

## Response to the IAASB consultation on the discussion paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting*.

**ABOUT THE PRI:** The UN-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI represents over 1,600 signatories globally with US\$62 trillion in assets under management (AUM).

Responsible investment is an approach which acknowledges that environmental, social and governance (ESG) factors are material for investors and are critical for managing risk, identifying new opportunities, and contributing to the long-term health and sustainability of the market as a whole. It is driven by a growing recognition in the financial community that evaluation of ESG issues is a fundamental part of assessing portfolio value and can enhance investment performance over the long term.

### SUMMARY OF THE PRI'S POSITION

The PRI is supportive of the research that has been undertaken and the findings of the International Auditing and Assurance Standards Board's (IAASB) Integrated Reporting Working Group's discussion paper, [\*Supporting Credibility and Trust in Emerging Forms of External Reporting\*](#).

The PRI responds to the consultation from two perspectives; the first is the investor perspective as users of emerging forms of external reporting (EER) produced by the entities in which they invest. The second perspective is that of a reporting body; we would categorise the PRI's reporting as a framework for external reporting for our investor signatories. In 2017, 1,200 investor signatories will respond to our Reporting Framework, providing information on their strategy and governance, and the implementation of responsible investment activities by their organisation, the external managers they engage to act on their behalf, and the entities in which they invest.

From the first perspective, the PRI has been actively engaging to improve corporate disclosure on ESG information since its founding more than 10 years ago.

- Our signatories engage companies to improve disclosure both on specific ESG issues, such as greenhouse gas emissions, as well as engaging both stock exchanges and regulators on the importance of improving the quality of ESG information globally, such as through the PRI's Sustainable Stock Exchanges Investor Working

Group, which is the PRI's longest standing engagement representing more than USD \$7 trillion AUM.

- The PRI supports the recommendations of Financial Services Board's task force on climate-related financial disclosures (TCFD).
- The PRI's fiduciary duty programme has made recommendations to regulators on improved corporate disclosure, including the SEC in the US, CSA in Canada and BEIS in the UK.
- The PRI is also in the early stages of working with investor organisations to form more of a cohesive view on expectations around corporate reporting.

We believe that further guidance from the IAASB on how to apply the current assurance model for EER assurance engagements would be welcomed by investors that are seeking advice in this area. This would be a welcome first step, recognising that EER frameworks are evolving and may eventually converge more with financial information. However, we also support the provision of guidance to make it clear that material ESG factors should be included in financial disclosures,, which may require innovation in the application of IAASB standards. Further we support guidance on the use of narrative and forward-looking disclosures as these tools can assist reporters and users to interpret the likely materiality of ESG factors. This is a challenge, given that data collection practices remain disparate.

We also welcome the recognition that report users have a wide range of information needs and focus on different time horizons. This is a central difficulty to resolve, alongside the observation that implementation of EER frameworks is less clearly specified than a financial reporting framework, and more content is left to 'entity-specific determination,' resulting in the need for 'a robust EER materiality process to ensure that these judgements appropriately reflect the user perspective'.

From the perspective of a reporting body, the PRI has been conducting research into assurance, verification and confidence-building measures by our signatories that will culminate in a set of recommendations to be published later in 2017. This will include enhanced data from our 1,200 signatories on their specific practices on PRI reporting data as well as other sustainability data. This ranges from internal departmental, board or audit sign off, through to full external assurance.

We concur with the assessment that EER is still evolving, along with the complexities of serving different stakeholder and user needs. We also support the conclusion that professional service activities are only one aspect of enhancing credibility and trust, which should additionally include measures that support effective governance and control activities.

## OUR GENERAL COMMENTS ON THE DISCUSSION PAPER

Investors increasingly expect more ESG information and other considerations (referred to in the report as ‘non-financial’<sup>1</sup>) to be disclosed, which means that more consistent and reliable non-financial data will be required in the future for it to be accurately used by investors for investment decision making, and in order for investors to accurately report on their own impacts.

