American Bankers Association
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Michael L. Gullette
Senior Vice President – Tax and Accounting
202-663-4986
mgullette@aba.com

November 28, 2023

Mr. Tom Seidenstein, Chair
International Auditing and Assurance Standards Board (IAASB)

Via electronic submission

RE: *Proposed International Standard on Sustainability Assurance 5000: General Requirements for Sustainability Assurance Engagements*

Dear Mr. Seidenstein:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the IAASB's *Proposed International Standard on Sustainability Assurance (ISSA) 5000: General Requirements for Sustainability Assurance Engagements* (Proposed ISSA). The Proposed ISSA responds to stakeholders worldwide who are interested in sustainability reporting and recognize the importance of assurance thereon. ABA members consist of lenders, investment bankers, asset managers, investment analysts and asset custodians and, consequently, bring perspectives from both the users of the information as well as the preparers. As our members also participate in highly-regulated activities, their viewpoints will often be responsive to regulatory agency needs. Therefore, our perspectives reflect a wide range of stakeholders.

ABA supports efforts to develop an overarching auditing and assurance standard that addresses sustainability matters and our comments below are meant to address some of the specific questions posed in the stakeholder survey.[2] Practically speaking, auditing and assurance standards will highly influence the governance and internal control systems that reporting companies will be expected to implement. Such standards will also influence how users of sustainability information will use it in light of assurance-related assessments. With those things in mind, while we believe the Proposed ISSA reflects thoughtful deliberation, we believe the Proposed ISSA may not ultimately be responsive to the larger public interest.[3] As a result, confusion may develop over the resulting governance and internal control frameworks needed by preparers, over the extent of testing and related costs to provide assurance, and over how users will interpret any assurance attestations. Further, given the well-known industry-wide manpower shortage, reconsideration may be required of the effective dates of both the final standard and those of new sustainability reporting regimes.

[1] The American Bankers Association is the voice of the nation's $23.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $18.6 trillion in deposits and extend nearly $12.3 trillion in loans. Learn more at www.aba.com.

[2] There will be references to each of the questions being addressed.

[3] Question 2 of the Proposed ISSA: "Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?"

This is primarily the result of the nascent state of sustainability reporting, characterized by limited knowledge of and experience with internal controls by many stakeholders and little accountability as to the accuracy of currently reported amounts. Of course, such accountability will change as reporting requirements, accompanied by assurance requirements, become effective over the next few years. With this in mind, ABA urges the IAASB to take a leading role in educating stakeholders as to the many demands of the assurance process, including the related costs and internal controls that will likely be needed by reporting companies.

Generally speaking, the Proposed ISSA represents an addendum to the high-level principles codified within existing financial auditing standards. Sustainability information, however, and the current environment in which it is produced and recorded, is fundamentally different from financial information and this needs to be addressed. Given the International Sustainability Standards Board's expressed intent for companies to provide sustainability-related information alongside financial statements in the same reporting package, basic guidance is needed, for example, to address how the levels of assurance will likely fit into existing corporate disclosure regimes. Requirements similar to the Sarbanes-Oxley Act in the U.S. for robust systems of internal controls and correspondingly stringent auditing could prove onerous to implement (for both auditors and for reporting companies) without a significant transition period and expected users of such information may want to reconsider specific assurance requirements in light of updated estimates of costs and length of needed transition.

ABA believes many of the concerns we have regarding the principles do not necessarily require change to the principles but could be sufficiently addressed through IAASB providing significant implementation guidance on key topics. Specifically, we believe the IAASB needs to:

1. **Recognize the fundamental difference between controls in the financial economy and those in the sustainability economy.** (Responding to Question #2)

   A company's internal controls in a financial environment are heavily supported by a long-established economy-wide framework in which multiple parties – including producers, customers, and taxing authorities – have a compelling interest in the proper authorization, measurement (pricing) and recording of monetary transactions. This is further supported by financial statements that triangulate around the periodic performance and financial condition noted within comparative financial statements[4] that are reviewed by information users.

   Such an economy-wide infrastructure, where there is high accountability related to individual transactions and periodic reporting and is accompanied by significant penalties for noncompliance, has yet to be developed around sustainability issues. In the sustainability realm, while there will be some specific data points that may be able to fit

[4] These financial statements typically include balance sheets, income statements, statements of shareholder's equity, and statements of cash flows, whether produced under local or national accounting principles or within income or sales tax returns.

into a financial reporting and auditing context, there are many that do not. Guidance, therefore, should be provided on an auditor's risk assessment and the nature and extent of testing of governance and internal control systems within this unique environment, especially under the new changing conditions whereby reported information will likely be subject to significantly higher scrutiny from investors and other stakeholders.

