IAASB International Auditing and Assurance Standards Board

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July 26th, 2022

Mr. Emmanuel Faber
Chairman
International Sustainability Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London
E14 4HD
United Kingdom

Via email: efaber@ifrs.org; commentletters@ifrs.org

Dear Emmanuel:

Re: Comments on the International Sustainability Standards Board (ISSB) Exposure Drafts

The IAASB congratulates the ISSB on publishing the Exposure Drafts and commends the dedication and commitment to delivering these standards. The establishment of the ISSB is an important step in promoting high-quality, globally consistent sustainability reporting. The IAASB stands ready to support you and contribute to this effort.

The reliability and quality of sustainability reporting and supporting investors and regulators' trust in the sustainability information hinge on the effectiveness of the external reporting supply chain – preparers (i.e., an entity and its management), those charged with governance, users, assurance practitioners, standard setters, and regulators and oversight bodies. As in financial reporting, external assurance has a key role in contributing to reporting reliability and investor confidence.

Consistent with our approach to providing comments to the International Accounting Standards Board (IASB), we have prepared our comment letter with a specific eye on the assurability of an entity's sustainability reporting prepared in accordance with IFRS Sustainability Disclosure Standards. As a result, we have not commented on all aspects discussed in the Exposure Drafts. Attached are our detailed comments on the ISSB Exposure Drafts, [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), and [Draft] IFRS S2 Climate-related Disclosures (IFRS S2), published in March 2022. To develop these comments, we established an ISSB Liaison Working Group (Working Group) of IAASB members, Technical Advisors, and staff.

We also realize that we can best contribute to your standard-setting efforts if we evolve assurance standards and relevant ethical standards accordingly. In recent weeks, our Board has enthusiastically committed to taking dedicated standard-setting action to develop a standard for assurance on sustainability reporting. We will start with our well-established International Standards on Assurance Engagements (ISAEs) and guidance, and relevant International Standards on Auditing (ISAs), which are already being effectively applied throughout the world. We plan to bring these standards and guidance together, and supplement and enhance them to address assurance on sustainability reporting specifically. In the process, we are coordinating with our colleagues at the International Ethics Standards Board for Accountants (IESBA). For your information, we have included a brief overview of the IAASB's existing assurance standards and guidance and key concepts underpinning assurance engagements (please see **Appendix A** to this letter).

I hope that you will find the comments helpful. We are committed to close collaboration with you and other global standard setters to support the transformation of sustainability reporting. If you require any clarification or would like to discuss this letter further, please do not hesitate to contact me or Mr. Willie Botha, the Program and Technical Director (williebotha@iaasb.org).

Finally, we write with recognition that building a mature reporting and assurance ecosystem for sustainability will not happen overnight. We expect requirements and actual reporting to evolve, as preparers, those charged with governance, users, assurance practitioners, standard setters, and regulators and oversight bodies gain experience. Both reporting frameworks and assurance standards will need to become increasingly refined and enhanced. We look forward to working with you throughout that journey.

Yours sincerely,

Tom Seidenstein

Tom Seidenstein
Chair

cc: Sue Lloyd, ISSB Vice Chair
Ian Carruthers, International Public Sector Accounting Standards Board (IPSASB) Chair
Gabriela Figueiredo Dias, International Ethics Standards Board for Accountants (IESBA) Chair
James Gunn, Managing Director, Professional Standards, IAASB IESBA IPSASB
Willie Botha, Program and Technical Director, IAASB

IAASB's Working Group Comments on the ISSB Exposure Drafts

Assurability Overview

1. The objectives of the assurance practitioner include to obtain either reasonable assurance or limited assurance, as appropriate, about whether the entity's reported sustainability information, prepared in accordance with applicable sustainability reporting standards, is free from material misstatement. The assurance practitioner can only achieve this objective when: the preconditions for an assurance engagement are present, and the assurance practitioner is able to comply with all requirements of the applicable assurance standard(s) relevant to the engagement in obtaining sufficient appropriate evidence to support the assurance conclusion. **Appendix A** to this letter highlights, among other matters, the important role of criteria and established reporting standards in facilitating the consistent performance of quality assurance engagements.

2. The areas and matters noted in this comment letter were identified by the IAASB's ISSB Liaison Working Group (Working Group) and are presented in two main sections, **A.** Areas of Support; and **B.** Areas that May Give Rise to Assurance Challenges.

3. Our comments are focused on areas or matters that may create or exacerbate challenges for management in preparing the entity's sustainability information. These issues experienced in preparing information may result from lack of clarity or ambiguity in the reporting standards, uncertainty about the intent or extent of reporting requirements, a potential need for additional reporting requirements, or a lack of sufficient guidance. The resulting subjectivity and uncertainty may require significant management judgment, and thus significant assurance practitioner judgment. In addition, inconsistencies in sustainability reporting practices could increase the susceptibility of the reported sustainability information to material misstatement due to management bias.

4. Assurability in the context of reporting standards, means whether they are designed in a manner that results in sustainability information on which an assurance engagement can be performed. In preparing our comments, we identified the following overarching themes relating to the assurability of an entity's sustainability information prepared in accordance with the IFRS Sustainability Disclosure Standards that are further covered in section **B.**:

    (a) **Enhanced disclosures:** We identified certain areas where further requirements and guidance would support enhanced disclosures by the entity about (which would support application of assurance requirements):

    - The basis of preparation of the sustainability-related financial information (paragraphs 14-19);
    - Criteria regarding metrics and targets (paragraphs 23-24);
    - The identification and definition of sustainability-related topics (and climate-related topics) relevant to the entity and its circumstances (paragraphs 28-29);
    - Additional significant sustainability-related risks and opportunities relevant to the entity, which have not been identified or addressed by the entity's processes (paragraphs 36-38);
    - The entity's policies for the consolidation and aggregation of information, and the treatment of associates, joint ventures and other financed investments (paragraph 50); and
    - The identification and scope of the entity's value chain (paragraph 52(b))

(b) **Scope and intent of requirements:** This relates to areas or matters of IFRS S1 and IFRS S2 where there may be uncertainty or confusion about what is required or what needs to be applied, and how the requirement(s) should be carried out, including:

