested creating more awareness of the key differences between those levels of assurance to avoid creating a new expectation gap.

Box 1. Overview of reasonable and limited assurance

There are two principal options for the level of assurance: reasonable and limited.

Reasonable assurance requires the practitioner to reduce engagement risk (i.e., the risk that an inappropriate conclusion is expressed when the information on the subject matter is materially misstated) to an acceptably low level in the circumstances of the engagement, through obtaining sufficient and appropriate evidence as the basis for their conclusion, which should be expressed in a positive form (i.e., that in their overall opinion, the subject matter information has been prepared, in all material respects, in accordance with the applicable criteria). Planning of the assurance engagement involves: obtaining an understanding of the subject matter, applicable criteria and subject matter information; obtaining an understanding of the relevant systems and controls; obtaining an understanding of the business; assessing risks of material misstatement; and designing and performing assurance procedures to respond to assessed risks at the assertion level. The assurance provider then performs procedures such as reviewing and testing systems and controls, tracing information to source documents and other evidence, observation, confirmation, re-calculation, re-performance, substantive analytical procedures and, evaluating the evidence and concluding.

Limited assurance requires the practitioner to obtain sufficient and appropriate evidence to form a basis for an overall conclusion that, based on the procedures performed and the evidence obtained, nothing came to their attention to indicate that the information is materially misstated. While the assurance engagement risk will be reduced to a level acceptable in the circumstances

of the engagement, the level of engagement risk will be greater than for a reasonable assurance engagement. The practitioner may focus on understanding similar matters whether planning for a limited assurance engagement or a reasonable assurance engagement. However, by comparison, the practitioner will ordinarily require a lesser depth of understanding for a limited assurance engagement. Furthermore, the evidence-gathering procedures will likely involve fewer tests, smaller sample sizes, and non-substantive analytical procedures. The practitioner will also typically use less persuasive evidence (e.g., relying more heavily on evidence such as inquiry of management and others, or evidence from procedures performed at a higher level) compared to reasonable assurance. Inquiry alone could be sufficient, in some circumstances, without obtaining documented evidence.

Further, assurance over sustainability-related information often only covers specific key performance indicators (KPIs) or a specific section of the sustainability-related information.

For example, IFAC's most recent analysis found that only 53% of companies that obtained assurance did so on ESG information broadly (including GHG emissions, other environmental information, social and governance matters). However, 94% of the companies that obtained assurance did so on GHG emissions, while 82% obtained assurance on other environmental matters, 74% on social and 56% on governance. The report further notes that assurance rates are increasing across all report types, though a larger proportion of the companies providing ESG information in Integrated Reports obtained assurance than those reported on ESG matters in annual reports or stand-alone sustainability reports.

2.2.3 Providers

Independent assurance is currently carried out by both audit firms and non-audit firm assurance providers. While audit firms typically carry out assurance over sustainability-related reporting more broadly, non-audit firm assurance providers are often used for more specialist, subject matter-specific information, including certain sustainability metrics. In some cases, audit firms may use the work of non-audit firm assurance providers for specific information.

IFAC's most recent survey found 57% of sustainability-related assurance engagements are conducted by audit (or affiliate) firms (compared to 63% in the initial survey). This is consistent with HKICPA research, which found that the assurer was a CPA firm in around 50% of cases.

IFAC identified some trends and differences according to geography as market practice continues to evolve. For example, audit firms are used for the majority of assurance engagements in the European Union while in areas of the Asia Pacific (e.g., China, India, Indonesia, Japan and South Africa) there is a more even split between the use of audit firms and non-audit firm assurance providers. Non-audit firm assurance providers are however more commonly used in the US, the UK, Hong Kong, and South Korea.

IFAC further noted that 70% of sustainability assurance reports provided by audit firms were from the same firm as the company's statutory audit provider.

2.2.4 Standards used by assurance providers

A number of different frameworks are currently being used in assurance engagements. The type of standard used may differ depending on the type of provider carrying out the engagement

and the jurisdiction in which it is being applied. The standard used also depends on what is being assured. ISAE 3000 (Revised) is typically used for assurance engagements on general purpose sustainability-related reporting, while the use of other standards, such as ISO 14064-3, is often prevalent for assurance over more specialised and targeted information (e.g., environmental reports and GHG emissions). Therefore, while multiple frameworks are currently being used, there is evidence that they may be used in a way that is complementary.

The most common frameworks in use for assurance over sustainability-related reporting are summarised in Figure 2.

Figure 2. Commonly used standards for assurance over sustainability-related reporting

- General standard
- Subject matter-specific standard
- Ethics standard/requirements

ISAE 3000 (Revised)	ISAE 3410	AA 1000AS	ISO 14064-3
<i>IAASB</i>	<i>IAASB</i>	<i>AccountAbility</i>	<i>ISO</i>
The International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance engagements other than audits or reviews of historical financial information is an overarching assurance standard which addresses all assurance engagements (both reasonable and limited) other than audits or reviews of historical financial information.	The International Standard on Assurance Engagements (ISAE) 3410 Revised, Assurance Engagements on Greenhouse Gas Statements is a subject matter-specific assurance standard which operates under the umbrella standard ISAE 3000 (Revised).	AA1000 Assurance Standard was developed to assure the credibility and quality of sustainability performance and reporting. The latest version (AA1000AS v3, published in August 2020) can be used as a standalone or complementary standard. The AA1000 series of standards also includes a set of Guiding Principles and the AA1000 Stakeholder engagement standard.	ISO 14064-3, Specification with guidance for the verification and validation of greenhouse gas statements is part of the ISO 14060 family of standards for quantifying, monitoring, reporting and validating GHG emissions to support a low-carbon economy.
The ISAE 3000 (Revised) sets requirements for ethics, quality control and qualifications, which must be met by users of ISAE 3410. Members of the engagement team and the engagement quality reviewer (where appointed) are subject to the provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the IESBA (IESBA Code) related to assurance		The AA1000AS v3 requires all practitioners to agree and act in accordance with, and be bound by, a Code of Practice set out within the standards.	The ISO 14060 family includes ISO 14066, Competence requirements for GHG validation teams and verification teams and ISO 14065, General principles and Requirements for bodies validating and verifying

ISAE 3000 (Revised)	ISAE 3410	AA 1000AS	ISO 14064-3
<p>engagements, (or other requirements that are at least as demanding).</p> <p>The person performing the engagement must be a member of a firm that is subject to the International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1) (which replaces the International Standard on Quality Control (ISQC) 1) (or other requirements that are at least as demanding).</p>			<p>environmental information.</p>

Of the standards described in Figure 2, the ISAE 3000 (Revised) is the most commonly cited. For example, IFAC’s most recent study found it to be used in 95% of assurance engagements provided by an audit firm (up from 88% in its initial survey). Non-audit firm assurance providers often use alternative assurance standards.

In addition, guidance has been issued to further assist providers in their assurance engagements. For example, the IAASB issued *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements* to address the most common challenges encountered in applying ISAE 3000 (Revised) in sustainability-related assurance engagements.

2.3 Regulatory developments

Although assurance over sustainability-related information is not required in many jurisdictions, several jurisdictions have set, or proposed a potential path to, assurance requirements. These include (but are not limited to):

- **EU.** Under the Non-Financial Reporting Directive (NFRD), which became applicable in 2018 (for the 2017 financial year), member states could opt to require independent assurance of non-financial i.e., sustainability, information. France, Italy and Spain chose to do so on a mandatory basis. Ten other member states require that at least a statutory auditor checks both that the non-financial information has been provided and, in some of them, also that it is consistent with information in the financial statements.

The Corporate Sustainability Reporting Directive (CSRD), the successor of the NFRD, expands the scope to a greater number of companies (including certain non-EU companies listed on EU-regulated markets) and introduces mandatory assurance requirements. The obligation starts with limited assurance over sustainability information (with the European Commission empowered to adopt standards before 1 October 2026), and will progress to reasonable assurance at a later stage, following an assessment of feasibility for auditors and companies (with a view to adopting standards for reasonable assurance by 1 October 2028). The CSRD also gives Member States the option to decide whether independent assurance service providers, those other than statutory auditors/audit firms, can be used to carry out the assurance engagement, provided that they are subject to requirements equivalent to those of auditors as regards the assurance of sustainability reporting.

- **US.** The Securities and Exchange Commission (SEC) issued proposals in March 2022 that would require climate-related disclosures and assurance of certain information. Specifically, the SEC proposed to phase requirements for limited assurance on Scope 1 and 2 GHG disclosures, beginning with the largest companies for the fiscal year 2024 (to be filed in 2025), and bringing certain smaller companies into scope one year later. The SEC also proposed to extend the requirement to reasonable assurance from fiscal year 2026 for the largest companies, and to certain smaller companies one year later. Final rules have yet to be issued and so the requirements and timing are as yet unknown.
- **New Zealand.** The Government passed an Act – The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 – which requires around 200 large financial institutions to make climate-related disclosures on a mandatory basis for financial years beginning on or after 1 January 2023. The legislation requires mandatory, limited assurance on GHG emissions from October 2024, that complies with standards issued by New Zealand’s External Reporting Board (XRB).

