

IOSCO STATEMENT



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The Board of the International Organization of Securities Commissions

IOSCO Statement on the consultation on the Proposed International Standard on Sustainability Assurance (ISSA) 5000 and the related global outreach program

1 December 2023

The International Organization of Securities Commissions (IOSCO) congratulates the International Auditing and Assurance Standards Board (IAASB) on achieving an important milestone by consulting on their Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. IOSCO also recognizes the extensive and thorough outreach program conducted by the IAASB during the consultation period in which IOSCO representatives took an active role.

IOSCO welcomes the ambition of the proposed standard and reiterates its support for this work. The final standard could support high-quality assurance over sustainability-related information and may enhance the consistency, comparability and reliability of such information provided to the market.

In its September 2022 [statement](#), IOSCO set out some key standard setting considerations as the landscape for sustainability assurance develops. In March 2023, IOSCO published a [report](#) setting out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting.

IOSCO has analyzed the Proposed ISSA 5000 and monitored the stakeholder feedback around the world, including with reference to the considerations in the March 2023 report. Having also engaged with the IAASB to provide a capital markets perspective, IOSCO encourages the IAASB to consider some of the resulting key messages and priorities.

IOSCO observations and key areas for IAASB's consideration on the Proposed ISSA 5000

Based on its review of the Proposed ISSA 5000 and additional stakeholder engagement, IOSCO has outlined some general observations and key areas for IAASB's consideration in developing the final standard and providing any additional guidance.

General observations

IOSCO commends the IAASB for its timely development of the Proposed ISSA 5000 in response to the **public interest** need for a profession-agnostic, sustainability assurance standard that supports the consistent performance of high-quality sustainability assurance engagements.

IOSCO supports the general approach taken in the Proposed ISSA 5000, including:

- the consideration of the standard-setting characteristics set out in the **Public Interest Framework (PIF)** as criteria to assess the proposed standard's responsiveness to the public interest
- the consideration of the **entirety of a sustainability assurance engagement**, from acceptance or continuance to reporting
- building upon **extant requirements** in relevant International Standards on Assurance Engagements (ISAEs)
- the identification of those International Standards on Auditing (ISAs) that include concepts appropriate to an overarching standard for assurance engagements on sustainability information, and the selection of relevant requirements and application material from those ISAs.

IOSCO also makes the following general observations:

- While it is important that an international sustainability assurance standard be principles-based, it should also be **sufficiently detailed** to promote consistent application and behavior by **all assurance practitioners** and be suitable for use across **all reporting frameworks**.
- Although the standard will inevitably be drafted using technical language (as is common in assurance standards), we believe a **profession-agnostic assurance standard** should provide, or be supplemented by, **clear guidance** suitable for use by **all types of assurance providers**, including guidance on key IAASB definitions and terminology.
- We also encourage further guidance and refinement of requirements in other areas – including the work effort and procedures required for limited and reasonable assurance engagements. These are elaborated in the next section.
- An assurance standard should promote a high degree of transparency, irrespective of the type of provider and whether the standards are applied on a mandatory or a voluntary basis, which the proposed standard appears to do. This broadly aligns with the recommendations in our March 2023 report which highlighted insufficient transparency on certain matters (which items have been subject to assurance, which standards have been applied, or the level of assurance provided), however noting that the jurisdictional determinations will be the ultimate driver of such requirements, including the form of reporting on assurance.

Key areas and priority topics for the IAASB's consideration

In addition to the observations mentioned above, IOSCO encourages the IAASB to consider these five priority topics in its efforts to develop a high-quality international assurance standard:

1. Definitions, requirements and guidance to support profession-agnostic application without diluting high-quality expectations and requirements

IOSCO agrees that the principles-based requirements in the Proposed ISSA5000 are capable of being applied for all sustainability assurance engagements. However, the requirements and application material may need to be expanded and/or clarified over time to encourage more consistent application and scalability in the conduct of sustainability assurance engagements. This is particularly important to support assurance engagements by non-accountant assurance practitioners, thereby helping to ensure that equivalent quality and performance standards are expected and upheld.

