

**Mr Seidenstein**  
**Chair**  
**International Auditing and Assurance**  
**Standards Board (IAASB)**  
**529 Fifth Avenue, 6<sup>th</sup> Floor**  
**New York, NY 10017**  
**United States of America**

**Ref: Proposed International Standard on Sustainability Assurance (ISSA) 5000,  
General Requirements for Sustainability Assurance Engagements**

Dear Mr Seidenstein,

The European Securities and Markets Authority thanks you for the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB) Exposure Draft: *Proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements* (ED-5000). The views expressed in this letter are made considering ESMA's mission to enhance the protection of investors, as well as to promote stable and well-functioning financial markets in the European Union (EU) through, among others, ensuring high-quality financial reporting.

In the EU, the Corporate Sustainability Reporting Directive (CSRD) establishes the regulatory framework for reporting sustainability information. The CSRD outlines the responsibilities, scope and key requirements for a range of companies and groups. The detailed requirements governing how companies should report the sustainability information is provided by the European Sustainability Reporting Standards (ESRS). Commencing with the financial year 2024, a first group of companies will be required to apply these new rules for the first time with their sustainability reports to be published in 2025. The CSRD also requires limited assurance concerning these sustainability reports in the first years, before requiring reasonable assurance to be provided. The external assurance opinion on compliance with the ESRS will be required from one or more statutory auditors, audit firms or other independent assurance providers.

ESMA welcomes the IAASB's efforts for the timely development of ED-5000 to support the performance of high-quality sustainability assurance engagements. ESMA considers that an internationally recognised sustainability assurance standard, built upon principles but including sufficient guidance for consistent application across all reporting frameworks and by all assurance providers, can significantly enhance the quality of assurance while bolstering user confidence in sustainability information. ESMA encourages the IAASB to deliver ISSA 5000 by no later than the conclusion of 2024.

ESMA supports the overarching approach of developing a comprehensive, profession-agnostic, stand-alone standard encompassing the entire process from acceptance to reporting and suitable to any sustainability assurance engagement. At the same time, ESMA considers that the current ED-5000 could be further enhanced by, for example, bringing into the standard specific requirements and methodologies contained in other International Standards on Auditing (ISAs) or providing clear guidance to facilitate its application by all types of assurance

service providers, regardless of their professional background, to ensure a common understanding and effective implementation of ED-5000. We formulate below concrete proposals in this respect.

### **Consistency of sustainability information with financial information and communication between practitioners**

ESMA considers that communication between the practitioners responsible for the assurance of sustainability information and the auditors in charge of the audit of financial reporting is key. Such communication is crucial to ensure consistency of the data and information presented in the financial statements and in the sustainability reports. To further ensure this consistency, ED-5000 could be enhanced by establishing additional explicit requirements for sustainability assurance providers to engage in timely and effective communication with statutory auditors, particularly for those sustainability matters that are interrelated and connected to the financial statements.

Furthermore, as the field of sustainability reporting demands diverse expertise, it will become more common for multiple practitioners to collaborate on assurance engagements and leverage the contributions of other experts. When sustainability reports encompass information across the entire value chain and contain information originated from other entities, communication among the different sustainability assurance providers plays a significant role to ensure the uniformity and integrity of this information. ESMA underscores the importance of an effective communication among the various sustainability assurance providers involved in the assurance engagement and suggests that ED-5000 would benefit from including clear communication requirements particularly, in relation to “incorporation of information by reference” to avoid overlap and ensure coordination of assessment of the information or the consolidation of information stemming from different entities.

### **Differentiation between limited and reasonable assurance (Q7, Q13, Q17, Q23)**

ESMA supports the IAASB’s approach of encompassing both limited and reasonable assurance by addressing and differentiating the work effort to be performed for each type of assurance and for relevant elements of the assurance engagement. Nonetheless, it is crucial to establish a clear delineation between limited and reasonable assurance for investor protection. This differentiation will enable an understanding of the specific tasks performed and assurance provided in each type of engagement. To bridge potential gaps in users’ expectation, ESMA considers that further prominence should be given and description provided to explain that the scope and nature of the work performed under a limited assurance engagement is considerably less than for reasonable assurance engagements. ESMA suggest that ED-5000 could provide additional clarifications in various sections including, the introduction, the definitions, the Basis for Conclusion in the assurance report and offer illustrative examples and guidance in the application material.