Following an analysis of existing standards (including New Zealand’s implementation of the ISAE 3000 (Revised), ISAE 3410, International Code of Ethics and Quality Management standards), the XRB issued a consultation on a draft profession-agnostic assurance standard in December 2022 and intends to issue the standard in June 2023. This is intended to be a temporary standard focusing on the mandatory assurance engagements until there is more clarity on matters such as scope of assurance, and the potential development of an assurance practitioner licensing and oversight regime, and where international standards will land.

Other jurisdictions have signalled the potential need for assurance requirements in the future. These include:

- **UK.** The Financial Conduct Authority (FCA) has indicated that it sees a ‘strong need for assurance requirements in the long term to support the reliability of issuers’ climate-related disclosures’ and that it will consider its position on this again at a later stage. The UK Government proposed that large public interest entities will be required to publish an Audit and Assurance Policy (every three years) setting out their approach to assuring the quality of information reported to shareholders beyond financial statements. Some stakeholders recommended introducing mandatory assurance over certain matters, such as sustainability.
- **Hong Kong.** The Securities and Futures Commission (SFC) noted that it is discussing ‘how to introduce ISSB requirements in its listing rules and how audit and assurance professionals can play a role’. The Hong Kong Stock Exchange (HKEX) updated its ESG reporting guide, noting that companies may seek independent assurance to strengthen the credibility of ESG information.
- **Singapore.** The Singapore Exchange decided not to introduce mandatory requirements for independent assurance at this stage given challenges ‘exacerbated by the lack of globally recognised standards or frameworks in relation to assurance on sustainability reports’ but guided issuers that do seek independent assurance to disclose that it has been conducted, the scope covered, the identity of the external assurer, standards used, and key findings.

- **Australia.** The Australian government launched a consultation in December 2022 on mandatory climate-related financial disclosures for large, listed companies and financial institutions. It noted that demand for assurance of disclosures has grown and sought stakeholders' views on what level of assurance (if any) should be required for these disclosures.

2.4 Standard setting developments

The standard setters – the IAASB and the IESBA – have been working at pace on assurance and ethics (including independence) standards for sustainability-related corporate reporting. Their work is set out in more detail in Section 6.

3. Investors' views on assurance over sustainability-related information

In addition to the feedback received during the two stakeholder roundtables on assurance, IOSCO carried out targeted engagement with investors across different jurisdictions to better understand:

- Current practices with respect to assurance of sustainability-related information and confidence in the quality of these engagements
- Needs in terms of reliability/decision-usefulness of information
- Expectations/need for an assurance framework.

This involved engagement with asset management firms based in France, Malaysia, Singapore, the UK and the US to gather perspectives from different regions, using a questionnaire to ensure a consistent basis for discussion in each engagement. The questions sought to gather information on:

- What investors would like to ensure they can rely on the information disclosed
- Investors' current understanding and expectations of independent assurance
- Investors' confidence in the quality of assurance, and views on potential oversight and quality of assurance providers
- Challenges around decision-usefulness of the information disclosed
- Investors' views on comparability and digitisation of information.

The focus of the exercise was to understand what gives investors' confidence in sustainability-related corporate reporting, and how a global assurance framework could support their needs. This has helped to inform the areas of consideration for each of the stakeholder groups and standard setters set out in Sections 4, 5 and 6 of this report.

3.1 Key messages on investors' perspectives

Through its engagement with investors, IOSCO observed that:

- There is growing demand for high-quality assurance to enhance the reliability of corporate sustainability reporting
- While limited assurance may be the more realistic objective in the short term, investors typically see reasonable assurance as the long-term target, especially in respect of metrics such as those related to greenhouse gas emissions
- Consistent and comparable assurance and ethics (including independence) standards for sustainability-related information is considered important to supporting high-quality assurance engagements.

Taking into account current sustainability-related assurance practices and perspectives, there is more to be done to meet investors' objectives:

- Investors currently rely on issuers' internal governance processes and third-party data providers to give them confidence in sustainability-related reporting
- Investors desire improvements in several areas including data quality, methodologies, transparency over materiality and forward-looking determinations, and connectivity and consistency with financial statements
- It is not always clear to investors how assurance has been applied, the type of provider, or the quality and level of the assurance.

The findings are summarised in more detail below.

3.2 Detail on key messages

3.2.1 Growing demand for assurance over sustainability-related corporate reporting

There is growing demand for high-quality assurance to enhance the reliability of sustainability-related corporate reporting

Investors contributing to IOSCO's fact-finding typically were of the view that assurance of sustainability-related information enhances the reliability of the information disclosed.

They noted that assured disclosures are likely to be more reliable in terms of accuracy, and compliance with the relevant reporting standards. They also considered assurance over quantitative metrics – such as GHG emissions – to be particularly useful, and perhaps easier to achieve consistency on in the near-term. Some considered assurance on both narrative and quantitative information would be useful as it could act as a deterrent to potential greenwashing.

Nevertheless, most investors did not yet expect to see independent assurance over sustainability-related reporting. They noted that the regulatory landscape plays a part in this, as most jurisdictions do not have mandatory assurance requirements (see Section 2).

In addition, investors typically did not consider sustainability-related reporting standards to be at a sufficiently mature stage to support high-quality assurance of the information. They did, however, expect the ISSB's standards to catalyse further improvements in the quality and quantity of disclosures and would expect increased demand for assurance to follow.

Investors currently rely on issuers' internal governance processes and third-party data providers to give them confidence in sustainability-related disclosures

In the absence of independent assurance, investors noted that they currently rely on issuers' internal governance processes and third-party data providers to give them greater confidence in the information that has been disclosed:

- **Issuers' internal governance.** Many investors noted that they expect the preparer's internal systems and controls, and governance processes to be robust to ensure

reliability of information that has been publicly disclosed. They expected these processes and activities enhance, to a degree, the reliability of the information disclosed. In particular, investors were of the view that the preparer's Board or Those Charged With Governance (TCWG) should have responsibility for oversight over the quality of their sustainability-related disclosures.

Accordingly, investors called for more transparency on internal processes, such as audit committees' decision-making processes and their level of confidence. Some investors noted that they engage directly with preparers to assess the suitability of those processes. Some also noted that internal systems and controls may need to mature.

- **Third-party data providers.** Investors noted that they have some confidence in the sustainability-related data that preparers disclose publicly. Many nevertheless use third-party data providers to access, clean and aggregate data from a variety of sources. The investor then carries out due diligence on the third-party data provider's processes, which is consistent with IOSCO's recommendations³ on ESG ratings and data products providers. Investors acknowledged potential difficulties in companies obtaining high-quality data, particularly depending on sector and geography.

3.2.2 Reasonable assurance is the long-term target

While limited assurance may be the more realistic objective in the short term, investors typically see reasonable assurance as the longer-term target, especially in respect of metrics such as those related to greenhouse gas emissions

Investors typically expressed the view that reasonable assurance should be the eventual target for assurance over sustainability-related information. Some suggested that this should nevertheless be required only in respect of certain sustainability-related disclosure items – for example, GHG emission metrics.

Many acknowledged that reasonable assurance may take time to achieve given factors such as readiness across the ecosystem and the need to build capabilities, as well as potential costs. They suggested that limited assurance may be a more realistic objective, at least in the short-term.

Some recommended a phased approach towards reasonable assurance. For example, by phasing requirements from limited assurance to reasonable assurance over time; or phasing requirements to assure specific information over time, e.g., starting with Scope 1 emissions. They considered the latter should, in turn, improve the quality of data in the value chain given Scope 1 for one entity may be Scope 3 for its customer.

As part of the overall ambition for reasonable assurance, investors emphasized:

- **The need for an internationally coordinated approach.** Investors noted the importance of internationally recognised and equivalent standards in all markets to avoid inconsistencies between assurance methodologies and assurance reporting practices.

³ See “*Environmental, Social and Governance (ESG) Ratings and Data Products Providers: Final Report*”, November 2021, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

- ***Building from existing standards.*** Investors favoured using existing assurance and ethics (including independence) standards as a foundation on which to build further standards over sustainability-related information.
- ***Upskilling.*** Investors recognised that competence building and upskilling will be required across the ecosystem. They noted that qualifications for assurance providers must be fit for purpose.

Investors see a need for improvements in several areas, including data quality, methodologies, transparency over materiality and forward-looking determinations, and connectivity and consistency with financial statements

Investors noted that sustainability-related information typically involves a more extensive narrative component, more forward-looking information over longer time horizons, and more reliance on information pertaining to issuers' value chains. As a result, challenges may arise for preparers and assurance providers with respect to:

- Obtaining relevant data and ensuring the quality of those data
- Potentially inconsistent methodologies for calculating certain metrics, and insufficient transparency on the methodologies used, including on the use of estimates
- Insufficient transparency on materiality assessments
- Insufficient transparency on how forward-looking information has been developed
- Gaps in consistency and connectivity between non-financial and financial information.

