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August 8, 2022

EFRAG Sustainability Reporting Board

RE: EFRAG SRB Consultation Survey

Dear Board,

IFAC welcomes the opportunity to contribute to the public consultation on Draft European Sustainability Reporting Standards (the "Draft ESRS") addressing a broad range of ESG or sustainability-related topics (the "Consultation"). As the global voice of the accountancy profession, IFAC represents over 180 Professional Accountancy Organizations in 135 jurisdictions, thereby representing over three million professional accountants. As such, our goal is to bring an international perspective to this Consultation and to encourage identification of areas for alignment between global climate and sustainability-related reporting requirements (i.e., those being developed by the International Sustainability Standards Board, ISSB) and those of the European Union and other major jurisdictional initiatives such as the United States. **Jurisdictional requirements should build upon, align with, and compliment the requirements of a comprehensive global baseline of disclosure requirements that will be the focus of the ISSB for global capital markets.**

IFAC supports including a broader range of information in corporate reporting so that organizations can communicate more effectively—and stakeholders can better understand—prospects for longer-term value creation. We believe that companies that adopt an "integrated mindset"—insight gained by management and those charged with governance from *both* financial and sustainability information—will make better commercial decisions as well as take account of value to customers, employees, suppliers, and society.

We applaud the European Commission, EFRAG, the Sustainability Reporting Board (SRB) and other relevant bodies that are contributors to the development of these draft standards. As we stated in our press release on May 3, 2022, we welcome these ambitious efforts of the Corporate Sustainability Reporting Directive "to put sustainability-related reporting on the same footing as traditional financial reporting—addressing what sustainability information must be reported and requiring assurance, among other important elements that can enhance corporate reporting." Our benchmarking analysis of reporting and assurance of sustainability information (for fiscal 2020)[1] highlights evidence of existing best practices in the four EU jurisdictions included in our study. We encourage reporting and assurance requirements under the new Corporate Sustainability Reporting Directive (CSRD) that will support and promote such global leadership in corporate disclosure. (See Annex A - B)

[1] The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis.

This said, in finalizing its suite of DRAFT ESRS, IFAC strongly urges EFRAG to focus on the following areas.

1. **While addressing CSRD requirements, the ESRS should be perceived around the world as contributing toward efforts to harmonize a global system for sustainability disclosure. Greater alignment on key concepts, terminology, and metrics between ESRS and ISSB proposed standards—as well as other significant jurisdictional initiatives—and building upon TCFD's Framework and globally recognized standards like GRI are essential. Further efforts to avoid standard-setting and regulatory fragmentation are recommended. (See section 1)**
2. **Based on our global outreach, we believe the current "double materiality" construct may promote confusion for stakeholders and policy makers who are trying to rationalize competing approaches to what information satisfies the needs of different stakeholder groups. We believe that the intention of "double materiality" can be adapted to coexist with constructs advocated by IOSCO, ISSB, GRI, IFAC and others (e.g., a "Building Blocks" or "2-pillar" approach"), while still addressing both investor and multi-stakeholder reporting needs. (See section 2)**
3. **Sustainability disclosures must be simple, clear, uncluttered, and decision useful to achieve their intended purpose of allowing stakeholders to readily understand and compare relevant, high-quality information between companies and across borders. We believe that the draft ESRS contain a level of granularity and complexity that challenges the readiness and ability of companies—which may result in unnecessary resistance to adoption and implementation. We urge taking the time necessary to refine and globally align ESRS. (See section 2)**

IFAC's various relevant positions related to climate and sustainability-related disclosure are presented in our policy paper on *Enhancing Corporate Reporting*, our call-to-action for the establishment of the new ISSB—*The Way Forward*, our response to the IFRS Foundation Consultation on Sustainability Reporting, our guidance that specifically addresses the Sustainability Building Blocks Approach and How Global [ISSB] Standards Become Local Reporting Requirements, in addition to IFAC's Vision for High-Quality Assurance of Sustainability Information and our thought leadership on Championing an Integrated Mindset to Drive Sustainable Value Creation. We are currently working in partnership with AICPA-CIMA on an updated review (based on 2020 and 2021 reporting years) of market practice with respect to sustainability-related reporting and assurance—informing understanding of current market practice globally. The first part, The State of Play in Reporting and Assurance of Sustainability Information: UPDATE 2019-2020 Data & Analysis, was published August 1, 2022.[2]

We believe our views on climate and sustainability-related disclosure remain broadly consistent with those of the IFRS Foundation as well as leading integrated and sustainability reporting organizations.[3] In developing our positions, IFAC continues to conduct extensive engagement across our global membership as well as other stakeholders.