- References to other frameworks and standards (paragraphs 20-22);
- The entity's process for identifying significant sustainability-related risks and opportunities (paragraphs 30-35);
- The interrelationship between IFRS S1 and other IFRS Sustainability Disclosure Standards (paragraphs 39-40);
- Preparing sustainability information for groups, associates, joint ventures and other financed investments (paragraphs 47-49);
- The disclosure of information about resilience in relation to significant sustainability-related risks (paragraphs 57-58);
- Location of information (paragraphs 59-60)
- The disclosure of comparative information (paragraphs 61-63); and
- The nature and extent of the disclosure of connected information (paragraphs 64-65)

(c) **Clarity of key concepts:** A lack of clarity about the meaning, scope or application of certain key concepts may, in addition to other challenges, create a completeness challenge for the assurance practitioner (i.e., obtaining sufficient appropriate evidence about the completeness of what is being reported or the completeness of the events and conditions intended to be recognized or captured in what is being reported). Specific matters have been highlighted around the following concepts:

- Significant sustainability-related risks and opportunities (and related concepts) (paragraphs 27-29);
- Scalability and proportionality, and statement of compliance (paragraphs 41-43)
- Materiality (paragraphs 44-46)
- Value chain (paragraphs 51-53); and
- Time horizons (paragraphs 54-56).

(d) **Drafting and presentation:** Some specific items were noted where the clarity of requirements and descriptions could be improved, enhancing understandability and consistency of application (paragraphs 66-67).

A. Areas of Support

A.1 A Global Baseline of Sustainability Reporting Standards

5. The ability to perform an assurance engagement of sustainability information depends on whether the underlying criteria, contained in reporting standards or developed by management, are suitable, as well as various other contributing factors (e.g., the appropriateness of the subject matter). The fragmentation of sustainability reporting standards globally has given rise to several complexities and challenges. In particular, such fragmentation has led to inconsistency in the measurement, evaluation and presentation and disclosure of sustainability-related matters, and results in assurance practitioners spending significant effort in evaluating the suitability of the criteria used to prepare the

information, to determine whether each assurance engagement can be performed. As a result, the Working Group strongly supports the development of a global baseline of sustainability reporting standards that have been subject to a rigorous due process.

A.2 Leveraging Existing Sustainability Recommendations, Frameworks and Standards

6. The Working Group notes that the two Exposure Drafts include the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and components of the frameworks and standards of other international sustainability bodies (sustainability reporting standards). Many of these sustainability reporting standards are well-established and have already been embraced by several jurisdictions globally. Furthermore, entities' processes and systems underpinning the preparation of sustainability information, although still evolving, have come a long way and have been developed based on these sustainability reporting standards.

7. The maturity of an entity's corporate reporting has a significant impact on the performance of the assurance engagement, in particular the ability to gather sufficient appropriate evidence. Accordingly, the Working Group supports an approach that builds upon existing sustainability reporting standards and leverages more mature corporate reporting concepts achieved thus far under such existing standards. At the same time, it is important for the ISSB to consider the relevance, consistency and suitability of the requirements of the existing standards in its work to establish a global baseline, a coherent set of international sustainability reporting standards. We have provided further comments on this in paragraphs 20–22.

A.3 The Approach to Developing Sustainability Reporting Standards

8. The Working Group recognizes the challenge of developing a suite of high-quality global sustainability reporting standards in an agile manner. Accordingly, the Working Group supports the approach of developing the standards in phases over time.

9. Given that it may take time for the ISSB to develop a full suite of standards, and the ongoing evolution in sustainability reporting, the Working Group encourages the use of a principles-based approach. Doing so supports consistent and robust reporting in a changing environment and enables a transition over time to more granular and topic-specific standards, and reporting on emerging topics. While aspects of the Exposure Drafts are principles-based, there are some areas that may be too prescriptive (such as paragraph 51 of IFRS S1, which we have discussed further in section B.2), and other areas where more specificity is needed (throughout our comments in this letter, we have indicated several areas where specificity would be helpful).

A.4 Consistency with the Financial Statements

10. Even though an auditor of financial statements may not always be appointed to also assure the sustainability information, the auditor may have a responsibility to consider whether there is a material inconsistency between the sustainability information and the auditor's knowledge and the financial statements.[1] A similar responsibility exists in the case of assurance engagements of non-financial information,[2] i.e., if the sustainability information is contained in the same document as the financial statements, the practitioner may have a responsibility to consider whether there are any material

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[1] See International Standard on Auditing 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

[2] See paragraph 62 of ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

inconsistencies between the sustainability information they are assuring, and the financial statements.

11. Accordingly, the Working Group supports the requirement in paragraph 80 of IFRS S1 that addresses the consistency of financial data and assumptions within sustainability-related financial disclosures, with the corresponding financial data and assumptions in the entity's financial statements. The consistency of the information is also important from an audit and assurance perspective because it may impact an auditor or assurance practitioner's consideration of the reliability of information, as well as the need to undertake further procedures to understand and address an inconsistency.

12. However, the Working Group believes in the value of further consistency between the sustainability-related financial disclosures, and the financial statements. For example, sustainability-related risks and opportunities may impact the valuation of an asset, affect the entity's accounting policies in the financial statements or the entity's assessment of their ability to continue as a going concern. The Working Group acknowledges that these are likely important considerations in preparing the financial statements, and therefore also a matter for the International Accounting Standards Board's (IASB) consideration. As a result, the Working Group strongly supports and encourages the collaboration between the ISSB and IASB to ensure harmony between the respective Board's standards, and the financial statements and sustainability-related financial information prepared under these standards.

13. Please also refer to our comments regarding the connectivity between the sustainability-related risks and opportunities and the financial statements in section B.12.

B. Areas that May Give Rise to Assurance Challenges

B.1 Criteria used in Measuring and Preparing Sustainability-Related Financial Information

Various Sources of Criteria and Providing Appropriate Disclosure of the Criteria

(Overarching theme in paragraph 4: enhanced disclosures)

14. Financial reporting frameworks, such as IFRS, are typically comprehensive in addressing recognition, measurement, presentation and disclosure, and are the basis for the accounting policies applied by the entity. Although sustainability reporting standards should strive to be equally comprehensive, this will take time to achieve given sustainability reporting is not at the same level of maturity as financial reporting and the sustainability reporting standards will need to progress to adapt to the evolving environment and changing information needs of users.

15. Accordingly, the recognition, measurement, presentation, and disclosure criteria used by the entity to prepare sustainability-related financial information is likely to include multiple layers of criteria, including:

    (a) The criteria in the IFRS Sustainability Disclosure Standards;

    (b) Jurisdictional criteria; and

    (c) Management-developed criteria, including management-developed criteria needed to apply the IFRS Sustainability Disclosure Standards.