A profession-agnostic assurance standard needs to provide clear guidance for all types of providers. We therefore encourage the IAASB to develop implementation guidance to facilitate the consistent application of the requirements in the Proposed ISSA 5000, for example (but not limited to): (1) in a group sustainability assurance engagement situation; (2) to remind auditors of their responsibility under ISA 720 (Revised), *The auditor's responsibilities relating to other information* and to support the proper implementation of the requirements in the Proposed ISSA 5000 regarding other information; and (3) on considerations around the connectivity of information, including the necessity of communications between financial statement auditors and sustainability assurance providers.

2. Continue to differentiate the work effort between limited and reasonable assurance

Generally, we consider that the Proposed ISSA 5000 provides an appropriate basis for performing both limited assurance and reasonable assurance engagements. We support the IAASB's approach of addressing both limited and reasonable assurance in a single overarching standard. The columnar approach provides appropriate differentiation of the work effort between limited and reasonable assurance for relevant elements of an assurance engagement.

As with other aspects of the standard, additional guidance on certain elements may be useful as practice evolves and in response to questions that arise during implementation of the standards.

3. Materiality

IOSCO welcomes the IAASB's Frequently Asked Questions (FAQ) on *The Application of Materiality by the Entity and the Assurance Practitioner*, published in October 2023 in response to stakeholder demand.

We generally support the approaches in the Proposed ISSA 5000 regarding the practitioner's consideration of the entity's "materiality process" and determining materiality for numerical disclosures. However, we believe the requirement to *consider* materiality for narrative disclosures should be strengthened. In the Proposed 5000, the performance requirement associated with "consideration" is not always clear, could be perceived as inherently optional, and may result in inconsistent application.

We further note that the guidance provided in the Proposed ISSA 5000 only addresses quantitative factors to consider when determining materiality for numerical disclosures and does not address qualitative factors. We believe that the guidance provided in the Proposed ISSA 5000 should also give consideration to qualitative factors when determining materiality for numerical disclosures.

More broadly, we believe the Proposed ISSA 5000 should be clear that materiality will be anchored in the applicable sustainability reporting framework.

4. Assurance of forward-looking sustainability-related information

IOSCO has previously noted that, relative to financial reporting, sustainability-related reporting typically involves a more extensive narrative component, longer time horizons for forward-looking information and more reliance on value chain information. We support the approach taken in the Proposed ISSA 5000 to address estimates and forward-looking information in the same section of the standard.

We emphasize the importance of clarity of requirements in this area, noting that forward-looking sustainability-related information often involves significant complexities, including estimation uncertainty and the use of judgement. We therefore encourage further clarity and specificity of requirements to support consistent application by practitioners.

5. Susceptibility of sustainability information to material misstatement

We support the IAASB's approach to addressing the susceptibility of sustainability information to material misstatement, whether due to fraud or error. We note that the IAASB makes numerous references to fraud throughout the requirements and application material. From a public interest standpoint, we encourage the IAASB to include more specific requirements and application guidance related to fraud in the Proposed ISSA 5000 and clarify that the requirements could be applicable to both limited and reasonable assurance engagements.

We welcome the IAASB's consideration of greenwashing. That said, we note that, while the term "greenwashing" is not included in the main text of the standard, it is referenced in the accompanying Explanatory Memorandum under the topic of fraud. Recognizing that "greenwashing" is not a defined term and that it may occur independently of fraud, we encourage caution and clarity in the use of this terminology in the final standard. Since greenwashing could manifest more subtly – for instance, through the tone or emphasis in an entity's disclosures – there may be a case to consider this as part of the proposed "stand back" procedures in the standards.

Similar to the objectives of the IAASB's current project on fraud, we suggest clarifying the role and responsibilities of the practitioner. We encourage the IAASB to include specific requirements, application materials and appendices to promote consistent application when considering material misstatement due to fraud. We also suggest enhancements to reinforce the importance, throughout the assurance engagement, of the appropriate exercise of professional skepticism in fraud-related assurance procedures.

We hope the IOSCO's observations support a timely finalization of the standard and promote an effective global sustainability assurance standard. Also, we encourage the IAASB to continue to

closely coordinate with the International Ethics Standards Board for Accountants (IESBA) and other relevant bodies, including the International Sustainability Standards Board, to address topics of mutual interest and align and promote the consistency of definitions and terminologies.