IAASB Asia Pacific Roundtable
Remarks from Kerrie Waring, CEO, ICGN
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Corporate sustainability reporting

Not long ago, sustainability reporting meant a summary and nice pictures about the company's corporate social responsibility activities, often **disconnected** from the business activities.

For years, there has been an **alphabet soup** of voluntary sustainability reporting standards where companies could choose what to report and quality varied.

We have come a long way, with the creation of the ISSB, IOSCO's endorsement of the standards, and now the work of IAASB and IESBA. It is remarkable how everyone has worked together to achieve this **in record time.**

ICGN **supports the mission of the ISSB** to develop a global baseline of sustainability disclosures for companies to provide **complete, standardised, decision useful** information about sustainability related risks and opportunities.

We **welcome the building block approach**, based on TCFD recommendations and SASB's industry specific standards, and a focus on financially material information which we can all agree on globally. National regulators can then go further and ask for more information.

Both investors and stakeholders are also interested in the impacts that a company may have on society and the environment, so **we also welcome Europe's approach.**

Investors need to be able to **compare companies across markets and sectors** in assessing and pricing corporate value and over time.

Corporate sustainability disclosures are key to **supporting investment, risk management and stewardship decisions**, and for investors' own reporting to their beneficiaries.

ICGN Focus

Now that the ISSB has published its first standards and IOSCO has endorsed them, ICGN would like to see:

- **Mandatory** corporate sustainability reporting, required by regulators, aligned with ISSB standards (as a minimum), particularly on climate indicators and transition plans, to enable investors to assess their portfolio's carbon footprint.

- Reporting by **small companies** – listed and unlisted – as well as larger ones, with some proportionality, given they drive roughly 80% of our economies.

- **Simultaneous publication** of financial statements and sustainability reporting– with assumptions that are clearly linked and explained. The financial consequence of sustainability impacts on a company should be consolidated within the financial statements, including in the Notes.

- **Laymen friendly drafting**, preferably in English, as foreign investors can't rely on unofficial translations to make important investment and voting decisions, especially for some sensitive issues.

- **Interoperability of ISSB and ESRS standards** (among others) to help address company concerns around the reporting burden. There is a lot of good guidance now publicly available.

Corporate sustainability reporting assurance

Investors make decisions based on reliable corporate sustainability disclosures, decisions that will impact their beneficiaries' returns, decisions that will be scrutinized by regulators who are concerned about greenwashing. Investors must therefore be able to rely on this information which is why assurance is so imperative.

It is incumbent on auditors to ensure that the financial statements provide a fair representation of a company's economic health, and that sustainability related assumptions and judgements are sound under existing auditing standards.

We therefore **welcome Europe's mandatory approach for 'limited' assurance of sustainability reporting, in addition to financial statements** and progressing this to reasonable assurance over time. We note that the US SEC also requires this in the draft climate rule. We encourage Asian markets to follow suit, noting that Singapore and Japan already recommend this.

While we welcome this, limited assurance is significantly short of what would be considered a proper audit, and the scope of the information assured is not always clear to investors. **ICGN hopes that 'reasonable assurance' of sustainability information will become the norm over time.**

We **welcome the creation of international standards** by the IAASB and IESBA, under the umbrella of PIOB, **to ensure the quality of assurance engagement.**

And we welcome the proposed ISSA 5000, and the fact that it:

- Applies to information about all sustainability topics.
- Is standard agnostic.
- Can be applied to both limited and reasonable assurance engagements.

- Is principle-based and allows the assurance practitioner to apply their professional judgment.

<u>Assurance obstacles</u>

There are some obstacles to overcome, before high quality assurance of sustainability information becomes the norm.

- We need a **common language** around how we define 'sustainability' but some companies are only just starting to report information, so investors understand that it's a journey.

- Auditors (and other assurance providers) **need to build capacity and expertise**, given that sustainability reporting covers a broad range of very complex topics.

- Sustainability **data is often forward-looking and based on estimates** or dependent on other companies in the supply chain. Many areas lack clear quantifiable metrics (e.g., human rights) and methodologies. This is a new and difficult territory for assurance providers.

- **Data systems need to be rigorously re-structured**, facilitated by greater use of AI, to properly collect data and document information. There must be quality control systems akin to what we have for financial information.