16. It is essential that the entity has a robust process for identifying the criteria, evaluating the suitability of the criteria, and determining how the criteria will be applied in the entity's circumstances.

17. In some specific areas of IFRS S1, there is an implicit acknowledgment that there may be additional criteria needed to prepare the sustainability information. For example:

(a) Paragraph 28 of IFRS S1 acknowledges that metrics include metrics from various sources, and paragraph 31 requires the entity to disclose how the metric is defined and calculated (see also our comment in paragraphs 23–24).

(b) Paragraph 53 of IFRS S1 explains that management uses its judgment in identifying disclosures, in the absence of an IFRS Sustainability Disclosure Standard.

18. Notwithstanding these specific acknowledgments, the Working Group believes that there should be a more overarching acknowledgment in IFRS S1 that the recognition, measurement, presentation, and disclosure criteria used to prepare sustainability information is likely to include multiple layers of criteria. Furthermore, similar to disclosing the accounting policy information, as required by International Accounting Standard (IAS) 1, *Presentation of Financial Statements,* the Working Group considers that IFRS S1 should include a foundational requirement that requires the entity disclose the basis of preparation of the information, including:

(a) The entity's process for identifying the criteria, evaluating the suitability of the criteria, and determining how the criteria will be applied in the entity's circumstances (this reinforces the notion of "verifiability" described in Appendix C of IFRS S1);

(b) The reason for using the criteria (e.g., the criteria are required to be used or the entity has elected to use the criteria for the reasons provided); and

(c) Further information to understand the recognition, measurement, presentation, and disclosure principles of the criteria (e.g., in the case of a metric, how the metric is calculated, or significant assumptions).

19. From an assurance perspective, the information described in paragraph 18 is critical, because:

(a) In order to establish whether the preconditions for an assurance engagement are present, the assurance practitioner is required to determine whether the criteria will be available to the intended users;[3] and

(b) The assurance practitioner is required to evaluate whether the sustainability-related financial information adequately refers to or describes the applicable criteria.[4]

References to Other Standards in the Requirements of IFRS S1 and IFRS S2

(Overarching theme in paragraph 4: scope and intent of requirements)

20. As highlighted in paragraph 15, the Working Group recognizes that the criteria used to prepare sustainability-related financial information is likely to include multiple layers of criteria. The Working Group notes the references in the requirements of IFRS S1 and IFRS S2 to other frameworks or standards, such as:

(a) The reference to the *Sustainability Accounting Standards Board (SASB) Standards* in paragraph 51 of IFRS S1; and

(b) The reference to the *Greenhouse Gas Protocol Corporate Standard* in paragraph 21(a)(i) of IFRS S2.

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3 See paragraph 24 of ISAE 3000 (Revised). Paragraph A51 of ISAE 3000 (Revised) further explains that criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. It also provides examples of how such criteria may be made available to the intended users.

4 See paragraph 63 of ISAE 3000 (Revised).

21. The Working Group is of the view that the ISSB should be cautious about making explicit references to other frameworks or standards outside the mandate of the ISSB (i.e., excluding the SASB Standards – see next paragraph). One possibility would be to limit those references to application material and guidance (i.e., it should not be required) for several reasons, including the following:

    (a) Other frameworks or standards have not followed the due process of the IFRS Sustainability Disclosure Standards.

    (b) There may be overlap or inconsistencies between the other frameworks or standards and the IFRS Sustainability Disclosure Standards, which may create uncertainty regarding which criteria are expected to be applied, and whether they are suitable in the engagement circumstances. Furthermore, when there are inconsistencies, it raises questions about whether the entity can claim full compliance with the IFRS Sustainability Disclosure Standards.

    (c) Given the maintenance of the other frameworks or standards is outside the mandate of the ISSB, over time the issue described in (b) may worsen, or future changes may be made to the frameworks or standards that are not coherent with the ISSB's vision and intent for sustainability reporting.

22. The Working Group recognizes that the SASB Standards fall within the mandate of the ISSB. The Working Group, in principle, supports the notion of industry-based standards that provide more specific criteria on certain matters to help drive consistency and comparability in reporting. However, in order to facilitate the establishment of a coherent set of international sustainability reporting standards, the ISSB may need to consider whether the SASB Standards fully align with the IFRS Sustainability Disclosure Standards. [5]

Disclosure of Criteria Regarding Metrics and Targets, and Measurement of Metrics Validated by External Bodies

(Overarching theme in paragraph 4: enhanced disclosures)

23. The Working Group notes the requirement in paragraph 31 of IFRS S1 regarding the required disclosure of the criteria supporting metrics and targets in circumstances when these are developed by the entity. Consistent with our views above, the Working Group believes that:

    (a) These disclosures should also be required when the criteria are not clearly defined in the IFRS Sustainability Disclosure Standards (e.g., if another standard is being used); and

    (b) The disclosures outlined in paragraph 18 should also be required.

24. The Working Group specifically observed the requirement in paragraph 31(b) of IFRS S1, which requires disclosure of whether measurement of the metric is validated by an external body and, if so, which body. The Working Group noted that this requirement could inadvertently imply that the mere

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[5] We did not perform an extensive review of the industry-based disclosure requirements in developing this letter. However, we observed certain overlaps or inconsistencies that created confusion when viewing these standards alongside the IFRS Sustainability Disclosure Standards. For example, Volume B1 – Apparel, Accessories and Footwear industry-based disclosure requirements includes descriptions of the risks under the metrics. Explaining the risks as an element of the metrics seems contrary to IFRS S1, since IFRS S1 sets up the significant sustainability-related risks and opportunities as the starting point, and metrics are material information provided about those risks. Another example of a possible inconsistency in Volume B1 is the requirement to explain the approaches to managing the risks, which also is explained as an element of the metrics. However, in IFRS S1, disclosures about how risks are identified, assessed and managed falls under the pillar of risk management, rather than metrics and targets.

fact that an external body has validated the metric, means that the metric is more reliable and suitable, which may not always be the case. Consistent with our view in paragraph 16, the entity has a responsibility to have a process for evaluating the suitability of the criteria and determining how the criteria will be applied in the entity's circumstances (and to provide disclosure about its process as indicated in paragraph 18(a)). This includes circumstances when the criteria have been developed by an external body.