Additionally, in relation to the proposed approach to *obtain an understanding of the entity’s system of internal control*, ESMA considers that the standard strikes an appropriate balance by requiring practitioners to obtain an understanding of certain components for limited assurance and an understanding of all components for reasonable assurance. Nevertheless, for both types of assurance engagements, ED-5000 would benefit from including more detailed requirements from ISA 315 (Revised) “*Identifying and Assessing Risks of Material Misstatement*” with respect to obtaining an understanding of the entity’s system of internal control to promote consistency in practice with audit of financial reporting. Besides, ESMA also

considers that the requirements, in a limited assurance engagement, to perform risk assessment procedures that are sufficient to identify disclosures where material misstatements are likely to arise, could be further strengthened.

### **Practitioner’s consideration of the entity’s “materiality process” (Q9) and differences between preparers’ and practitioners’ consideration to materiality (Q11)**

The assessment of materiality – or double materiality in the CSRD context – is a fundamental aspect for the preparer of the sustainability information. As the (double) materiality determination by the preparer is a critical component to be scrutinised during the assurance engagement, ESMA considers that ED-5000 could be enhanced by incorporating further requirements for the practitioner to understand and scrutinise the process followed by the preparer to define and identify information to be reported following the (double) materiality perspective. In particular, it is crucial that ED-5000 better describes the practitioner’s work to be performed on the process and associated internal controls put in place by the preparer in this area.

ED-5000 would also benefit from further clarifying that the concept of “materiality” in the context of the sustainability information to be reported by the preparer (“double materiality” in the CSRD context) is different from the concept of “materiality” in the context of an assurance engagement which is based on the notion of the absence of material misstatement in the sustainability information.

### **Practitioner’s determination of quantitative materiality and consideration of qualitative materiality (Q12)**

While the approach in ED-5000 for the practitioner to “determine” materiality for quantitative disclosures and “consider” materiality for qualitative disclosures seems to be balanced, ESMA considers that the requirement to “consider” materiality for qualitative disclosures could be strengthened. This is in order to avoid the potential perception of it being an optional requirement resulting in potential inconsistency in application.

Furthermore, the interrelation between these two concepts could be further explained in ED-5000. In this regard, provisions are set in the application material only in relation to quantitative factors to be considered when determining materiality for quantitative disclosures. ED-5000 would benefit from clarifying that the determination of materiality is a matter of professional judgement and includes consideration of both quantitative and qualitative factors.

### **Estimates and forward-looking information (Q16)**

Estimates and forward-looking information are considered as some of the most complex areas when performing financial audits. In sustainability reporting, the prominence of estimates and forward-looking information will be heightened due to the obligation to report, among others, on expected impacts, risks, opportunities, future plans and targets. This will involve significantly more complexities and use of judgement in the assurance engagements.

To promote consistency of practices and high-quality assurance engagements, ESMA considers that ED-5000 should be enhanced by strengthening the requirements in this area and providing more guidance on the expectations regarding what procedures practitioners should perform. To achieve this objective, ED-5000 could incorporate some key requirements

from *ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures* into its requirements and provide more guidance in its application material.

### **Fraud and “Greenwashing” (Q19)**

ED-5000 addresses the topic of fraud in the sustainability reports by integrating requirements, throughout the performance of the engagement, to assess the susceptibility of the sustainability information to material misstatement, due to fraud or error. While recognising the various references to fraud, this approach is not comprehensive and differs from the approach included in ISA 240 “*The auditor’s responsibilities relating to fraud in an audit of financial statements*” which focuses on an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

To foster consistent practices and enable effective responses when assessing fraud, ESMA believes that ED-5000 would gain from improved clarity regarding the practitioner’s role and responsibilities when conducting fraud-related assurance procedures, enhancing the importance of the appropriate exercise of professional scepticism and having more specific requirements and application guidance tailored to fraud. ESMA encourages the IAASB to consider its current project on fraud and its applicability for sustainability assurance. Moreover, recognising the pronounced public interest in addressing the risk of greenwashing and the heightened sensitivity from a user’s standpoint, it would be advisable to provide further emphasis on this risk within the standard.

### **Digitalisation of sustainability information**

The main existing sustainability reporting frameworks require or will require that sustainability information be provided in a digital format to improve accessibility, comparability and analysis of this information. ESMA deems that ED-5000 would benefit from including guidance for assurance service providers to address the challenges associated with assuring information presented in digital format.

In case you have any questions or comments please do not hesitate to contact me or Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit ([Isabelle.grauer-gaynor@esma.europa.eu](mailto:Isabelle.grauer-gaynor@esma.europa.eu)).

Yours sincerely,



Verena Ross