To improve reporting and a move towards reasonable assurance in the longer term, investors called for better data quality and agreed methodologies for calculating metrics. They noted that the ISSB's standards will help, but considered the TCFD's recommendations, Sustainability Accounting Standards Board (SASB) standards (now under the IFRS Foundation) and the Science Based Targets initiative (SBTi) to be helpful starting points. Some cautioned against assurers' developing their own methodologies in the meantime, which could lead to further fragmentation and inconsistency.

In addition, investors expressed a desire for greater transparency, particularly around matters such as methodologies used and their limitations, materiality assessment and forward-looking information. Some noted the importance of disclosing the basis for materiality, as materiality assessments may not be carried out consistently.

Box 2. Sustainability-related information in financial statements

Throughout the fact-finding engagement exercises and roundtables, investors and other stakeholders emphasised the importance of ensuring that material sustainability-related information identified in narrative sections of companies' disclosures is reflected in the financial statements when relevant, and ensuring connectivity and consistency between sustainability-related reporting and information in the financial statements.

It was noted that there is room for improvement in this area, notwithstanding that, in November 2019, the IFRS Foundation published educational material to clarify expectations under existing accounting standards. That is, although climate matters are not referenced explicitly, they must be considered ‘when the effect of those matters is material in the context of the financial statements taken as a whole’. Also, in October 2020, the IAASB issued a Staff Audit Practice Alert to help auditors understand what already exists in the ISAs and how that material relates to the auditor's consideration of climate-related risks in an audit of financial statements.

Investors suggested that an assurance framework should set out the assurer’s role in challenging sustainability-related information in the narrative sections of companies’ reporting and whether these are appropriately reflected in financial statements.

Investors did not typically insist on having the same provider assess sustainability-related and financial information, noting that this could create challenges such as competition issues. Rather, they considered that the providers may be different as long as the roles are clear, and steps are taken to ensure the assurance providers’ independence.

On the other hand, through its fact-finding and engagement with assurance providers, IOSCO observed that some considered this approach could make it more challenging to promote connectivity between financial and sustainability-related information. In practice, they considered that it could result in inefficient duplication, as the two providers would need to look at the financial and sustainability-related information.

3.2.3 The need for consistent and comparable assurance and ethics (including independence) standards

Consistent and comparable assurance and ethics (including independence) standards for sustainability-related information are considered key to supporting high-quality assurance engagements

Investors emphasised the importance of globally consistent and comparable assurance and ethics (including independence) standards for sustainability-related information to support high-quality assurance engagements. They noted some key factors for consideration in developing assurance and ethics (including independence) standards.

- ***Global framework of reporting standards as a prerequisite.*** Investors considered the ISSB’s global sustainability-related reporting framework should be a prerequisite to any assurance framework. They noted that this is key to promoting consistency and comparability in the disclosures. Independent assurance could then enhance consistent application of the standards.
- ***Profession-agnostic assurance and ethics (including independence) standards.*** Investors observed a combination of audit firm and non-audit firm assurance providers carrying out assurance over sustainability-related information. They noted that audit firms are actively involved and continue to build resources and capabilities, while

specialist firms are often used for specific sustainability-related matters. Investors considered that both types of providers should be able to carry out assurance over

sustainability-information, provided that there is consistency in the assurance and ethics (including independence) standards used.

- ***Matters for inclusion.*** Some investors suggested that assurance standards should cover consideration of compliance with reporting standards; processes for identifying the relevant information to disclose; the quality of the information disclosed (relevance, understandability, faithful representation, verifiability and comparability); and that they should clarify the role of the provider with respect to connectivity between financial and non-financial information.

It is not always clear to investors how assurance has been applied, the type of provider, or the quality and level of the assurance

Currently, where independent assurance has been carried out, some aspects of that assurance may not be clear to investors. These include: which standards have been applied; which type of provider carried out the assurance; the level of assurance; the conclusions reached and what information is covered by those conclusions.

This is consistent with several studies. For example:

- the UK Financial Reporting Council's (FRC) thematic review of TCFD disclosures on climate accompanying the financial statements found that while many companies had stated that they obtained some form of voluntary assurance over at least some of their TCFD reporting, it was not always clear what level of assurance had been provided. Use of terms such as 'verified' may have also implied a higher level of assurance than had actually been provided.
- Deloitte's Corporate Reporting Insights 2022 found a lack of clarity in some companies' use of the terms 'verification', 'audit' and 'assurance' when discussing the same engagement (e.g., "Verified to a level of limited assurance", "Verified to a reasonable level of assurance" and "audited annually in a limited assurance engagement"); and some companies not providing detail about the level of assurance obtained.
- IFAC's 2019-2020 analysis found inconsistencies in the location of assurance reports. While 76% of companies included assurance reports in the annual financial report, companies in certain jurisdictions such as Canada, the US and UK often provided evidence of assurance in another location such as on their websites.

Investors accepted that there are likely to be different levels of assurance, standards applied and providers performing the assurance engagement. Therefore, greater transparency and clarity was considered key to helping them understand the approaches taken.

In addition, investors noted there is often limited information to reassure them as to the quality of the assurance. They observed that quality typically depends on the professional standards

that have been followed and suggested that accredited standards should be used. Some would also welcome options such as ensuring appropriate licensing of assurance providers, voluntary codes of conduct, or periodic assessments of providers' capacity to conduct their engagements by a supervisory authority. On the other hand, there was an expectation that the preparers' Board or TCWG will have chosen an appropriate assurance provider and that accountability should be treated in the same way as for financial information.

4. Issuers' capabilities and readiness

IOSCO carried out fact-finding with issuers to better understand the current practices and future expectations around sustainability-related corporate reporting and assurance. In addition, issuers participated in the two roundtables held in February and December 2022 to share their experiences and perspectives.

Similar to the approach taken for investors as outlined in Section 3, the fact-finding exercise involved engaging with issuers in different regions (Asia/Oceania, Europe, and North America), supplemented with the roundtables, to gather insights on current practices, expectations and perspectives. Views were gathered principally from larger issuers, operating in a range of sectors, including banking/insurance, building materials, transmission system operators, and energy. Further, the dedicated engagement exercise was based on a questionnaire to ensure consistency in the scope of information gathered.

In particular, the questionnaire sought to explore:

- Current reporting and capabilities (e.g., level of expertise/reporting capabilities, who has responsibility for reporting, whether assurance is sought)
- Preparedness for future sustainability-related reporting (e.g., plans to upskill, addressing data availability and other challenges)
- Perspectives on independent assurance over sustainability-related information (e.g., whether it should be required, if so when, what level of assurance, what types of information should be subject to assurance, etc.)
- Perspectives on reporting information proposed by the ISSB's exposure drafts (e.g., whether the proposals are clear and robust to support assurance, as well as potential challenges such as obtaining data for Scope 3 emissions)
- Perspectives on digital reporting under the proposed ISSB taxonomy (e.g., whether all information should be tagged and subject to assurance).

4.1 Key messages from fact-finding

4.1.1 Reporting

Current practices

Issuers are generally required to prepare a management commentary to accompany the financial report, which provides information on the underlying drivers of results, business risks and strategies and narrative on future financial prospects. They therefore have some experience and capabilities in reporting on sustainability-related matters within the traditional area of management commentary. Many, particularly larger, issuers also report information under the TCFD's recommendations.

While the audit committee and directors typically approve management commentary and further sustainability-related information, the information is often prepared by a dedicated sustainability team rather than the finance team. In some cases, the sustainability team does not report to the Chief Financial Officer (CFO).

Readiness for future expectations/requirements

Issuers engaged with during the fact-finding and roundtables were generally supportive of eventual mandatory sustainability-related reporting and assurance requirements for larger listed entities and financial institutions. They also suggested requirements for larger unlisted companies operating in high emitting sectors.

While issuers were typically satisfied with their expertise in producing management commentary, they noted that there was generally less expertise in reporting under the TCFD's recommendations and limited knowledge of the ISSB's proposals. Many issuers noted they plan to upskill staff for future sustainability-related reporting requirements but that it could take a number of years to build fully the necessary expertise.

The role of technology is likely to be important in this regard. Many issuers may need to invest in new systems, processes, data sources and analytical tools in order to gather and analyse the information required to support effective reporting and to prepare themselves to submit their reports for independent assurance. Some issuers noted they find it challenging to keep pace with developments in sustainability reporting.

4.1.2 Assurance

Current practices

IOSCO's fact-finding with issuers on current assurance practices are broadly consistent with the key findings in Section 2 of this report. In summary, IOSCO observed that:

- Sustainability-related matters reported by issuers as part of their management commentary will typically be read by the auditor of the financial report (for material misstatements of the other information and inconsistencies with the financial statements based on the auditor's knowledge as required by International Standards on Auditing or national standards)
- Some issuers may seek independent assurance voluntarily on sustainability-related reporting, particularly reporting under the TCFD's recommendations. In these cases, assurance is more commonly obtained on core metrics, most often GHG emissions. This may also be required under national laws for separate reporting, either as part of public disclosures or to a climate regulator.