Needs around transparency and disclosure vary across the different styles of investors. Some investors are value-driven, others focus on integration of material ESG issues and a growing number are also interested in the ‘outcomes’ of their investments to society – which may manifest the real world impact, or the UN Sustainable Development Goals (SDGs). And increasingly, investors may combine all of these styles. Differences in the investment processes drive some investors to a preference for standardised and comparable data across industries and companies, and others to a preference for customised material data specific for a certain company. Most investors, at a minimum, want more transparency around how the board and management decide what to report. They see this as a proxy for good governance.

In order to disclose ESG factors to investors, PRI recommends that Corporate Disclosures<sup>2</sup>;

- Include ESG factors in the annual report, with clear links between ESG factors and the company’s business model.
- Assure ESG factors, consistent with financial data. We suggest a phased introduction.
- Report using common performance metrics to allow for comparability, in particular, comparability by industry, portfolio and across time-series. The Commission should codify industry and sector specific KPIs for ESG factors within Regulation S-K.
- Disclose additional company-specific ESG risks and opportunities.

With respect to the ‘expectation gap’ when an auditor, seeking material inconsistencies between financial statements and EER, is unable to determine misstatements that are unrelated to financial statements, we would suggest that further guidance is needed on how EER can and should be audited or subject to verification.

We concur with the findings around the use of the term ‘assurance’ in the market being much wider than the technical application defined by IAASB, having reached a similar conclusion during research from our own signatory base. Hence, we used the terminology of assurance, verification or confidence-building measures (where the position paper uses the term ‘professional services’). A summary of the PRI’s

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<sup>1</sup> The PRI considers ESG information to be material and financial, and discourages use of the term ‘non-financial’.

<sup>2</sup> See PRI Response – SEC Concept Release, September 21016, <https://www.unpri.org/group/2427>

research on assurance, verification and confidence-building measures can be found here: [https://www.unpri.org/download\\_report/20527](https://www.unpri.org/download_report/20527). This was based on data analysis and interviews with signatories and technical experts. It led to our decision to form a working group to undertake further research in order to develop a set of recommendations on assurance and verification practices for the PRI's Reporting Framework data. The underlying factors for this work are that the recommendations endeavour to be in line with international best practice, are appropriate for the nature of the framework and user needs, and are appropriate in terms of the resources available to reporting organizations.

With respect to the proposal of 'assurance readiness engagements', the PRI's Reporting Framework's Strategy and Governance module ([https://www.unpri.org/download\\_report/25300](https://www.unpri.org/download_report/25300)) seeks to understand some of the organizational factors, policy and approach that set up their implementation processes for responsible investment practices. These broad indicators could act as a model for developing criteria.

## RESPONSES TO DISCUSSION PAPER QUESTIONS

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

We broadly agree with the factors outlined as enhancing credibility and trust. From an investor reporting perspective, the PRI created a reporting framework via a process of consultation with our members to ensure we were accurately representing their activities. This has been instrumental in facilitating disclosure among our asset owners and investment managers. In 2006, only a handful of our signatories reported publicly on their responsible investment activities. In 2016 over 1,000 PRI signatories produced publicly available Transparency Reports through the PRI. These reports help to communicate expectations from asset owners to managers, and allow managers to demonstrate their responsible investment activities. However, we continue to amend and improve our reporting framework as industry conditions change. There is a balance needed to create a consistent, high-level framework that can evolve to reflect changing practices.

Key criteria for building credibility in the market is in the transparency of our reporting requirements. Around 50% of indicators require mandatory responses and are mandatory to disclose in reports that are publicly available on the PRI's website. This helps to provide a level playing field for peer accountability as the

information can be reviewed by any stakeholder. Average annual downloads of Transparency Reports are around 80,000, and signatories also request and share information. The PRI has established reporting as a requirement of membership, with clear benefits for all of our members.