We recently released a joint statement with PRI and the World Business Council for Sustainable Development that emphasizes the need for global and jurisdiction-specific sustainability disclosure initiatives to avoid regulatory and standard-setting fragmentation by collaborating and, wherever possible, aligning key concepts, terminologies, and metrics on which disclosure requirements are built.

[2] See The State of Play in Sustainability Assurance (2019). The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis. 2021 data to be published at a later date.

[3] CDP, CDSB, GRI, IIRC, and SASB ("The Alliance"). See their joint Statement of Intent to Work Together Towards Comprehensive Corporate Reporting and their open letter to IOSCO. Also see IFRS Foundation and GRI to align capital market and multi-stakeholder standards.

IFAC anticipates the submission of the Draft ESRS to the European Commission, as well as completion of the ISSB's draft standards for General Requirements and Climate-related Disclosures, later this year. IFAC strongly supports all these important steps in the hope that they collectively contribute towards a harmonized, global system of decision-useful sustainability-related information.

In this context, IFAC highlights five thematic areas that we believe are important to high-quality, decision-useful sustainability-related disclosures as proposed in the Draft ESRS. These themes are an important part of our submission to the Consultation Survey on Draft European Sustainability Reporting Standards.

1. Alignment between global and jurisdiction-specific sustainability disclosure initiatives

Joint Statement by Leading Market Participants

As agreed by leading financial market participants representing over 200 companies, 4900 investors and more than 3 million professional accountants, there must be alignment—in key concepts, terminology, and metrics—between global reporting requirements—i.e., a global baseline—and important jurisdictional requirements like those of the European Commission, the United States, among others.[4] For example, we note that **neither the definition of "impact materiality" (as per ESRS 1 paragraph 49) nor "financial materiality" (as per ESRS 1 paragraph 53) sufficiently align with globally applicable definitions** as promulgated by GRI (for impact materiality) and the ISSB (for enterprise value), respectively.

As detailed in our joint statement:[5]

1. For preparers, interoperability of jurisdiction-specific sustainability disclosures with global disclosure requirements is critical to reduce cost, complexity, and confusion. Reporting entities should be able to accurately collect and report information in a manner that effectively serves requirements under jurisdiction-specific and globally applicable reporting frameworks.
2. For investors who allocate capital globally, consistency is a matter of investor protection.
3. For professional accountants, global consistency and alignment provides the best foundation for high-quality sustainability-related reporting and assurance—for the benefit of *all stakeholders*.

Leveraging Existing Frameworks and Standards

Developing ESRS disclosure standards clearly based on the TCFD pillars, GRI Standards, and eventually SASB industry-specific disclosures (i.e., during the next phase of the SRB's work), would provide a basis for more international agreement on both the global baseline of disclosures, as well as more societal-focused, EU-specific information.

IFACs research, in partnership with AICPA-CIMA, demonstrates global acceptance of the TCFD framework, which is being incorporated into IFRS Sustainability Disclosure Standards, as well as GRI Standards. In fact, among the multiple standards and frameworks observed for reporting on sustainability, GRI Standards are used approximately 70% of the time. Our research also indicates a 100% increase in TCFD use in 2020 vs. 2019 reporting, with high levels of use in France and levels of acceptance in Germany, Italy, and Spain that are consistent with the global average.[6]

(See graphs below)