B.2 The Objectives of the Standards and Scope of Sustainability-Related Risks and Opportunities (or Climate-Related Risks and Opportunities)

25. The information disclosed in accordance with the IFRS Sustainability Disclosure Standards is underpinned by the objectives of IFRS S1 and IFRS S2, and the key concepts embedded in the objectives, including:

    (a) In the context of IFRS S1, the meaning of significant sustainability-related risks and opportunities; and

    (b) In the context of IFRS S2, the meaning of significant climate-related risks and opportunities.

26. Clarification of these underlying concepts is critical for an assurance practitioner to be able to determine whether information disclosed by the entity faithfully represents (i.e., it is complete, neutral and free from error) the sustainability-related risks and opportunities (or climate-related risks and opportunities) to which an entity is exposed in accordance with the IFRS Sustainability Disclosure Standards. Below, we further explain the challenges with the key concepts listed above, and the objectives of IFRS S1 and IFRS S2.

The Meaning of Significant Sustainability-Related Risks and Opportunities

(Overarching themes in paragraph 4: enhanced disclosures; clarity of key concepts)

27. The Working Group noted that the notion of "significant sustainability-related risks and opportunities" is implicitly described in paragraphs 9, 15(a) and 16 of IFRS S1, but is unclear. In particular:

    (a) The scope of topics within the realm of "sustainability" lacks clarity. The Working Group acknowledges that there are challenges in defining the topics that fall within the realm of "sustainability," including inconsistent views on the scope of sustainability, the need to remain flexible to accommodate new sustainability topics, and the need for entities to identify what is relevant to the entity and its circumstances.

    (b) The notion of "sustainability-related risks and opportunities" is inconsistently described. For example, paragraph 9 of IFRS S1 describes the risks in the context of affecting the assessment of enterprise value, whereas paragraphs 15(a) and 16 of IFRS S1 describe the risks as being those that affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term.

    (c) The threshold for "significant" does not appear to have been established. While paragraphs 9, 15(a) and 16 of IFRS S1 refer to "reasonably be expected," it is not clear if this is an intentional threshold for "significant" sustainability-related risks and opportunities. The IAASB believes that a lack of clarity on the threshold results in inconsistent application of the standards and creates an assurance challenge in determining whether the identified and reported sustainability-related risks and opportunities are complete.

    Given the lack of clarity of the meaning of "significant sustainability-related risks and opportunities," the definitions of "sustainability-related financial disclosures" and "sustainability-related financial information" are also unclear. This also impacts the scope of the standard described in paragraph 8 of IFRS S1.

28. The Working Group recommends:

    (a) Requiring the entity to identify and define the sustainability-related topics relevant to the entity and its circumstances and provide disclosures of this, since a definition in the IFRS Sustainability Disclosure Standards of "sustainability" may be challenging;

    (b) Ensuring that there are consistent descriptions for the notion of "sustainability-related risks and opportunities"; and

    (c) Providing additional guidance to support applying the concept of "significant."

The Meaning of Significant Climate-Related Risks and Opportunities

(Overarching themes in paragraph 4: enhanced disclosures; clarity of key concepts)

29. While acknowledging the definition of climate-related risks and opportunities in IFRS S2, the issue around the entity's identification of significant climate-related risk and opportunities is also present in that standard (see paragraph 27 above). Similar to our recommendation in paragraph 28, the Working Group suggests that IFRS S2 require the entity to identify and define the climate-related topics relevant to the entity and its circumstances and provide disclosures of this.

The Entity's Process for Identifying Significant Sustainability-Related Risks and Opportunities and Significant Climate-Related Risks and Opportunities

(Overarching themes in paragraph 4: enhanced disclosures; scope and clarity of requirements)

30. Further to our comment in this section B.2., above, regarding the meaning of significant sustainability-related (and significant climate-related) risks and opportunities, the Working Group observed that the standards lack consistency and clarity regarding how significant sustainability-related risks and opportunities (or significant climate-related risks and opportunities) should be identified for purposes of reporting under IFRS S1 and IFRS S2.

31. In the Working Group's view, greater consistency and clarity could be provided with increased focus on the entity's process for identifying, assessing, and managing significant sustainability-related risks and opportunities (i.e., the entity's risk management process(es)). While paragraphs 25 and 26 of IFRS S1 (and paragraphs 16 and 17 of IFRS S2) address the objective of and requirements to provide disclosures about the entity's process(es) for identifying, assessing, and managing risks and opportunities, this process(es) is not connected to the requirements in paragraphs 19 and 51 of IFRS S1. Rather, paragraphs 19 and 51 of IFRS S1 direct the entity to consider specific sources, instead of directing the entity to the significant sustainability-related risks and opportunities identified by the entity's risk management process(es). Similarly, paragraph 10 of IFRS S2 directs the entity to the disclosure topics defined in the industry disclosure standards to identify the significant climate-related risks and opportunities.

32. If left unaddressed, the above lack of clarity and insufficient focus and connection could lead to inconsistent interpretation regarding which significant sustainability-related risks and opportunities (or significant climate-related risks and opportunities) the entity is required to provide material information about in accordance with IFRS S1 and IFRS S2. This also may introduce complexity and subjectivity into management's decisions in preparing the entity's sustainability-related and climate-

related reporting and may be an area that is subject to management bias, which could drive the need for significant assurance practitioner judgments.

33. The entity's risk management process(es) is how the entity identifies, assesses, and manages relevant risks and opportunities. As these are the risks and opportunities that the entity has managed and addressed (including integrating them into strategies and decisions), these are the risks and opportunities of potential relevance to the users of the entity's general purpose financial reporting. Therefore, the entity's risk management process(es) should be at the center of which risks and opportunities the entity reports on to users.

34. As a result, the Working Group recommends that the IFRS Sustainability Disclosure Standards focus on the entity providing information about the significant sustainability-related risks and opportunities (and significant climate-related risks and opportunities) identified through the entity's risk management process(es). Further guidance could be provided to support entities' processes for identifying significant sustainability-related risks and opportunities (and significant climate-related risks and opportunities) that:

    (a) Explains the meaning of significant (also see recommendation in paragraphs 28 and 29); and

    (b) Incorporates into the entity's risk management process(es), sources of risks and opportunities that may be considered by the entity, for example, the sources outlined in paragraph 51 of IFRS S1 (or paragraph 10 of IFRS S2 for climate-related risks and opportunities).