With respect to strong governance, as referred to previously, we require signatories to report in the Strategy and Governance module on their overall processes and policies including conflict of interest and with respect to implementation of responsible investment practices. In 2017 we have made an indicator on assurance, verification and confidence-building measures mandatory to report on.

We will be recommending that our signatory reporting submissions must have a minimum requirement of CEO, C-level or board sign off, in order to enhance verification and robustness of data collection.

**Q2 Sections two and four describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.**

**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? If so, what are they?**

No comment

**Q3 Paragraphs 23–26 of section two 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.**

**Is this sufficient when EER information is included in the annual report or 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?**

It is likely that some capacity building around the capabilities of those conducting assurance or other professional services would be desirable as the understanding of the reporting scope changes.

**Q4 Section four describes the different types of engagements covered by the IAASB's international standards and section five 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.**

**Do you agree? 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)**

**If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.**

We believe that further guidance from the IAASB on how to apply the current assurance model for EER assurance engagements would be welcomed by investors that are seeking guidance in this area for their own assurance engagements. This would be a welcome first step, recognising that EER frameworks are evolving and may eventually converge more with financial information. However, we also support moves towards the integration of material ESG factors into financial disclosures, which may require innovation in the application of IAASB standards, to allow the meaningful inclusion of material data as well as scope for the inclusion of, for example, narrative and future-oriented information. Data collection practices remain disparate.

We also welcome the recognition that report users have a wide range of information needs and focus on different time horizons. This is a core difficulty to resolve, alongside the observation that implementation of EER frameworks is less clearly specified than a financial reporting framework, and more content is left to 'entity-specific determination' that results in the need for 'a robust EER materiality process to ensure that these judgements appropriately reflect the user perspective'.

**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.**

**Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organisation.**

**If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?**

No comment/ not applicable

**Q6 Section five 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?**

See Q4 above. Research and review of practices around reporting on impact and outcomes is underway, but at an early stage.

**Q7 Section five describes assurance engagements and the ten key challenges we have identified in addressing EER in such engagements (see box below) 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.**

**Do you agree with our analysis of the key challenges?**

**For each key challenge in section five, do you agree that guidance may be helpful in addressing the challenge? If so, what priority should the IAASB give to addressing each key challenge and why?**

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

**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?**

We concur with the analysis of the 10 challenges, and from the perspective of PRI signatories, we particularly note their varying needs around transparency and disclosure across different styles of investors; be they value driven, focused on integration of material ESG issues or interested in the 'outcomes' of their investments to society – which may manifest the real world impact, or SDGs.

In particular, a move towards examining impact over process is a complicating factor for assurance engagements, which tend to focus on the existence or execution of a process.

We support the development of guidance, in collaboration with other reporting and standard-setting organisations. While we recognise that the difficulty of meeting different sets of user needs may result in EER with a wider set of information (and particularly considering the open question over determining materiality raised in challenge three), there is value in alignment in certain areas such as terminology used, where possible.

This in turn would help to provide a framework for capacity building for practitioners.

**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?**

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

**(i) Will come from internal or external users or both?**

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

**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)**

**• Further enhanced responsibilities for financial statement auditors under ISA 720? • Agreed-upon procedures reports? • Compilation reports? • Other types of professional services or other external inputs (please indicate what type of service or input and whether you believe the IAASB should consider developing related standards or guidance)**

Signals from our membership indicate increasing interest in EER assurance engagements. While this demand remains relatively low, it is with this in mind that we are undertaking our own research. Helping to address, reduce or remove barriers would increase interest. It would also help to normalise the content and language in EER so that the topics covered are more regularly seen in financial reporting, helping to build capacity across reporting.

**Q9 The IAASB would like to understand stakeholder views on areas where they should be collaborating with other organisations in relation to EER reporting. For which actions would collaboration with, or actions by, other organisations also be needed?**

Since consensus in language and terminology will be helpful, we recommend broad collaboration with practitioners, peer standard setting and reporting bodies and report users.