Future expectations

Most issuers contributing to IOSCO's fact-finding were supportive of independent assurance over sustainability-related information. Some, however, noted a preference for assurance not to be required until sometime after the introduction of reporting under the ISSB's standards. Issuers also offered perspectives on the following:

- **Internal controls.** Some issuers called for regulators to establish the control standards that apply to issuers around sustainability-related information.
- **Impact on sustainability-related reporting.** There was some concern among issuers that requirements to obtain assurance on sustainability-related information could lead to issuers' making more limited disclosures in this area. This is particularly due to

potential liability and other risks related to issuers' reporting, especially as it pertains to forward-looking information. Some issuers' suggestions to address this included a call for regulators to consider 'safe harbours' for some aspects of sustainability-related reporting, at least in the first instance. They also suggested that issuers should make more expansive disclosures, exercise professional judgement, and clarify the assumptions, estimates, and models used for sustainability-related reporting.

- ***Type of provider.*** There were mixed views among issuers as to whether the provider of assurance over sustainability-related information should be the same as or different to the auditor of financial information. Issuers typically didn't consider there to be a conflict of interest if the auditor of the financial report also provided assurance on sustainability-related information, and many supported this approach. They noted that the auditor may need to use their own sustainability experts.
- ***Level and scope of assurance.*** Many issuers favoured limited assurance over sustainability-related information rather than reasonable assurance. Some considered assurance should not be required over all forward-looking information, although there was some recognition that assurance should cover the estimates used to develop forward-looking information. There was also some uncertainty as to how materiality would be applied to sustainability-related information in the context of overall reporting.
- ***Addressing challenging issues.*** There were mixed views about the need for assurance on information pertaining to the issuers' value chains. Some issuers were concerned or unclear about data availability, particularly in respect of data pertaining to value chains, or for scientific analysis of climate impacts and scenarios. Further, issuers supported the development of specialist standards, building on and using existing assurance and ethics (including independence) standards as a foundation, given some of the specific challenges with sustainability-related reporting.
- ***Digital reporting.*** There were mixed views about the need for digital reporting of sustainability-related information and independent assurance on the tagging of the information. Issuers either supported this or were uncertain. Those that supported digitalisation called for it to be built in as standards are developed rather than retrofitting reported information afterwards.

4.2 Considerations for issuers

IOSCO supports the future goal, subject to jurisdictional requirements, for entities that report sustainability-related information on a mandatory or voluntary basis to disclose that information in a report that accompanies the financial report as part of general-purpose reporting. The sustainability-related information should be delivered to an equivalent high-quality standard as financial reporting. It should be reliable and command trust among capital market participants in support of their financial decision-making. It is therefore important that issuers continue to consider the need for enhanced disclosures in accordance with current requirements, even as enhanced reporting, assurance and ethics (including independence) standards are being developed.

Further to the fact-finding and roundtables, IOSCO has identified the following considerations for issuers to help respond to investor needs.

Profession-agnostic standards

IOSCO is encouraged by the trend towards issuers' submitting their sustainability-related disclosures for independent assurance.

IOSCO welcomes the standard setters' work towards profession-agnostic assurance and ethics (including independence) standards that build on the requirements and principles of existing standards, and that can apply across all reporting frameworks.

The further development of a global assurance framework will provide insight to issuers and assurance providers as they prepare for assurance engagements and support consistent, comparable, and reliable assurance over sustainability-related information.

This will support the overall vision for consistent, comparable and reliable disclosures. IOSCO encourages issuers to engage with the standard setters to support the development of high-quality, international profession-agnostic standards.

Timely progress

IOSCO encourages early engagement with the standard setters' initiatives across the sustainability reporting ecosystem to support readiness to apply the final assurance and ethics (including independence) standards soon after they have been finalised in late 2024, including on a voluntary basis.

This will help issuers to build familiarity with the assurance and ethics (including independence) standards early to support readiness to apply the final standards.

Engagement

IOSCO encourages issuers to engage with, and provide feedback to, the standard setters, throughout the development of the standards.

Issuers should also engage with the key stakeholder groups across the ecosystem (as identified in the Executive Summary) to prepare to respond to the overall ambition for high-quality reporting and assurance of sustainability-related information. This includes ongoing engagement with the ISSB as it develops further standards on sustainability-related topics in time. Further, IOSCO encourages engagement within the issuer community. For example, engagement among global networks of CFOs can help to promote consistency.

In addition to ensuring reliability of information disclosed, audit committees also have a key role to play in supporting high-quality independent assurance. Audit committees should consider matters similar to those outlined for supporting the quality of the external audit of the financial report as set out in the *IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality* in relevant areas. Engagement with assurance providers will be key to evaluating the following matters:

- **Independence of the assurance provider.** Audit committees should understand which ethics standards, including independence, have been applied by the assurance provider and how the assurance provider maintains its independence from the issuer, how potential conflicts of interest are avoided, and how the non-audit firm assurance provider adheres to quality ethics (including independence) standards.

- **Experience and expertise.** Audit committees should also understand the assurance provider's experience and expertise. This may require the assurance provider to engage their own experts in order to obtain sufficient appropriate evidence even if management has engaged experts to provide information in preparing the information reported. The audit committee should also understand the adequacy of the experience and expertise of other assurance providers used by the issuer's assurance provider in connection with any material foreign operations of the issuer's group. For example, assurance providers may need to familiarise themselves with different requirements for measuring and reporting GHG emissions to regulators in different jurisdictions.
- **Assurance quality.** In addition to the consideration above regarding IOSCO Good Practices, audit committees may wish to enquire of the assurance provider about their systems of quality management. This may be particularly important where a non-audit firm assurance provider is not subject to legal requirements or professional standards on quality management.
- **Capacity building.** Audit committees should also understand the assurance provider's plan for capability and capacity building in order to provide high-quality assurance. Equally, the assurance provider should engage with the audit committee on the company's sustainability-related reporting implementation plan, and progress against the plan, to support the preparations for its assurance engagement.

Addressing challenging issues

IOSCO is encouraged by the increased understanding of the type of high-quality sustainability-related information and analysis that is most helpful to assurance providers' ability to complete their work, and encourages continued dialogue on this issue, including among audit committees.

In light of requirements in some jurisdictions, audit committees may need to consider disclosure of additional information beyond what is set forth in ISSB standards on an investor-focused basis (such as information on social impact), as well as possible assurance over such information. Both audit committees and management have key roles to play in respect of challenging reporting elements such as: (i) understanding how management establishes arrangements with entities in the issuer's value chain to receive information relevant to the issuer in sufficient time to meet the issuer's reporting obligations, or otherwise obtains public data released by entities in its value chain; and (ii) staying alert to statements in sustainability-related reporting that could potentially amount to greenwashing.

Connectivity

IOSCO encourages audit committees to assess how well sustainability-related reporting and the financial report work together to describe the issuer's material risks, strategies and prospects.

The issuer's sustainability experts and finance staff will need to work closely together to achieve this objective. The information and assumptions should be consistent between the documents.

Where the auditor of the financial report is not also the provider of assurance on the sustainability information, the audit committee should support open dialogue about risks,

concerns and other relevant information, between the auditor and other assurance provider. This will better enable them to identify material inconsistencies in information and assumptions between sustainability-related reporting and the financial report, including material omissions and other material misstatements.

Transparency

IOSCO encourages audit committees to support assurance providers in meeting their responsibilities, which may include reporting deficiencies, uncertainties and key assumptions.

In addition, assurance reports should be published in a manner that enables them to be readily located by users.

Capacity building

IOSCO encourages audit committee members and other directors to support the building and maintaining of appropriate knowledge of sustainability-related reporting and assurance, and related skills, tools and analytical capabilities.

This includes initial and ongoing training, and appropriate skills and diversity of audit committee members as well as those responsible for corporate reporting to meet their respective obligations. IOSCO also encourages audit committees and directors to maintain professional scepticism and a questioning attitude to information provided by management and in considering the quality of the assurance.

This will help issuers establish adequate procedures and practices, including promoting supportive company values and culture, and identifying the roles and responsibilities of audit committees, management teams, CFOs and others involved in corporate reporting. Robust internal governance, systems and controls are key to ensuring the credibility and reliability of the information disclosed.

Developing an implementation plan to support an issuer's capability building could support high-quality reporting of sustainability-related information and facilitate an efficient and effective assurance process. Some potential considerations are summarised in the Annex.

5. Assurance providers' current practices and future direction

IOSCO engaged with assurance providers as part of the fact-finding and through their participation at the two roundtables in 2022. Similar to the fact-finding engagement outlined in Sections 3 and 4 of this report (on investors and issuers, respectively), the fact-finding covered engagement with assurance providers across different regions. IOSCO also engaged with a mix of both audit firm and non-audit firm assurance providers to better understand any similarities and differences in practices. Further, the engagement was based on a questionnaire to ensure consistency in the types of information gathered. In particular, the questionnaire sought to explore information on:

- Current practices, such as the level of assurance typically carried out; frameworks and standards used; scope of engagement; and reporting
- Ethics, independence and quality management standards used
- Resourcing, skills and expertise for assurance over more challenging areas of disclosure
- Expectations and needs for a future assurance framework.