35. The proposed approach described above provides more robust criteria as a basis for providing assurance. This is because it may be challenging for an assurance practitioner to determine whether the significant sustainability-related risks and opportunities are complete if the expectation is for the disclosures to cover significant sustainability-related risks and opportunities beyond those identified by the entity's risk management process(es). The Working Group also observed that focusing on significant sustainability-related risks and opportunities identified by the entity's risk management process(es):

    (a) Provides more transparency about what the entity is thinking about and addressing and avoids the risk of providing misleading information to users. For example, if an entity provides information about significant sustainability-related risks and opportunities that have not been identified as part of the entity's risk management process(es), users may incorrectly assume these risks and opportunities are being considered and addressed by the entity.

    (b) Is more scalable because it enables a more tailored approach and inherently reflects the appropriateness and maturity of the entity's risk management process(es) (as well as the maturity of the entity's related information system, including sustainability reporting process).[6]

36. The Working Group noted that the entity's risk management process(es) may not necessarily identify all topics and related risks or opportunities that exist in the sources outlined in paragraph 51 of IFRS S1 (or paragraph 10 of IFRS S2 for climate-related risks and opportunities), because:

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[6] The entity's information system relevant to the preparation of sustainability-related financial information may encompass the entity's information processing activities, resources used in such activities, and policies and procedures (controls) relating to the identification, capturing, recording and processing of relevant information about identified sustainability-related risks and opportunities, the nature and function of the records maintained by the entity, and the sustainability reporting process used to prepare the entity's sustainability-related financial information (including through collating and summarizing recorded information, obtaining and summarizing additional information that may be needed, doing appropriate aggregation or disaggregation of information, correcting or adjusting information as necessary, and preparing the relevant presentations and disclosures to be included in the entity's sustainability reporting).

(a) The entity's process(es) may be ineffective and has failed to identify them; or

(b) The risks and opportunities in the specified sources are not relevant or significant to the entity.

37. Users may be seeking comparability across entities (particularly within the same industry), as well as accountability and transparency about the entity's sustainability focus and efforts. As a result, there also is a need to provide information about significant sustainability-related risks and opportunities the entity reasonably ought to have identified based on its activities and circumstances. However, for the reasons explained in paragraph 35 it would not be practicable to expect the entity to provide all of the information required by IFRS S1 or IFRS S2 for such risks and opportunities, because they would not have been managed or integrated into the entity's decisions and processes (e.g., disclosing the effect of these sustainability-related risks and opportunities on the entity's business model would not be practicable if the entity has not contemplated these risks and opportunities as part of its processes).

38. Recognizing the matters highlighted in paragraphs 36 and 37, the Working Group recommends requiring that the entity also provides an explanation of any significant sustainability-related risks and opportunities not identified, managed, and assessed by the entity's risk management process(es), but of which the entity has become aware. For example, significant sustainability-related risks and opportunities that were identified in preparing the entity's sustainability-related financial information (i.e., through the entity's sustainability reporting process applied at the end of the reporting period, or through other processes such as the entity's financial reporting process or those charged with governance discharging their reporting oversight responsibilities), or matters communicated by the assurance practitioner to management and, where appropriate, those charged with governance. Other useful disclosures about these risks and opportunities would include the reason for them not being identified and managed previously, and the entity's future action in this regard.

B.3 Interrelationship between IFRS S1 and Other IFRS Sustainability Disclosure Standards

(Overarching theme in paragraph 4: scope and clarity of requirements)

39. The Working Group notes that the broader relationship between IFRS S1 and the other IFRS Sustainability Disclosure Standards could be more directly and prominently addressed. In addition, the requirements in IFRS S1 are repeated in IFRS S2, which gives rise to a lack of clarity about how the requirements are expected to be applied and the level at which the information should be disaggregated, i.e., whether the entity is expected to provide the information for sustainability-related risks and opportunities as a whole, *and* separately for each topic.

40. The Working Group recommends:

(a) Treating IFRS S1 as a foundational standard, and only including supplemental requirements in the other IFRS Sustainability Disclosure Standards dealing with specific topics. This approach:

(i) Does not repeat requirements from IFRS S1 in the other IFRS Sustainability Disclosure Standards (including IFRS S2); and

(ii) Includes supplemental requirements in the other IFRS Sustainability Disclosure Standards (including IFRS S2) that:

a. Specifically address how to apply IFRS S1 to the topic (such as paragraph 15 of IFRS S2). In this circumstance, it needs to be clear whether complying with the particular requirements in IFRS S2 or the other IFRS Sustainability Disclosure

Standards fully, or only partially, achieve the related requirement in IFRS S1.

b. Are additional requirements expected to be applied for the particular sustainability topic in addition to those in IFRS S1 (such as paragraph 9(c) of IFRS S2). In this circumstance, it needs to be clear that both requirements in IFRS S1 and IFRS S2 or other IFRS Sustainability Disclosure Standards need to be applied.

(b) Clarifying in IFRS S1 the relationship between IFRS S1 and the other IFRS Sustainability Disclosure Standards (including IFRS S2).

B.4 Scalability and Proportionality, and Statement of Compliance

(Overarching theme in paragraph 4: clarity of key concepts)

41. Given sustainability reporting for some entities is relatively immature, the Working Group is concerned that it may take time for entities' internal controls and reporting to fully, and reliably, address all the requirements of the IFRS Sustainability Disclosure Standards. This is a particular concern for sustainability topics where a specific IFRS Sustainability Disclosure Standard has yet to be developed. This may affect an entity's ability to represent full compliance with the IFRS Sustainability Disclosure Standards, required by paragraph 91 of IFRS S1. There may also be circumstances when entities attempt to provide the information required by the IFRS Sustainability Disclosure Standards, but such information may not fulfil the qualitative characteristics in Appendix C of IFRS S1, such as faithful representation and verifiability. A lack of reliable information and internal controls directly affects the ability to perform an assurance engagement.

42. The Working Group encourages the ISSB to further consider how to address this important challenge. The Working Group is aware of some jurisdictions where a "comply or explain" approach was used in transitioning to providing sustainability-related disclosures, such as the United Kingdom. The Working Group also recognizes that there may be different approaches and that the ISSB would need to balance relevant considerations related to the fundamental qualitative characteristics that underlie the IFRS Sustainability Disclosure Standards.

