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International Auditing and Assurance Standards Board  
529 5th Avenue  
New York, NY 10017

Reference: Discussion Paper - Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

Ladies and Gentlemen:

The American Institute of Certified Public Accountants (“AICPA”) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board’s (“IAASB”) Discussion Paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements* (the “Discussion Paper”). We support the IAASB’s efforts to facilitate an open discussion about the IAASB’s potential role and that of others in a holistic process to support credibility and trust in EER reports and are pleased to offer comments with regard to questions raised in the Discussion Paper. We believe the global trend in reporting is towards Integrated Reporting and thus believe it is essential that the profession position itself to play an important role as the broader practice of Integrated Reporting gains traction among preparers.

- Q1**  
**Section III describes factors that enhance the credibility of EER reports and engender user trust.**
- a. Are there any other factors that need to be considered by the IAASB?**
  - b. If so, what are they?**

We do not believe that any other factors need to be considered - we believe the broad categories of a “Sound Reporting Framework”, “Strong Governance”, “Consistent Wider Information” and “External Professional Services and Other External Inputs” describe the factors that enhance the credibility of EER reports and engender user trust.

## Q2

**Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.**

- a. Are there other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility and trust?**
- b. If so, what are they?**

We do not believe that there are any other services that the IAASB should consider.

## Q3

**Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.**

- a. Is this sufficient when EER information is included in the annual report; or**
- b. Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to enhance credibility and trust when EER information is in the annual report?**

We believe the determination of the sufficiency of the auditor’s responsibilities over other information included in the annual report is a market-place decision. As such, we’d strongly encourage seeking feedback from the users of the reported information (i.e., providers of financial capital) on this topic to help ensure that their needs and expectations are met. With the rapidly evolving reporting landscape, the trend towards inclusion of increasing amounts of EER information in annual reports, and increasing interest in such information; we believe that at some point in the future users of the EER information may prefer to have such information subjected to an assurance engagement. At such time, the auditor’s responsibilities under ISA 720 may become insufficient, we thus strongly encourage ongoing monitoring of market-place needs and expectations in this area.

## Q4

**Section IV describes the different types of engagements covered by the IAASB’s International Standards and Section V suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.**

- a. Do you agree?** Yes, we believe that the most effective way to begin to address the challenges in relation to EER assurance engagements would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.

In the U.S., in order to address challenges associated with attestation engagements on sustainability information, we considered whether to develop a sustainability assurance standard or whether to develop guidance to support practitioners in applying our existing attestation standard (which is very similar to and has been converged with ISAE 3000). As part of the deliberations and in attempting to

draft a new standard we concluded that development of guidance, rather than a new subject-matter specific assurance standard was the best approach given that 1) sustainability reporting is still an emerging area with no authoritative standards or frameworks, and 2) we could not identify any significant specific requirements beyond those in our existing attestation standard for assurance engagements on sustainability reporting. Similarly, we believe that exploring guidance to support practitioners in applying the existing International Standards for assurance engagements would be the most effective way for the IAASB to address the challenges associated with EER assurance engagements.

- b. If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements, see Q6-7).** In the U.S., we are not aware of and are not currently anticipating any significant demand for agreed-upon procedures or compilation engagements with regard to emerging forms of external reporting and thus do not believe that guidance to assist practitioners in applying the requirements of agreed-upon procedures or compilation engagements is necessary.
- c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.** N/A

#### Q5

**The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013.**

- a. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.**
- b. If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?**

Although the AICPA believes there may be instances where subject-matter specific assurance standards are required, we do not believe there is a need for a subject-matter specific assurance standard in relation to EER assurance engagements. Please refer to the response to Question 4a for more information.

#### Q6

**Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. Do you agree or disagree and why?**

Yes, we agree that it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. As mentioned in question 4 above, we, in the U.S., reached a similar conclusion as part of our

deliberations about whether to develop a new sustainability-specific assurance standard or guidance for the application of the existing attestation standards to sustainability information. We concluded that development of guidance, rather than a new subject-matter specific assurance standard was the best approach given that 1) sustainability reporting is still an emerging area with no authoritative standards or frameworks, and 2) we could not identify any significant specific requirements beyond those in our existing attestation standard for assurance engagements on sustainability reporting.

## Q7

**Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements and suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB's existing International Standards to EER assurance engagements.**

- a. **Do you agree with our analysis of the key challenges?** Overall, yes – unless otherwise noted below.
- b. **For each key challenge in Section V, do you agree that guidance may be helpful in addressing the challenge?** For the most part, yes. However, with regard to the challenge associated with the maturity of governance and internal control processes we believe that although guidance for the assurance practitioner could be helpful we do not believe that this would address the source of the challenge, which we believe originates at the organization. We believe it would be more helpful to develop guidance for organizations (accountants in industry) with regard to implementing and maintaining suitable governance and internal control processes and simultaneously emphasizing the need for accountants and internal auditors at organizations to be involved in these areas (and providing them with appropriate tools/guidance to help them get involved). Perhaps such guidance could be developed by the International Federation of Accountants (IFAC).
- c. **If so, what priority should the IAASB give to addressing each key challenge and why?** Despite the assurance challenges described in the Discussion Paper, it should be noted that assurance practitioners are currently assuring EER using existing attestation standards, thus while there are a number of matters where guidance or greater clarity could assist assurance practitioners we believe that developing guidance to address the challenges associated with 1) the form of the assurance report, 2) the lack of maturity in governance and internal control over EER reporting, and 3) measurement uncertainty (see response to question 7e) should be considered high priorities as further explained below.