- **Strong ethics and independence** will be key, and we look forward to seeing the draft standards from IESBA at the end of the year.

- We also recognise that there is a **debate around whether only auditors should assure sustainability information** (efficiently connecting with the audit of financial statements) or whether it could be a different assurance provider (to ensure independence). This needs to be resolved.

- Whatever the approach it is highly likely that we will see an **increase in 'qualified' assurance opinions** as companies and auditors get to grips with this sophistication of this information.

<u>Governance/internal controls</u>

I would like to emphasise that a key step towards managing these obstacles and ensuring the quality of sustainability reporting assurance is **strong governance, risk oversight and internal controls**. This is a crucial in building confidence with investors and ensuring that **disclosure is reliable and verifiable.**

There must be **Board oversight and affirmation** for this process, and they should formally recognise their responsibility for the governance of sustainability in publicly disclosed mandates.

Boards should also **demonstrate they have the resources** to do so, which means being comprised of directors with knowledge of sustainability matters. In particular, Audit Committees should demonstrate competence for the oversight of sustainability and how this impacts the financial statements.

And we need **constructive dialogue** between investors, audit committees and auditors, particularly around any significant issues arising from the audit relating to sustainability.

We would therefore welcome a common language for reporting around the **governance of sustainability,** so we were pleased when the ICGN Global Governance Principles and the G20-OECD Principles were referenced in the EU Corporate Sustainability Reporting Directive as authoritative global governance frameworks of most relevance to users.

This is a good start, but we need to coordinate references to what constitutes 'good governance' with other pieces of legislation (e.g., SFDR and CSRD) and standards to marry what companies are reporting with what investor are assessing.

International standards

The draft should be clear that international standards of responsible business conduct are a relevant reference point for the assurance practitioner, alongside applicable legislation, and regulation.

> Paragraph 100 states that, *"The practitioner shall obtain an understanding of (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, in the context of the entity's sustainability information; and (b) how the entity is complying with that framework."*

ESRS and GRI Universal Standards draw on the expectations set out in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. These are critically relevant standards for an entity in terms of:

- requirements passed down by buyers to companies in their supply chain.
- lawsuits and administrative complaints which are referencing the UN Guiding Principles/OECD Guidelines.
- growing investor expectations of compliance with international standards (which is also reflected in the EU SFDR and the indicators that investors must report against, including violations of these international standards by portfolio companies.

Referring assurance providers solely to the legal and regulatory framework will therefore miss critical considerations in the assurance process regarding sustainability information and assertions. An oblique reference in paragraph A278 to, "the concept of due diligence regarding impacts, the nature and extent of those impacts" is a good starting point but does not meet the need and may not be fully understood in its implied cross-reference to the international standards by assurance providers.

Ethical standards

ICGN supports the premise in ED-5000 that ethical requirements and quality management systems are imperative to support the quality and consistency of sustainability assurance engagements.

For professional accountants, ethical requirements comprise the provisions of the IESBA Code, together with national requirements which are usually more demanding. The challenge is that the process of sustainability reporting and assurance involves many non-accountants.

The ED-5000 says: *"For other practitioners who are not professional accountants, relevant ethical requirements comprise the ethical requirements in relevant law, regulation or professional requirements related to assurance engagements that are **at least as demanding** as the IESBA Code."* This is too general and causes the risk of interpretation of 'what is as demanding' as the IESBA Code.

IESBA is reviewing its Ethics and Independence Standards for both sustainability reporting and sustainability assurance, and the scope should cover not only accountants and auditors but all **sustainability assurance providers**, irrespective of their professional background. This important and something we welcome.

On the other hand, non-audit firms will be subject to the same level of standards as audit firms in future. This may have an adverse impact on small consulting firms who may not be able to comply and therefore drop out, making the market more heavily reliant on a few large firms.

Concluding remarks

As investors develop their stewardship activities, they are increasingly holding Boards accountable, such as by voting against directors on the Audit Committee in case of insufficient or misleading sustainability disclosures.

Disclosure is not an end in itself – it's the start of a conversation between companies and investors in their mutual responsibility to preserve and enhance long term value upon which we all rely.

And rigorous audit and assurance are cornerstones to this dialogue, instilling investor confidence around the quality and integrity of information to help ensure the efficient allocation of capital and investment decision-making.

ENDS.