5.1 Key messages from fact-finding

5.1.1 Level and scope of assurance, and standards used

Insights from IOSCO's fact-finding on current assurance provider practices were broadly consistent with the key findings of other studies, as set out in Section 2 of this report. In summary, IOSCO observed that:

- **Level and scope of assurance.** Audit firm and non-audit firm assurance providers more commonly provide limited assurance (usually on quantitative information such as GHG emissions) than reasonable assurance and issuers have generally sought this voluntarily. Assurance providers noted that this may be due to matters such as: costs; the relative immaturity of sustainability-related reporting and assurance; the insufficiency of data and viable metrics; and the inclusion of more narrative and forward-looking information over a longer term than may be the case in financial reporting. They also noted that preparers' incentives to obtain reasonable assurance may be weaker; for instance, some ESG rating providers only require limited assurance on quantitative sustainability-related information for their ratings.
- **Type of provider.** Typically, audit firms carry out assurance over a broader scope of sustainability-related information, while non-audit firm assurance providers carry out assurance on a specific topic, such as GHG emissions metrics. There are also geographical trends. For instance, audit firms are typically used in the EU, while the situation is more mixed in China; and the type of provider used may also depend on where the information is located, as discussed below.
- **Standards currently used.** Audit firms typically use ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and related standards and guidance. Non-audit firm assurance providers either use ISAE 3000 (Revised), or other standards such as the ISO 14064, Greenhouse gases, and AccountAbility's AA1000.

5.1.2 Location of sustainability-related disclosures

Currently, sustainability-related information is published in a range of documents, including annual reports that also include financial statements, or other reporting such as Integrated Reports, Sustainability Reports or Corporate Social Responsibility (CSR) Reports. Section 2 highlights IFAC's finding that assurance is more commonly obtained on information in Integrated Reports than other types of reporting.

The type of provider carrying out the assurance currently may depend on where the information is located. The International Standards on Auditing (and other national standards) require the auditor of the financial report to read the management commentary for material misstatements in the other information and material inconsistencies with the financial report. The UK FRC also issued staff guidance on auditor's responsibilities which clarifies that climate-related disclosures may constitute 'other information' for auditing purposes depending on where it is located, such as in the strategic report.

As market practices evolve and sustainability-related information is increasingly required to be published alongside statutory annual financial reporting, it may be the case that sustainability-related information is assured by assurance providers who are not the financial statement auditors. Providers noted that this underscores the need for a profession-agnostic assurance standard to provide clear guidance for all types of providers. To the extent that the assurance provider is different from the financial statement auditor, they noted that there may however be challenges with respect to connectivity and duplication of work efforts in certain areas between these two sets of information within the overall statutory reporting framework.

5.1.3 Ethics, independence and quality management

Audit firm and non-audit firm assurance providers often use different ethics and independence standards. Audit firms usually use the IESBA Code or similar ethics and independence standards. Non-audit firm assurance providers often use ISO requirements and the firm's own ethics and independence rules.

There are also differences in quality management standards depending on the type of provider. Audit firms generally use International Standards on Quality Management: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and ISQM 2, *Engagement Quality Reviews*. Non-audit firm assurance providers often rely on the ISO framework and the firm's own quality management requirements. Accordingly, especially for non-audit firm assurance providers, there is a lack of comparability with respect to ethics, independence and quality management standards and often a lower degree of transparency as to the standards being used.

5.1.4 Resourcing, skills and expertise for assurance over more challenging areas of disclosure

Information disclosed in sustainability reports is much more varied than financial information. Financial information is based on more historical and quantitative data (although it does contain a number of significant estimates, all of which have a forward-looking aspect to them). Sustainability-related information consists of both historical and much more forward-looking data, often over longer time horizons, and includes both quantitative and more expansive narrative information. Providing assurance over this forward-looking and more expansive

narrative information was often cited as one of the key challenges with assurance over sustainability-related information.

Assurance providers noted that they typically have their own in-house subject matter experts, other than those performing general assurance engagements. However, since sustainability matters are so wide ranging, some also use external specialist providers to support conclusions on certain topics. Audit firms and other providers have been upskilling to meet market demands for assurance, but some stakeholders were concerned that there may be a shortage of skilled resources in this space. Some stakeholders also highlighted that liability concerns may discourage assurance providers to take on certain engagements, as capabilities continue to build across the reporting and assurance ecosystem.

5.2 Considerations for assurance providers

Following the fact-finding and roundtables IOSCO has identified some considerations for assurance providers that aim to help meet investors' expectations for assurance over sustainability-related information.

Profession-agnostic standards

IOSCO is encouraged by the trend towards issuers' submitting their sustainability-related disclosures for independent assurance.

IOSCO welcomes the standard setters' work towards profession-agnostic assurance and ethics (including independence) standards that build on the requirements and principles of existing standards, and that can apply across all reporting frameworks.

The further development of a global assurance framework will provide insight to issuers and assurance providers as they prepare for assurance engagements and support consistent, comparable, and reliable assurance over sustainability-related information.

This includes the ethics, independence and a quality management system to support the high-quality sustainability-related assurance engagements. As the standard setters are developing standards to meet the needs for assurance of general-purpose sustainability-related reporting, IOSCO encourages assurance providers to engage with the standard setters to support the development of high-quality standards that have the potential to form the basis for global consistency. In addition, specialist standards may be developed in a manner that allows for their compatible use on specific subject matters such as GHG emissions.

Timely progress

IOSCO encourages early engagement with the standard setters' initiatives across the sustainability reporting ecosystem to support readiness to apply the final assurance and ethics (including independence) standards soon after they have been finalised in late 2024, including on a voluntary basis.

This will help assurance providers to build familiarity with the assurance and ethics (including independence) standards early to support readiness to apply the final standards.

Engagement

IOSCO encourages issuers and assurance providers to engage with, and provide feedback to, the standard setters, throughout the development of the standards.

Given the ambition of the standard setters to develop robust assurance and ethics (including independence) standards for sustainability-related information by the end of 2024, it is important that the standard setters understand how the standards will be used in practice. An early view of any particular challenges or observations noted by assurance providers will help the standard setters take practical considerations into account in developing or amending the standards.

Addressing challenging issues

IOSCO encourages consultation with other stakeholder groups across the ecosystem to share information and experience on practices and approaches that can effectively address challenging reporting issues.

Taking a collaborative approach is important as the sustainability-related reporting and assurance landscape continues to develop.

Connectivity

IOSCO encourages assurance providers to consider the connectivity between sustainability-related information in the narrative sections of companies' reporting and the financial statements.

This applies both under any existing requirements and any future requirements in the sustainability-related assurance standards.

Transparency

IOSCO encourages assurance providers to support investors' understanding of the scope and nature of the assurance carried out, including by specifying the elements assured and the standards applied, and applying consistently relevant transparency requirements in the assurance and ethics (including independence) standards.

The findings outlined in this report have highlighted insufficient transparency on matters such as which items have been subject to assurance, which standards have been applied, and the level of assurance provided. In addition, the form of reporting may differ; e.g., there may be a formal assurance report made available for readers, or only a reference to assurance performed with no accompanying report. IOSCO's consideration applies both under any existing requirements and any future requirements in the sustainability-related assurance standards.

Capacity building

IOSCO encourages assurance providers to continue to build capabilities and upskill in this area.

IOSCO notes a need for appropriate accreditation, qualifications and certification to promote greater confidence in the consistency and credibility of assurance providers' capabilities and

quality of their engagements. Capacity building may also help assurance providers manage liability and other risks in this area. IOSCO also encourages consideration of the extent to which additional training and qualifications may be needed, if any, to support non-audit firm assurance providers carrying out assurance on sustainability-related information, beyond specialist information, as needed.

6. The standard setters' current work and considerations

6.1 Current work

6.1.1 Details of the journey that is underway

As discussed in earlier sections of this report, work is already underway at the IAASB and the IESBA to develop a global assurance framework for sustainability-related corporate reporting.

IAASB

The IAASB recognised the need for more guidance on the application of ISAE 3000 (Revised) to specifically deal with assurance of sustainability information given the growing demand for assurance in this area. As such, the IAASB initiated the Extended External Reporting (EER) Assurance Project⁴ in October 2017, and issued this as *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements* in April 2021.

However, by the time the EER Project was completed, the environment surrounding sustainability information disclosures was changing significantly. The IFRS Foundation had initiated a process to launch a board to deal with sustainability disclosures specifically and other jurisdictional disclosure initiatives were also underway, notably in the EU. These jurisdictional requirements placed greater emphasis on assurance and the IAASB, once again, recognised a strong demand for further clarity on assurance matters relating to sustainability information.

The IAASB has since progressed at a rapid pace to enhance its framework and guidance for assurance on sustainability-related reporting – working towards an overarching standard, *ISSA 5000 General Requirements for Sustainability Assurance Engagements*.

The aim is for the standard to be:

- 1) responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements
- 2) suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks, and
- 3) implementable by all assurance providers (i.e., professional accountants and other professionals performing assurance engagements).

The new standard would address:

- 1) both limited assurance and reasonable assurance
- 2) the conduct of an assurance engagement in its entirety, and
- 3) areas of sustainability assurance engagements where priority areas⁵ have been identified, and more specificity is required.