43. While a particular approach may result in entities not providing all disclosures required by the IFRS Sustainability Disclosure Standards in certain circumstances, the Working Group observed that it is more important that information provided to users is reliable, neutral and free from error. The Working Group believes that it would be important to require transparency with users about any limitations and to set appropriate restrictions to reduce the risk that entities inappropriately use a provision to avoid providing required disclosures.

B.5 Materiality

(Overarching theme in paragraph 4: clarity of key concepts)

44. Materiality is a key concept in the preparation of sustainability-related financial information. It drives management's decisions about what information to present and disclose (i.e., material information about all significant sustainability-related risks and opportunities), which is based on relevant qualitative and quantitative characteristics in the circumstances of the entity and what the reported information purports to represent. Materiality is equally critical in performing an assurance engagement. The concept of materiality is applied by the assurance practitioner both in planning and performing the engagement, in evaluating whether the sustainability information is free of material misstatement, and in forming an assurance conclusion in the practitioner's report. Accordingly, the definition or description of materiality in the IFRS Sustainability Disclosure Standards provides a

frame of reference for the assurance practitioner for purposes of performing the assurance engagement.

45. The Working Group noted that there may be insufficient explanation of materiality in paragraphs 57–62 of IFRS S1 to support a consistent understanding of how materiality may be determined, particularly given the complexity of applying the concept in the context of sustainability reporting.

46. The Working Group recommends developing further guidance to enhance consistency in applying the concept of materiality in preparing sustainability information in accordance with the IFRS Sustainability Reporting Standards. Doing so will also enhance the assurability of the information, in particular in obtaining sufficient appropriate evidence about management's judgments, determining whether all material information has been disclosed, and detecting other material misstatements. Examples of matters that could be further explained include:

    (a) The nature of sustainability-related financial information may be diverse, and may be:

    - Measured and presented in quantified terms, evaluated and presented in narrative or descriptive terms, or in other forms such as charts, graphs, diagrams, images or similar forms.
    - Measured with precision or subject to varying degrees of measurement or evaluation uncertainties.

    (b) Materiality is considered in the context of qualitative factors and quantitative factors, with examples or guidance on such factors. In addition, materiality should be appropriate to the nature of the sustainability-related financial information and how it is presented.

    (c) Not all sustainability-related financial information involves the same materiality considerations, and that materiality may need to be considered separately across the different types of sustainability-related financial information.

B.6 Groups, Joint Ventures, Associates and Investments and Aggregation of Information

(Overarching themes in paragraph 4: enhanced disclosures; scope and intent of requirements)

47. The Working Group supports paragraph 37 of IFRS S1, which requires that the sustainability-related financial disclosures be for the same reporting entity as the general-purpose financial statements. However:

    (a) There is insufficient explanation or guidance, and a lack of suitable criteria, regarding how the entity should consolidate parent and investee information for the significant sustainability-related risks and opportunities.

    (b) The degree to which, or how, the entity needs to aggregate or disaggregate the information presented is unclear. Although paragraph 49 of IFRS S1 discusses aggregation in principle, it lacks clarity because it is too broad, and may be particularly challenging in entities, and groups, with diverse business activities and industries.

    (c) Although the ISSB noted the intent to provide specificity regarding how an entity is required to disclose or measure its significant sustainability-related risks and opportunities for its joint ventures, associates and other financed investments (as described in paragraphs BC52–BC53 of the Basis for Conclusions), until such time that such standards are developed, there is lack of clarity, and therefore suitable criteria, on how such investees should be addressed.

48. Without the frame of reference provided by suitable criteria, the assurance practitioner faces a significant challenge as any conclusion regarding the consolidation or aggregation of the entity's investees is open to varying interpretation and inconsistency in practice.

49. To address the issue of consolidation and aggregation of information, and how to address joint ventures, associates and other financed investments, the Working Group recommends:

    (a) More explicitly requiring organizations to include these types of entities or components in their processes described in paragraph 26 of IFRS S1 (see also our comments about focusing on the entity's process in section B.2).

    (b) Providing guidance on the criteria for how the entity may consolidate information about the significant sustainability-related risks and opportunities across a group.

    (c) Further considering how to address aggregation and disaggregation in the IFRS Sustainability Disclosure Standards. For example, it would be useful to clarify how the entity may aggregate risks across multiple business units. The Working Group also noted that there is no reference to operating segments in the context of aggregation, and this could also be an appropriate lens for aggregation.

50. Further to our suggestion in paragraph 18 (i.e., requiring the entity to disclose the basis for how the entity has prepared the sustainability-related financial information), we recommend requiring the entity to disclose its policies regarding consolidation and aggregation, and how the entity has addressed associates, joint ventures and other financed investments in its sustainability-related risks and opportunities.

B.7 Value Chain Scope

(Overarching themes in paragraph 4: enhanced disclosures; clarity of key concepts)

51. Although the value chain is defined in Appendix A of IFRS S1 and further described in paragraph 20 of IFRS S1, the scope of the value chain is vague and broad. For example, the use of terms such as "full range," "the external environment" or "those along its supply, marketing and distribution channels" lacks specificity. The Working Group believes the lack of clarity will create complexities and introduce subjectivity in preparing the information and gives rise to related assurability challenges, including determining whether all elements of the value chain have been identified and accounted for. This challenge will likely be exacerbated in large groups involved in a diverse range of industries.

52. The Working Group recommends:

    (a) Clarifying the definition of value chain, in particular the intended scope; and

    (b) Requiring entities to explain in the sustainability information how the value chain has been identified and scoped (consistent with our suggestion in paragraph 18).

53. Furthermore, consistent with our views explained in paragraphs 48–50, the aggregation of information related to the entity's value chain requires clarification.

B.8 Time Horizons

(Overarching theme in paragraph 4: clarity of key concepts)

54. The Working Group notes the explanation of the time horizons in paragraph 18 of IFRS S1 and acknowledges that the time horizons can vary depending on many factors. We support the

requirement in paragraph 16 of IFRS S1, which requires the entity to disclose how it defines short, medium, and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.

55. While we agree that the ISSB should not be prescriptive on the time horizons, the extent of potential ranges in determining the time horizon could be significant. Furthermore, the time horizons considered by entities in preparing financial statements are typically much shorter than what may be appropriate in the context of sustainability reporting. Given the pervasive impact of the time horizons on what sustainability-related risks and opportunities are identified, and the information disclosed about them, without a frame of reference from the ISSB on appropriate time horizons, there may be varying interpretations and inconsistency in practice. This introduces complexity and subjectivity which drives a need for significant assurance practitioner judgments about management's judgments on time horizons and the related effect on the identification of sustainability-related risk and opportunities.