One of the primary concerns expressed by investors (along with preparers and other users) is the difficulty they have extracting meaning or useful information from assurance reports. We have however also heard that investors believe it is important that sustainability information be independently verified as evidenced by an Environmental, Social and Governance (ESG) Survey published by the CFA Institute in June 2015. The survey revealed that 69% of the 1,325 portfolio

managers and research analysts that responded to the survey indicated that they believe it is important that ESG disclosures be subject to independent verification. Given the aforementioned, we believe that resolving investors' concerns with regard to the form of the assurance reports could increase the value of assurance to investors (and other users of EER information) and ultimately contribute to increased demand for EER assurance (also see response to question 8a). Given the potential impact on demand for EER assurance, we believe that addressing the challenges associated with the form of the assurance report (as described in paragraph 132 on page 39 of the discussion paper) should be considered a high priority. Without demand for assurance services, there would be little need to address the other assurance challenges. As part of addressing this challenge, we believe it will be essential to obtain input from assurance report users regarding their primary concerns/needs in order to address them appropriately.

Discussions with assurance providers have revealed that the lack of maturity in governance and internal control over EER reporting processes and the challenges associated with measurement uncertainty (see response to question 7e) pose some of the more significant challenges to assuring EER information. As a result, we believe resolving these challenges (as described in the responses to questions 7b and 7e) should also be considered a high priority.

**d. If not, why and describe any other actions that you believe the IAASB should take.**

Please see response to b. above.

- e. Are there any other key challenges that need to be addressed by the IAASB's International Standards or new guidance and, if so, what are they, and why?** Challenge 8, "Exercising Professional Skepticism and Professional Judgment" indicates that there "may be more areas that require judgment in applying EER frameworks than in applying financial reporting frameworks and more areas where the judgments in preparing the subject matter information are susceptible to subjectivity and management bias." Presumably such areas include consideration of the measurement uncertainty associated with certain reported information; however, given the potential significance and prevalence of measurement uncertainty with regard to EER information we believe measurement uncertainty should be specifically considered (either as part of Challenge 8 or as a separate challenge) as a high priority item. Measurement uncertainty is a characteristic of reported measured values that describes the dispersion of the quantities that could reasonably be attributed to the reported value. Measurement uncertainty in a reported value is reflective of incomplete knowledge inherent in the measurement process and includes estimation uncertainty. Given that measurement uncertainty can be material to some assurance engagements, it would be helpful if guidance regarding how the practitioner should address measurement uncertainty in connection with assurance engagements were to be developed.

In addition to the challenges associated with measurement uncertainty, in our discussions with companies that prepare EER information (in particular sustainability reports and those contemplating Integrated Reporting), most indicated that they believed that reporting of such information would

become more frequent in nature i.e., moving from annual reporting to quarterly reporting to more real-time reporting. Although this does not pose a current assurance challenge, we question whether the profession's current assurance model and related technological capabilities could accommodate any related assurance needs associated with more frequent or real-time reporting. We recognize that this challenge is broader than EER and likely to pose a more general challenge for the profession.

## Q8

**The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether:**

- **Doing so would enhance the usefulness of EER assurance engagements for users**
- **Such demand would come from internal or external users or both**
- **There are barriers to such demand and alternative approaches should be considered.**
  - a. **Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?**

A study conducted for the AICPA by an outside research organization in 2014 with regard to demand for assured sustainability information revealed that substantial demand for assured sustainability information in the U.S. would likely only result from:

- the introduction of mandatory reporting rules (by Federal government, stock exchanges or the SEC)
- a rapid shift in investor, or major companies that influence their supply chains requesting assured sustainability information or
- multiple natural disasters suddenly shifting attitudes

In line with the above, and as discussed in the response to question 7c, we believe that addressing the challenges associated with the form of the assurance report has the potential to increase investor demand for EER assurance in the U.S. We do not believe that resolution of the remaining assurance challenges described in the Discussion Paper would affect user demand given that those factors are largely unrelated to the potential drivers of demand (indicated above) or the barriers to demand (i.e., the cost of assurance combined with a lack of understanding by reporting companies of the value of assurance).

**b. If so, do you believe such demand:**

**i. Will come from internal or external users or both?**

External users (see response to question 8a above) and internal users. (In recent years demand from internal users has increased and is similar to the extent of demand from external users).

**ii. Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?**

Please see response to question 8a above.

**c. If not, is your reasoning that:**

**i. EER frameworks and governance will first need to mature further?**

- ii. Users would prefer other type(s) of professional services or external inputs (if so, what type(s) – see box below for examples of possible types)?**
- iii. There are cost-benefit or other reasons (please explain)?** Cost-benefit considerations play a large role in the U.S. – see response to 8a above.

## Q9

**The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.**

**For which actions would collaboration with, or actions by, other organizations also be needed?**

For the most part we've highlighted such actions within the responses to the other questions raised above (i.e., see responses to questions 3, 7b, and 7c.). In addition to those already mentioned above, we'd recommend engaging or collaborating with reporting standard setters or framework developers to help ensure suitability of the criteria. Similarly, we also recommend monitoring and engaging with organizations that make decisions about the use of reporting and assurance standards.

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In conclusion, we support the IAASB's efforts to facilitate an open discussion about the IAASB's potential role and that of others in a holistic process to support credibility and trust in EER reports and appreciate the opportunity to comment on the questions raised in the Discussion Paper. We would be pleased to discuss our comments or answer any questions that the IAASB may have regarding the comments expressed in this letter.

Sincerely yours,



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