⁴ The project was supported by the World Business Council for Sustainable Development (WBCSD).

⁵ The IAASB identified following 6 topics as the priority area: 1) Difference in work effort between limited and reasonable assurance, 2) Suitability of criteria, 3) Scope of the assurance engagement, 4)

IESBA

The IESBA also recognised demand and a public interest need for high-quality ethics (including independence) standards to support trustworthy assurance engagements of sustainability-related reporting. It is therefore developing profession-agnostic ethics (including independence) standards for sustainability assurance engagements, i.e., standards that will apply equally to professional accountant and non-professional accountant assurance providers.

6.1.2 Timing

The standard setters are working towards issuing their exposure drafts by September 2023 (IAASB) and December 2023 (IESBA), respectively, and approving the standards on a timeframe that may allow for issuers and assurance providers to familiarise themselves with the content ahead of the end-2024 financial reporting period.

IOSCO welcomes the standards setters' commitment, progress and momentum to date and looks forward to the availability of high-quality sustainability-related reporting, assurance and ethics (including independence) standards.

Box 3. Governance structures of the standard setters

Standard setters must have a robust governance structure to deliver effective standards that can be widely adopted. Indeed, in its April 2020 report, IOSCO noted that “the level of global adoption of the IFRS and ISA standards, their perception as high-quality international standards, and their international legitimacy” reflect their governance structures. Important attributes of the governance structure include:

- (i) public accountability and independence of standard setting bodies
- (ii) rigorous, transparent and participatory due process
- (iii) a clear mission statement and a defined target audience
- (iv) a robust process for selecting topics for new standard setting that focus on matters where enhanced consistency, comparability and reliability would be meaningful.

IOSCO considers these are attributes that should be met by the standard setters, in addition to others such as quality of the standards.

The IAASB and the IESBA are independent standard-setting bodies that operate under a three-tiered structure that is overseen by the Monitoring Group. The standard setters are subject to the oversight of the Public Interest Oversight Board (PIOB).

IAASB's objective is to: 'serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice

Evidence, 5) The entity's system of internal control and its impact on the ability of the practitioner to obtain sufficient appropriate evidence, and 6) Materiality.

throughout the world and strengthening public confidence in the global auditing and assurance profession.’

IESBA’s objective is to: ‘serve the public interest by setting high-quality ethics standards for professional accountants and by facilitating the convergence of international and national ethics standards, thereby enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession.’

Both are required to be transparent in their activities and to adhere to due process that uses the Public Interest Framework⁶ as an integral part of their standard-setting. This includes obtaining the PIOB’s input on the appropriateness of items in the IAASB’s and the IESBA’s work plan, considering the PIOB’s input on the IAASB’s and IESBA’s responsiveness to the public interest, and obtaining PIOB public certification of approved new or revised standards.

6.1.3 Interactions with IOSCO, ISSB and other stakeholders

The standard setters have been coordinating closely with each other, and with sustainability reporting standard setters such as the ISSB and Global Reporting Initiative (GRI). They have also been engaging with other stakeholders in the wider stakeholder ecosystem, including assurance standard setters such as ISO and AccountAbility, throughout the development of their sustainability-related assurance and ethics (including independence) standards.

Given the timing and momentum in the ISSB’s development of corporate reporting standards, IOSCO welcomes the standard setters’ engagement with the ISSB to ensure the reporting standards are developed in such a way that supports robust assurance. Ongoing engagement with other stakeholders will also be key to ensuring a robust reporting framework-neutral approach.

IOSCO has historically interacted with the standard setters, including by making formal public submissions on proposed standards. For the development of assurance and ethics (including independence) standards for sustainability-related information specifically, IOSCO has engaged with the standard setters on an ongoing basis bilaterally as well as through the two roundtables held in 2022.

In addition to engaging with the standard setters, a key aspect of IOSCO’s assessment of the ISSB’s exposure drafts and future assessment of the final reporting standards is to assess whether they are sufficiently robust to support assurance that meets investors’ needs for reliable information.

⁶ See “Public Interest Framework for the Development of International Audit-Related Standards”, available at <https://ipiob.org/wp-content/uploads/2021/07/Public-Interest-Framework-2020.pdf>

(as published in the Appendix D of the Monitoring Group recommendations on “Strengthening the International Audit and Ethics Standard-Setting System”, July 2020 available at https://www.iosco.org/about/monitoring_group/pdf/2020-07-MG-Paper-Strengthening-The-International-Audit-And-Ethics-Standard-Setting-System.pdf)

Box 4. IOSCO's consideration of assurability in its review of ISSB exposure drafts

As part of its review of the ISSB's exposure drafts, IOSCO considered the key attributes of a standard that enable the preparation of sustainability-related information that is assurable. This included consideration of both the fundamental qualitative characteristics (relevance, materiality, and faithful representation), and enhancing qualitative characteristics (comparability, verifiability, timeliness, and understandability) identified in S1 General Requirements for Disclosure of Sustainability-related Financial Information.

Specifically, IOSCO focused on the following factors as part of this work:

- **Neutrality.** i.e., whether the requirements would result in disclosure that is free from bias. This includes consideration of whether the information disclosed would be factual or inherently subjective, favourable or unfavourable, and the level of measurement uncertainty in applying the requirements.
- **Completeness.** i.e., whether the requirements would result in information that does not omit disclosure that is material in the context of the entity. This includes consideration of whether all relevant terms in the requirements are defined by the standard, whether the application of the requirements will consistently result in all relevant information being disclosed, and whether a practitioner could reasonably assess if complete information is being provided (i.e., are there clear boundaries in determining whether information disclosed is complete).
- **Accuracy.** i.e., whether the requirements would result in disclosure that is free from error. This includes consideration of whether the information disclosed would be capable of being measured or evaluated sufficiently for accuracy and giving consideration to the assertions of existence and occurrence and whether there is a robust process used to produce the information.
- **Verifiability.** i.e., whether the requirements would result in disclosure that is possible to corroborate. This includes consideration of whether compliance with the requirements of the standard would result in disclosure and the availability of evidence that is verifiable by other parties, such as internal auditors or independent assurance providers.
- **Comparability.** i.e., whether the requirements would result in reasonably consistent evaluation of the subject matter when used in similar circumstances by different organizations. This includes consideration of whether the definitions are sufficiently robust to support development of similar/comparable information for similar entities, and whether all relevant terms and concepts in the requirements are defined or supported by sufficient application guidance.

IOSCO believes these factors will be important considerations by standard setters in relation to assurance of disclosures of risks and opportunities at the reporting entity and value chain level as standards evolve and new standards are developed.

6.2 Considerations for the standard setters

IOSCO's fact-finding and engagement work has indicated some of the key factors needed across the ecosystem to meet investors' needs for a global assurance framework that could enhance the reliability of sustainability-related corporate reporting.

Given the strong support for IOSCO to play a key role to support the development of a global assurance framework, IOSCO has identified some priority areas for standard setters' consideration as their work develops. These were set out in the September 2022 [statement](#) and are elaborated on below following further discussion during the roundtable in December 2022.

Profession-agnostic standards

IOSCO is encouraged by the trend towards issuers' submitting their sustainability-related disclosures for independent assurance.

IOSCO welcomes the standard setters' work towards profession-agnostic assurance and ethics (including independence) standards that build on the requirements and principles of existing standards, and that can apply across all reporting frameworks.

The further development of a global assurance framework will provide insight to issuers and assurance providers as they prepare for assurance engagements and support consistent, comparable, and reliable assurance over sustainability-related information.

Building from existing standards has been a clear stakeholder preference since the first roundtable in February 2022 and throughout the fact-finding work. In addition, ensuring that the standards are profession-agnostic is important given that assurance engagements on sustainability-related information are currently conducted by either or both audit firms and non-audit firm assurance providers. Further fact-finding engagement indicated investors' preference to continue to allow for this, provided that there is transparency around which provider has performed the engagement, what information is subject to assurance, the level of assurance provided, and the standards applied. IOSCO encourages the standard setters to consider the feedback of other stakeholders to help address challenges in developing profession-agnostic standards.

IOSCO welcomes the standard setting boards' approach to developing the assurance and ethics (including independence) standards and encourages continued progress. In addition to developing standards that are profession-agnostic, IOSCO welcomes that the standards are being developed in a way that can be applied across all frameworks used for reporting. This could support a wider application of the sustainability assurance standards at international level, including their use on a voluntary basis. IOSCO also welcomes consideration of matters such as quality management.

Standard setters' public updates on progress: the IAASB is developing its overarching sustainability assurance standard, the ISSA 5000, in such a way that it could be applied by all types of providers, and in respect of information targeted at all stakeholders (i.e., framework-neutral). The IESBA is developing ethics (including independence) standards to cover all sustainability assurance providers. The IESBA is considering whether those profession-agnostic standards should be integrated into the existing ethics (including independence) standards that apply to audits of financial statements or positioned into a separate part of its International Code of Ethics.

Timely progress

IOSCO encourages the standard setters to continue work to develop high-quality standards in a timely manner and in accordance with robust due process, engaging with stakeholders to help develop standards that are fit for purpose and meet the public interest.