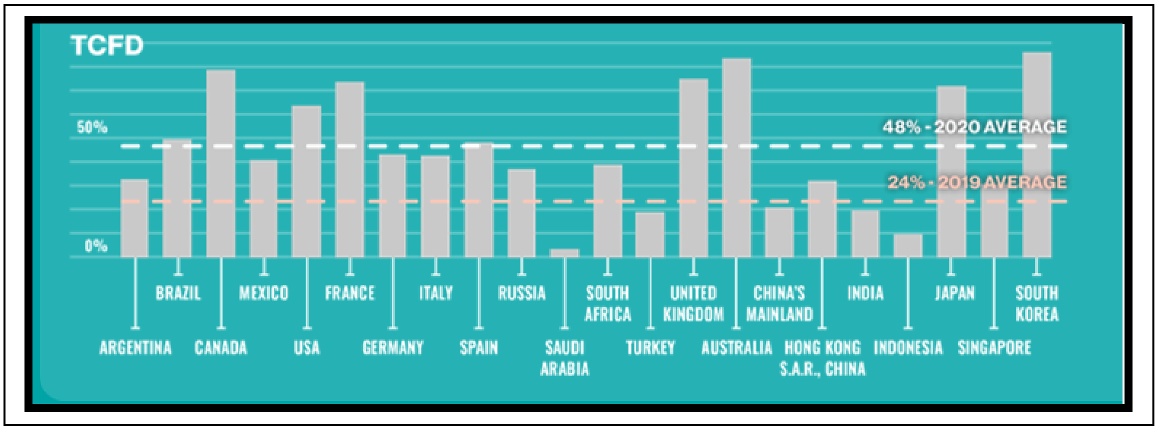
[4] See Leading Financial Market Participants Call for Stronger Alignment of Regulatory & Standard Setting Efforts around Sustainability Disclosure

[5] See footnote 4 above.

[6] See page 4, 6: The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

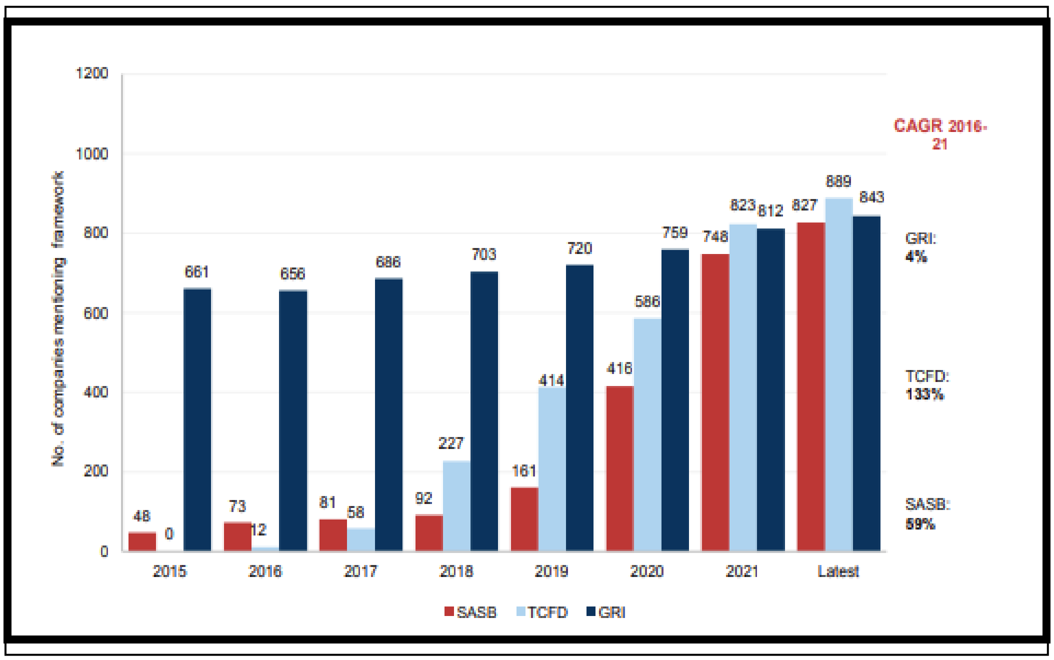
Companies using/referencing TCFD in 2020 corporate reporting

(Source: The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis



Number companies mentioning SASB, TCFD, GRI in annual reports and company filings within S&P Global 1200