56. Accordingly, the Working Group recommends providing guidance to indicate what may be appropriate time horizons for each industry, such as examples of appropriate ranges for the short, medium and long term for each industry.

B.9 Resilience

(Overarching theme in paragraph 4: scope and intent of requirements)

57. The requirement for information about climate resilience in paragraph 15 of IFRS S2 is conducive to consistent application and interpretation, subject to our further suggestion in paragraph 58 below. In contrast, the requirements in paragraphs 23–24 of IFRS S1 lack clarity and specificity in terms of what disclosure is expected, which creates an assurability challenge. Given it may not be possible to provide more specificity in IFRS S1 (since sustainability covers a broad range of topics, and scenario analysis may not be suitable or practicable in all cases), the Working Group recommends removing paragraphs 23–24 of IFRS S1, and only addressing the resilience requirements in the topic-specific standards (see also our suggestion in paragraph 40(a)(ii)b.).

58. With respect to the resilience disclosures in paragraph 15 of IFRS S2, we have identified the following areas where the standard could be enhanced to improve clarity, understandability and consistent interpretation and application:

    (a) There may be various interpretations of what is a scenario analysis because there are several models or methodologies that can be used. As a result, it may be useful to further clarify how the scenario analysis should be performed and presented, to support consistent implementation.

    (b) The use of a method other than scenario analysis should be an exception. However, paragraph 15(b)(ii) of IFRS S2 implies that other methods are common and acceptable. We suggest clarifying and limiting the circumstances when it may be acceptable to use a method other than scenario analysis.

B.10 Location of Information

(Overarching theme in paragraph 4: scope and intent of requirements)

59. The Working Group supports the requirement in paragraph 72 of IFRS S1, which requires the information to be disclosed as part of an entity's general purpose financial reporting. However, the

flexibility provided by paragraph 75 of IFRS S1, which permits including information by cross-reference, may create challenges (e.g., understanding the information). There also could be several assurance challenges when the information is across multiple locations. For example, the scope of the assurance engagement may be difficult to determine when there is supplementary information not required by IFRS S1 or IFRS S2 presented with the sustainability-related financial information and the supplementary information is an integral part of the disclosures. In such circumstances, the assurance practitioner may need to cover the supplementary information as part of the assurance engagement.

60. To achieve faithful representation more successfully, including understandability of the information, it is important that the information is presented as a cohesive whole. Accordingly, the Working Group recommends restricting the requirement in IFRS S1 regarding cross-references to limited circumstances or types of information (e.g., recognition, measurement, presentation, and disclosure criteria used to prepare sustainability-related financial information).

B.11 Comparatives

(Overarching theme in paragraph 4: scope and intent of requirements)

61. The Working Group noted that paragraph 64 of IFRS S1 indicates that an entity is required to disclose comparative information that reflects updated estimates, and that comparative information may differ from the information reported in the previous period. Although restating comparatives to reflect updated thinking and knowledge may appear to improve comparability, the Working Group is cautious that widespread restatement of comparative information could be complex, misunderstood and create assurability challenges.

62. Furthermore, restating comparatives could result in adjustments to the data or assumptions used in the comparative information and may conflict with the requirement in paragraph 80 of IFRS S1 regarding the consistency of financial data and assumptions with the corresponding financial data and assumptions in the entity’s financial statements. As highlighted in paragraph 10, auditors of financial statements and assurance practitioners have responsibilities regarding material inconsistencies between the information they are auditing or assuring and other information.

63. The Working Group recommends clarifying that the restatement of comparatives should be limited to particular circumstances, similar to the approach in the IFRS Accounting Standards. The following are examples in IFRS S1 of when it may be appropriate to restate comparatives, however further circumstances may also exist that could be explored by the ISSB:

    (a) Paragraph 34 of IFRS S1, which requires the entity to restate comparatives when a metric or target is redefined or replaced.

    (b) Paragraph 84 of IFRS S1, which deals with prior period errors.

B.12 Connected Information, Including with the Financial Statements

(Overarching theme in paragraph 4: scope and intent of requirements)

64. The Working Group agrees with the notion in paragraph 42 of IFRS S1 that there are multiple connections amongst the matters disclosed in the general-purpose financial reporting, i.e., between the various sustainability-related risks and opportunities, and between the sustainability-related risks and opportunities and the financial statements. However, the requirements and guidance in paragraphs 42-44 of IFRS S1 lacks clarity in terms of the degree to which explanations about

connectivity need to be provided. The Working Group also noted that the connectivity is often implicit in the disclosure and that specifically explaining or highlighting how the information is connected may be challenging or onerous, particularly given there could be many relationships that are complex or multi-faceted. The lack of clarity regarding the degree of expected disclosures could result in the information being incomplete, excessive, or repetitive.

65. The Working Group recommends that it may be more appropriate to establish the requirement of connectivity as an overarching principle that underpins the preparation of sustainability-related financial information, supported by guidance and examples of how connectivity is communicated. This may result in more relevant, useful, and understandable disclosures regarding the connection of information. From an assurance perspective, it would also assist the assurance practitioner, who may otherwise struggle to ascertain if the information about connectivity is complete or appropriately described under the current proposals.

B.13 General Observations Regarding Drafting and Presentation

(Overarching theme in paragraph 4: drafting and presentation)

66. A consistent understanding and effective application of the IFRS Sustainability Disclosure Standards is enhanced when the standards are clear. From an assurance perspective, consistency of understanding of the criteria is essential to enable the practitioner to evaluate and challenge whether management has appropriately applied the criteria in preparing the sustainability information.

67. Across IFRS S1 and IFRS S2, the Working Group identified that the clarity of the requirements could be improved to reduce complexity and enhance understandability by, for example:

(a) Removing repetition or duplication. Overlap or duplication of requirements creates confusion and raises questions such as whether it is intended that two similar requirements are different, and how to apply the requirements concurrently.