As jurisdictions and firms prepare to implement sustainability-related corporate reporting standards, availability of global assurance and ethics (including independence) standards could support the consistency, comparability and reliability of information to meet investors' needs. Given such demand for, and pace of change relating to, sustainability-related information, it is important that standard setters understand market developments in this area and move forward quickly, while adhering to robust due process.

Standard setters' public updates on progress: the standard setters have been moving quickly to develop their standards. As at their December Board meetings, the IAASB is working towards consulting on the exposure draft of ISSA 5000 in September 2023; and the IESBA has approved its sustainability project (and a related project on the use of experts), and is working towards exposure drafts of the ethics and independence standards from those two projects in December 2023. Both aim to finalise their standards in time for preparers and assurance providers to familiarise themselves with the standards for the end-2024 financial reporting period. Both are carrying out outreach activities to understand market practices and developments.

Engagement

IOSCO encourages the standard setters to continue engaging with stakeholder groups across the ecosystem, including in emerging markets.

IOSCO suggests establishing arrangements to support coordination between the IAASB, the IESBA and providers of other relevant frameworks and standards, within the parameters of existing governance, due process and public interest mechanisms.

It is important that the standards setters engage with key stakeholders as they develop their standards. This includes both engagement with each other and providers of other frameworks and standards, and taking into account, as appropriate, any attributes of those frameworks and standards that may support their practical application. It also includes taking into account developments in financial reporting standards to support connectivity.

To support greater efficiency and take up of the new standards, irrespective of the type of provider, it will be important for the standard setters to understand what is currently driving the use of other frameworks. It will also be useful to understand how other relevant frameworks for subject matter specific issues may serve to complement assurance and ethics (including independence) standards for general purpose sustainability-related assurance engagements. Therefore, IOSCO suggests establishing arrangements to support coordination with providers of other frameworks. This could, for example, be achieved through an informal consultative group.

Stakeholders have also emphasised the importance of clarity in reporting standards as a part of robust assurance and ethics (including independence) standards. Global reporting standards should provide suitable criteria against which assurance can be performed in a consistent manner. IOSCO therefore encourages the standard setters to continue engaging with the ISSB

as it develops its reporting standards on sustainability topics to encourage sufficient clarity needed for assurance.

Standard setters' public updates on progress: the IAASB and the IESBA are coordinating and closely engaging on an ongoing basis as part of their project work. Both are also engaging with the ISSB as well as other relevant stakeholders such as the GRI, ISO and AccountAbility.

Addressing challenging issues

IOSCO encourages the standard setters to address challenging issues in developing their standards, leveraging existing frameworks where possible.

IOSCO encourages the standard setters to consider input from investors, regulators and other stakeholder groups identified in this report, including those emerging markets, developing additional guidance as necessary as practice develops.

Stakeholders have identified some challenging issues in reporting and assurance of sustainability-related information. As noted in Section 3, these include that sustainability-related reporting typically involves a more extensive narrative component, longer time horizons for forward-looking information and more reliance on information pertaining to the issuers' value chain (outside of the issuers' internal controls) than financial reporting. The information may also be disclosed in different formats and across different documents. Key areas for improvement that investors identified therefore relate to data quality and methodologies, and transparency over how materiality and forward-looking statements have been determined.

Scalability of requirements within the assurance standards is an important consideration for audits of smaller reporting issuers. This is an important area that the IAASB should be mindful of as it will also influence whether effective assurance services for sustainability-related information are made available for smaller reporting issuers.

IOSCO welcomes the standard setters' approach to identifying, prioritising and adding more specificity around the challenging areas for assurance of sustainability-related information and encourages further engagement with stakeholders as this area matures. In line with stakeholder views and suggestions at the December 2022 roundtable, IOSCO further encourages the standard setters to continue to leverage existing frameworks. For example, stakeholders consider existing guidance on forward-looking information and fair value to be good starting points with respect to some sustainability-related information.

IOSCO further encourages the standard setters to consider feedback received from investors to ensure that investors' needs are adequately addressed in developing the standards. This includes considering investors' expectations regarding the prioritization of assurance for certain targeted disclosure items such as GHG emissions. The standard setters should continue engaging with the ISSB to emphasise the importance of greater standardization in metrics, and methodologies for calculating them, in the reporting standards. IOSCO also encourages the standard setters to consider providing guidance on specific factors, such as using robust methodologies and rigorous risk assessment processes, as needed once the overarching framework has been developed. They may also consider developing guidance on providing assurance over information provided by issuers to others in their reporting chains.

Standard setters' public updates on progress: the standard setters are leveraging and building on existing standards to address the specific challenges relating to assurance of sustainability-related information.

- The IAASB is prioritising six topics that have been identified as particularly challenging. These relate to differentiating the work effort for limited vs reasonable assurance; defining the suitability of reporting criteria; scope of engagement; evidence, internal controls and practitioners' materiality. Other topics may be considered at a later stage in specific standards within the new ISSA 5000 series. The IAASB also continues to address scalability in various aspects of its standard setting processes and projects.
- The IESBA's focus, among others, is on addressing the specific issues that might arise in sustainability reporting and assurance pertaining to ethics (sustainability-specific definitions, conflict of interests, accepting sustainability information at face value when produced by expert or technological solutions, pressures to act unethically in face of unrealistic sustainability-related goals and targets etc.) and independence (e.g., applicable set of independence standards, appropriate independence period, management responsibilities, provision of non-assurance sustainability-related services, etc.).

Connectivity

IOSCO encourages the assurance and ethics (including independence) standard setters to continue to engage with the ISSB and the IASB to ensure the reporting standards have regard to the assurance of sustainability-related information.

Ensuring connectivity between financial and sustainability-related information is a key investor need and area for improvement. It is important to foster compatibility between international financial reporting, sustainability reporting, and assurance and ethics (including independence) standards. IOSCO encourages the standard setters to consider the interconnectivity with audits of financial statements. For example, a key consideration may be how to provide a framework that supports quality among assurance providers that may not have experience with audits of financial reporting. IOSCO welcomes the standard setters' engagement with both the ISSB and IASB and encourages continued dialogue.

Standard setters' public updates on progress: The standard setters are engaging closely with the ISSB and IASB.

Transparency

IOSCO encourages the IAASB to set clear reporting requirements that promote transparency around the assurance engagement, including disclosure of the standards and requirements applied.

IOSCO encourages the IESBA to establish clear transparency requirements to enable audit committees and other stakeholders to assess the independence of assurance providers.

Through the fact-finding, IOSCO observed that it is currently not always clear which items have been subject to assurance, which standards have been applied, or the level of assurance provided. Investors need to understand whether third-party assurance engagements have been

conducted in accordance with high-quality assurance and ethics (including independence) standards – whether carried out by an audit firm or a non-audit firm assurance provider.

IOSCO therefore encourages the IAASB to consider how their overarching assurance standards can support transparency, irrespective of the type of provider and whether the standards are applied on a mandatory or voluntary basis. IOSCO further encourages the IESBA to consider appropriate transparency requirements to enable audit committees and other stakeholders to assess assurance providers' independence. The standard setters may also consider setting an expectation that assurance providers report suspected greenwashing to relevant regulators.

Capacity building

IOSCO encourages the standard setters to continue their:

- *outreach work, including with key stakeholder groups, accounting and other relevant bodies, and providers of education*
- *development of guidance, as needed*
- *consideration of the needs of emerging markets and other stakeholders that may be less familiar with assurance over sustainability-related information.*

Investors recognise that progress towards a global assurance framework for sustainability-related information will take time. Stakeholders across the ecosystem will need to adapt to both new sustainability-related reporting standards and to enhanced expectations among increasingly sophisticated users of sustainability-related information across financial markets.

IOSCO considers the standard setters have a role to play in working with others in the ecosystem to support capacity building. This could be through ongoing engagement to understand market developments and challenges, and by providing support and guidance as appropriate, particularly considering the needs of emerging markets and other stakeholders that may be less familiar with sustainability reporting and assurance.

Transparency of the standard setting process is also key to raising awareness and ensuring stakeholders have sufficient time and information to provide input. This will in turn also help standard setters to identify further need and opportunity for support.

Standard setters' public updates on progress: The standard setters have outreach programmes to engage with stakeholders throughout their standard development process. The IAASB plans to review its EER Guidance and signpost to existing guidance as appropriate in the first instance (without plans to develop any new guidance at this stage). The IESBA is considering developing non-authoritative guidance in due course to help non-professional accountants apply the new ethics (including independence) standards.

7. The role of IOSCO

IOSCO welcomes the progress towards a global framework of sustainability-related reporting standards, and assurance as a part of the ecosystem. IOSCO remains committed to supporting its members and other stakeholders on the journey to improve the consistency, comparability and reliability of corporate sustainability-related reporting, including assurance of the sustainability-related information, whether introduced on a voluntary or mandatory basis.

Further to this report, IOSCO will continue its work, including engagement with stakeholders, with a focus on the following key areas:

Timely progress

IOSCO welcomes the standard setters' progress and will consider whether their standards constitute a robust and effective global framework for assurance that meets investors' needs and expectations.