2. **Recognize how existing internal control assessments may interact with local reporting safe harbors.** (Responding to Question #2)

   Auditor communications will be a critical part of helping users understand the information provided. For example, many may need to understand whether "significant deficiencies" and "material weaknesses" connected to systems providing climate risk and greenhouse gas emissions reports will nullify local safe harbors that allow "good faith" efforts.[5]

3. **Consider the integration of ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* into the final standard since greenhouse gas emissions amounts will often be subject to similar procedures.** (Responding to Question #3)

   Left separately as two standards, there will likely be confusion as to which standard is the appropriate one. Due to the environmental difference noted above, a large proportion of assurance engagements are performed by organizations that are not consistently subject to professional requirements related to competence, ethics, and technical documentation, among other things. As a result, more detailed guidance will also be needed to integrate the typical existing assessments made by engineering and other non-auditing firms into governance and internal control systems within the new public reporting environment.

[5] Both California's "California Climate Corporate Data Accountability Act" and the climate disclosure proposal in the U.S. by the Securities and Exchange Commission refer to such safe harbors for Scope 3 GHG reporting. In the days prior to the enactment of California's legislation, a sponsor letter encouraged the use of "double counting" within GHG estimates, indicating that there can be a wide range of interpretation as to how certain aspects of measurement (and the internal controls around them) can or should be interpreted.

Another challenge of assurance assessment coordination will be how data quality will be considered. Guidance published by the Partnership for Carbon Accounting Financials (PCAF) -- addressing Category 15 (Investments) Scope 3 estimates within the financial services industries – recognizes five data quality levels that support Scope 3 estimates. Financial auditing standards do not recognize data quality levels, but generally emphasize additional governance and procedures needed based on the qualitative characteristics of such data. Unless specifically called out by the auditing industry, we believe the urgency to improve data quality to reliable levels may not be sufficiently high.

4. **Recognize that in many cases, tipping points and other climate change expectations may refute the widely-accepted assumption that historical experience provides a good starting point for forecasting.** (Responding to Question #16)

   In guidance related to Estimates and Forward-Looking Information within the Proposed ISSA, certain historical data will likely need a more extensive review of relevance of the data to the forecast at hand. Considering how many risks and measurements can vary based on specific geospatial characteristics, this may necessitate an audit (and governance) process that evaluates granularity as well as metrics such as medians and ranges to assess the reasonableness of certain measurements.

5. **Recognize that underlying data within many existing third-party databases were often not subject to the established economic framework (noted above, which would provide a compelling interest in accurate reporting).** (Responding to Question #16)

   Use of third-party databases is expected to be widespread, indicating that "SOC-1 type" reporting[6] may often be needed. Such data may often be the basis for company-specific estimates and forecasts. With this in mind, in substance, estimates performed in this environment may often be based on a database of estimates and not of actual underlying transactions. Implementation guidance should reflect this when addressing assessments of measurement uncertainty. Further, specifically addressing the need for SOC-1 type reporting should be discussed.

6. **Recognize that many separate sustainability reports may continue to be issued, warranting further guidance on review of other information and identification of greenwashing.** (Responding to Question #19)

   While the Proposed ISSA requires pursuit of other information that is "materially inconsistent" with those upon which assurance procedures were applied, there are many ways that specific statements and presentations can confuse users of sustainability reports. Stakeholder roundtables may be an effective way to develop implementation guidance.

7. **Recognize that until reporting practices have matured, many emissions estimates may be subject to greenwashing criticism.** (Further responding to Question #19)

   While the Greenhouse Gas (GHG) Protocol is the accepted methodology by the International Sustainability Standards Board in estimating Scope 1, 2, and 3 emissions, diverse application between industries and even between companies within industries will likely exist for several years. This diversity will result from optionality often included

[6] Service Organization Controls reports over internal controls for financial reporting (SOC-1) are relied upon by user entities and their auditors. While specifically addressing financial reporting, the expected high use of 3rd party databases and consortia data will likely require similar assurance for sustainability reporting.

within industry guidance, as well as ranges of interpretation within that guidance[7] and within the GHG Protocol.[8] As a result, reported emissions estimates (especially Scope 3 estimates) will likely show extremely high ranges between companies, inviting criticism related to greenwashing. A more detailed framework will be needed, therefore, to address this risk within the assurance process.

8. **Consider guidance to issue a report of Key Audit Matters (KAMs)** (Responding to Question #22)

   An auditor's report of KAMs can assist users of sustainability information to better understand the key risk areas, as well as efforts and internal controls needed to develop and audit this new kind of information. With this in mind, we believe KAM discussions may often help users understand key specifics in the meanings of the metrics themselves.

   Implementation guidance (and even periodic IAASB staff papers) can provide practical and helpful information to sustainability information users and auditors in this regard.

Thank you for your attention to these concerns and for considering our recommendations. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this further.

Sincerely,

Michael L. Gullette

[7] The Scope 3 financed emissions guidance published by PCAF addresses estimates made by financial services companies, though it is not clear whether it will be used by all industries. PCAF guidance is also limited to specific asset classes that generally exclude unsecured consumer lending, it may exclude certain short-term lending, and it includes certain optionality that can exclude certain commercial lending products.

[8] One example of diverse application is that while the GHG Protocol notes out how customer travel can be an integral aspect of a company's Scope 3 emissions, guidance within the hotel and tourist-based industries does not require tracking the GHGs of customers in traveling to and from their stores or sites.