(b) Using consistent terminology and explanations that support terminology, or if different terminology is used, being clear about why that is the case. Examples include the following:

- In several places throughout IFRS S1 (e.g., paragraphs 21(c), 26, 29 and 30 of IFRS S1), the term “sustainability-related risks and opportunities” is used. However, in other areas of the standard, the term “*significant* sustainability-related risks and opportunities” is used. Therefore, it raises questions whether the intention in paragraphs 21(c), 26, 29 and 30 of IFRS S1 is that it applies to *all* sustainability-related risks and opportunities, not only significant ones. A similar pattern was identified in IFRS S2, with the use of the term “climate-related risks and opportunities” and “*significant* climate-related risks and opportunities.” There also is inconsistent use of “climate-related *financial* disclosures” and “climate-related disclosures.”
- The notion of materiality in paragraph 56 of IFRS S1 is inconsistent with what is described as “relevant information” or “material” in the objective in paragraphs 1 and 2 of IFRS S1, and various other descriptions across IFRS S1. Specifically:
  - Paragraphs 1 and 2 of IFRS S1 refer to information relevant to primary users and the notion of materiality in the context of primary users’ assessment of enterprise value and decision whether to provide resources to the entity.
  - The notion of materiality in paragraph 56 of IFRS S1 focuses on information that could influence decisions that the primary users of general-purpose financial

reporting make on the basis of that reporting (we note that primary users could make decisions that are not related to enterprise value and providing resources).

- Appendix A of IFRS S1 defines enterprise value, however there are other places across IFRS S1 where it is explained differently from the definition (e.g., paragraph 5 of IFRS S1).
- Paragraph 13(b) of IFRS S2 refers to "these plans," however it is not clear whether it means the transition plans, or a broader context of the entity's strategy, decision-making and transition plans (see the lead-in to paragraph 13 of IFRS S2).

(c) Applying consistent formatting, and clearly differentiating requirements from application material. When requirements and application material are comingled, it is unclear whether the intent is that the application material is expected to be applied in all circumstances. In addition, IFRS S1 states that paragraphs in **bold type** state the main principles. However, it is not clear how requirements that are considered main principles, relate to other non-bold requirements.

(d) Ensuring there are no implied obligations, or hidden requirements, in application material or the appendix. For example, there are several implied requirements in Appendix C (such as paragraphs C12, C15, C18, C26). If the intent is for these matters to be requirements applied by the entity in preparing the sustainability-related financial information, we recommend relocating them to the main body of the standard. If the intent is for this material to be explanatory in nature, we recommend rearticulating the material such that it is clearly guidance.

B.14 Other Matters

The Meaning of General-Purpose Financial Reporting

68. The Working Group noted that the reference to "the provision of financial information" in the definition of "general-purpose financial reporting" may be confusing. Although the intent of the IFRS Sustainability Disclosure Standards is to provide sustainability information that is related to the entity's enterprise value, the nature of the sustainability disclosures required by the standards is not fundamentally financial information.

Appendix A

An Overview of the IAASB's Existing Assurance Standards and Guidance and Key Concepts Underpinning Assurance Engagements

1. The IAASB presently has the following standards and guidance that deal with the assurance of sustainability-related information:

   - ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.
   - ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*.
   - Non-authoritative guidance on sustainability and other extended external reporting assurance engagements (EER/Sustainability Guidance) issued in April 2021, comprising:
     - *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements*;
     - *Non-Authoritative Support Material: Credibility and Trust Model relating to Sustainability and other Extended External Reporting (EER)*; and
     - *Non-Authoritative Support Material: Illustrative Examples of Selected Aspects of Sustainability and Other Extended External Reporting (EER) Assurance Engagements*.

2. Paragraph 12(a) of ISAE 3000 (Revised) describes an assurance engagement as follows:

> An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). [The definition further describes reasonable and limited assurance engagements]

Key Concepts Underlying an Assurance Engagement

3. The following key concepts in the IAASB's standards underpin the assurance engagement:

Criteria*	Paragraph 12(c) of ISAE 3000 (Revised) defines criteria as follows: *The benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.*	The ISSB Exposure Drafts would be considered the "criteria" in the context of an assurance engagement performed for sustainability information prepared in accordance with the IFRS Sustainability Disclosure Standards. However, other criteria may also need to be applied or developed by management, as per our comment in paragraph 15.
Underlying subject matter	Paragraph 12(y) of ISAE 3000 (Revised) defines the underlying subject matter as follows: *The phenomenon that is measured or evaluated by applying criteria.*	In the context of the ISSB Exposure Drafts, the "underlying subject matter" would include the significant sustainability-related risks and opportunities, and matters underlying the disclosure requirements, such as

		the entity's controls and processes, strategy, governance etc..
Subject matter information	Paragraph 12(x) of ISAE 3000 (Revised) defines subject matter information as follows: *The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter*.	In the context of the ISSB Exposure Drafts, the "subject matter information" would comprise the sustainability information presented and disclosed in accordance with the IFRS Sustainability Disclosure Standards.

* Paragraph 169 of the IAASB's EER/Sustainability Guidance explains that criteria may include, for example:

(a) Direction on what is to be reported;

(b) Definitions of metrics or other matters that are to be reported;

(c) Measurement or evaluation bases to be used and other reporting policies, including those for presentation and disclosure,

which together establish the whole basis of preparation of the sustainability information.

Important Considerations Regarding Criteria

4. The criteria are an important element that enables the assurance practitioner to perform an assurance engagement. Accordingly, paragraph 24 of ISAE 3000 (Revised) requires the assurance practitioner, as part of establishing whether the preconditions for an assurance engagement are present, to determine whether *the criteria* that the practitioner expects to be applied in the preparation of the subject matter information:

   (a) Are suitable for the engagement circumstances, including that they exhibit the characteristics of relevance, completeness, reliability, neutrality and understandability.

   (b) Will be available to the intended users.

5. Paragraph 41 of ISAE 3000 (Revised) further requires the practitioner to determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified above (i.e., relevance, completeness, reliability, neutrality, understandability).

6. The IAASB's EER/Sustainability Guidance provides further explanations and examples regarding the importance of suitable criteria. For example:

   (a) Paragraph 174 of the IAASB's EER/Sustainability Guidance explains that:

      (i) Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment.

      (ii) Suitability is determined in the context of the engagement circumstances.

      (iii) Without suitable criteria, conclusions about the subject matter information may be open to individual interpretation, increasing the risk that the subject matter information may not be useful to, or may be misunderstood by, the intended users.

(b) Paragraph 372 of the IAASB's EER/Sustainability Guidance explains that for future-orientated information the practitioner may conclude that, in order for the criteria to be suitable, disclosure criteria are needed for the assumptions made, and the nature, sources and extent of uncertainty.