IOSCO welcomes the standard setters' progress to date and their commitment to develop high-quality international, profession-agnostic assurance and ethics (including independence) standards to support assurance over sustainability-related information for either mandatory or voluntary use. IOSCO will continue to engage with and monitor the standard setters' developments.

The standard setters have committed extensive resources with a goal to complete their work to develop high-quality standards by late 2024. Through early engagement with the standard setters' work, issuers and assurance providers may be able to familiarise themselves with the standards such that they are able to apply them, at least voluntarily, soon after they are finalised.

IOSCO has previously stated that it would like to see both international sustainability-related corporate reporting standards and international sustainability-related assurance and ethics (including independence) standards ready for use for the end-2024 financial reporting period. IOSCO also emphasizes that the process for developing these standards must be transparent and the standard setters must adhere to robust due process that uses the Public Interest Framework as an integral part of their standard-setting process.

In addition, IOSCO recognises that, once the reporting, assurance and ethics (including independence) standards are developed, application dates may be later in some national jurisdictions due to domestic standard setting and consultation periods, or the standards may be available for use on a voluntary basis.

Nevertheless, it is desirable that all three sets of standards should be available for at least voluntary reporting and assurance in a timely manner, without compromising quality in the standard-setting process. IOSCO therefore encourages pace in this area, subject to established robust due processes ensuring the development of high-quality standards.

IOSCO may consider whether the final assurance and ethics (including independence) standards could form a sound basis for assurance engagements over general purpose sustainability-related reporting. To do so, IOSCO will need to consider whether the standards are sufficiently robust to support assurance engagements that meet investors' needs for reliable information. If considered fit for purpose, IOSCO could encourage members to assess the

extent to which they might adopt, apply, or otherwise be informed by the standards in their jurisdictions.

Engagement

IOSCO will continue its engagement with reporting, assurance and ethics (including independence) standard setters and use its convening role to bring stakeholders together.

The need for engagement across the sustainability reporting ecosystem has been a clear message throughout IOSCO's fact-finding and roundtables. IOSCO will continue to use its convening role to bring stakeholders together as appropriate. IOSCO will also encourage the standard setters to continue their stakeholder outreach as they develop their standards.

In addition, IOSCO will continue its engagement with the ISSB on the development of its reporting standards. IOSCO's criteria for assessing whether the final ISSB standards are fit for potential endorsement include whether the standards can support the application of a robust assurance framework for information reported in accordance with those standards. The process for IOSCO's potential endorsement of the ISSB's standards will begin after the ISSB has issued its final standards. IOSCO will also continue to engage with the IFRS Foundation on the development of a digital taxonomy for sustainability-related information.

Capacity building

IOSCO will continue to support capacity building on sustainability-related information across the ecosystem.

IOSCO has already established a capacity building programme with an initial focus on building readiness among its members for the implementation of the ISSB's standards, if IOSCO endorses them. This has involved convening forums in which to raise awareness, share experience in existing sustainability-related reporting as well as to explore practical considerations in implementing the ISSB's standards.

IOSCO will explore whether, and if so, how to embed assurance into this programme. This includes consideration of appropriate timing to meet the aim for standards to be available for the end-2024 financial reporting period, at least on a voluntary basis; ensuring appropriate support for small and medium size enterprises and emerging markets; and considering opportunities for more specialised training, e.g., on industry-specific matters.

IOSCO will consider its role in supporting the development of technical expertise and competence across all key stakeholder groups. As part of this, IOSCO will consider the role of technology in helping to support the development of systems, processes and data analytics tools necessary to create an effective reporting and assurance ecosystem. For providers specifically, this may include consideration of appropriate training, qualification and accreditation for both audit and non-audit firm assurance providers that would give investors confidence that assurance engagements have been conducted to an equivalent high quality.

Role of securities regulators and other relevant authorities

IOSCO will support securities regulators and other relevant authorities' consideration of assurance and ethics (including independence) standards.

Securities regulators may consider how to adopt, apply or otherwise be informed by the standards in a way that promotes consistency and comparability while recognising the different needs, resources and capabilities of their markets, as well as the legal frameworks. Securities regulators may also consider how to support readiness and capacity building.

They may also explore how regulatory tools may be used to address potential issues arising across the wider ecosystem. Important considerations in the implementation of any regulatory expectations in this area will include: (i) the scaling and phasing of any new requirements or, where appropriate, encouraging voluntary use, taking account of matters such as the size, nature and sustainability-related profile of the reporting entity and the overarching objective of ensuring consistent, comparable and reliable sustainability-related information that meets investors' needs; and (ii) how to help issuers manage liability and other risks as they begin to build capabilities and adapt to new reporting and assurance expectations. For example, consideration may be given to introducing safe harbours for sustainability-related reporting, or requirements around internal controls and governance for sustainability-related information. IOSCO will continue to support securities regulators as they consider these matters, to foster effective implementation of the standards globally.

Given the variety of stakeholders involved in this space, oversight of assurance may not fall within the remit of audit regulators in some jurisdictions. It may be the responsibility of other relevant authorities, or in some cases securities regulators may have or consider taking on oversight responsibilities. Accordingly, IOSCO will engage with audit regulators, securities regulators and other relevant authorities that have a role to play in the implementation and oversight of regulatory expectations in this area. Within their respective jurisdictions, securities regulators may also wish to engage with other relevant authorities.

IOSCO will continue to update its members and other stakeholder on progress and developments around the matters and considerations set out in this report, with a view to support the timely development of a robust ecosystem for sustainability-related reporting.

Annex: Developing capabilities for sustainability-related reporting and assurance

In considering capacity building in Section 4, it was observed that developing an implementation plan could support high-quality reporting of sustainability-related information and facilitate an efficient and effective assurance process. Based on IOSCO’s stakeholder engagement and supplementary analysis, some potential considerations for issuers during the implementation phase and beyond are summarised in the table below.

Objective	Implementation phase	Ongoing reporting
Issuer capability and capacity (e.g., talent, systems, how disclosure requirements impact the issuer)	<ul style="list-style-type: none"> • Management to develop implementation plan* for reporting pursuant to jurisdictional requirements, or if applicable, ISSB • Board and management to invest in relevant skills, capabilities, systems, processes, data sources and analytical tools • Audit committee to ensure the plan is comprehensive and achievable • Audit committee to monitor progress and hold management account • Management report to audit committee, and audit committee to report to the market on progress 	<ul style="list-style-type: none"> • Ongoing oversight of management capability and processes • Responsible for sustainability-related reporting
Audit committee knowledge	<ul style="list-style-type: none"> • Appropriate knowledge developed 	<ul style="list-style-type: none"> • Assurance provider applies appropriate experience and expertise
Internal and external responsibility	<ul style="list-style-type: none"> • Should sustainability experts or the finance team be responsible for sustainability-related reporting? • Should the auditor of the financial report or a non-audit 	<ul style="list-style-type: none"> • Ensure sustainability-related reporting and financial report work together to ‘tell the story’; the reports use consistent information and assumptions • Review arrangements post implementation

Objective	Implementation phase	Ongoing reporting
	<ul style="list-style-type: none"> • firm assurance provider be appointed? 	
Assurance provider	<ul style="list-style-type: none"> • Capability and capacity building, including quality management, aligns with issuer implementation plan 	<ul style="list-style-type: none"> • Provider has appropriate experience and expertise, including use of own experts
Independent assurance	<ul style="list-style-type: none"> • Selected assurance provider meets robust standards of ethics, including independence 	<ul style="list-style-type: none"> • Standards of ethics, including independence continue to be applied, whether or not mandatory
Value chains	<ul style="list-style-type: none"> • Establish arrangements with entities in supply chains to receive and provide information, with any required independent assurance • Develop models where information is not available from entities in the value chain 	<ul style="list-style-type: none"> • Timely ongoing exchange of information with entities in value chain which required independent assurance • Models continue to be relevant and reliable
Supporting quality assurance	<ul style="list-style-type: none"> • Implementation plan has regard to assurance requirements 	<ul style="list-style-type: none"> • Audit committee reviews experience, expertise and independence of assurance providers • Quality information and analysis is provided to the assurance provider on a timely basis
Ensuring an evidence base for sustainability-related claims	<ul style="list-style-type: none"> • Where appropriate, developing strategies to meet their own transition and ‘net zero’ commitments or targets 	<ul style="list-style-type: none"> • Audit committee and assurance provider alert to possible greenwashing
Social impact information	<ul style="list-style-type: none"> • Plan information and level of assurance 	<ul style="list-style-type: none"> • Report information with planned assurance

*The implementation plan could cover key elements such as:

- Recruiting and training staff
- Assessing reporting obligations and information requirements
- Developing sound systems, processes and controls to support quality reporting
- Ensuring records and analysis clearly support external reporting
- Establishing governance, reporting and review processes
- Where appropriate, developing strategies to meet their own transition and ‘net zero’ commitments or targets
- Arrangements for reliable information from value chains with necessary independent assurance and developing models where information is not available
- Arrangements to provide information to value chains with necessary independent assurance
- Appointing an assurance provider
- Developing reporting formats, and
- Internal dry-runs of reporting.