(Source: New ISSB proposals – On the verge of global corporate ESG standards)



Further, we note increased use/reference to TCFD by other jurisdiction-specific initiatives, including:

- In the UK, large companies will be required (as of 2022) to disclose climate-related risks and opportunities in line with the TCFD Framework.[7]
- New Zealand has enacted mandatory TCFD disclosures for the financial sector.[8]
- In Australia, the Australian Sustainable Roadmap of the Australian Sustainable Finance Institute recommends the largest listed companies and major financial institutions report according to the TCRD recommendations by 2023.[9]
- The Canadian Securities Administrators consultation contemplates disclosures related to the four core elements of TCFD recommendations.[10]

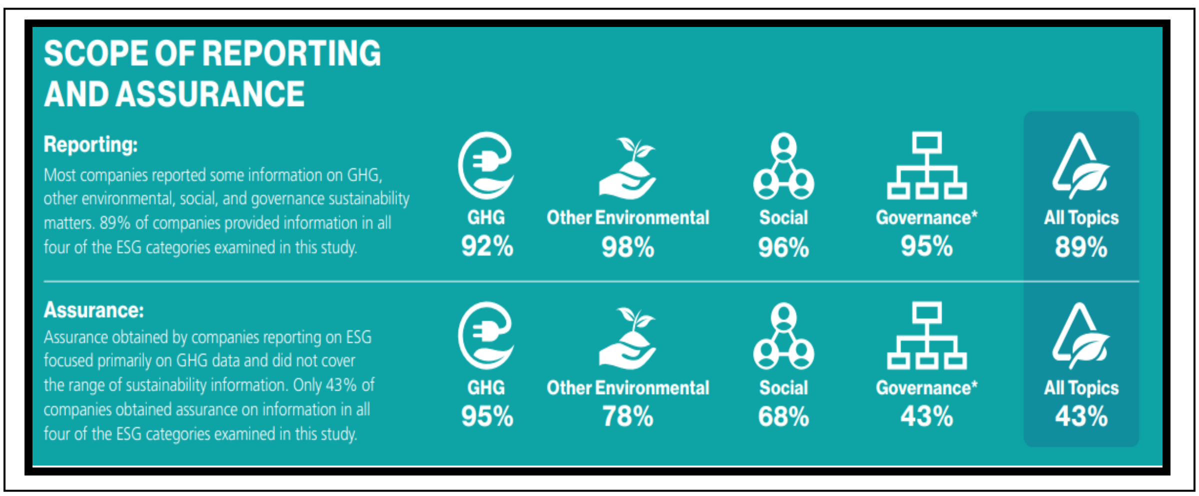
[7] See UK to enshrine mandatory climate disclosures for largest companies in law - GOV.UK (www.gov.uk)
[8] See New Zealand first in the world to require climate risk reporting | Beehive.govt.nz
[9] See Australian-Sustainable-Finance.pdf (citi.com)
[10] See 51-107 - Consultation Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 Disclosure of Climate-related Matters (osc.ca)

Active Efforts to Align

IFAC applauds the IFRS Foundation's recent establishment of the Sustainability Standards Advisory Forum as well as a working group composed of representatives from jurisdictions actively engaged in sustainability standard-setting.[11] IFAC urges EFRAG/SRB and the ISSB to continue these collaborative alignment efforts towards the goal of achieving a global system for reporting on climate and broader sustainability information based off—and aligned with—a comprehensive global baseline of disclosures developed by the ISSB.

Taking a Climate-First Approach

While we believe that high-quality sustainability disclosure must address a range of topics as addressed by the Draft ESRS, we note the unique importance of climate to investors and societal stakeholders.[12] Our most recent review of global reporting and assurance practices supports a "climate first" approach. For example, while approximately 90% of companies we reviewed provide some level of disclosure in each of the "E"-"S"-"G" components of sustainability, the vast majority of assurance obtained by companies is focused on greenhouse gas (GHG) information. We believe assurance is an important barometer of the importance and confidence that companies have in the sustainability information they provide. On this measure, GHG data scores highly—95% of companies who reported GHG information also obtained some level of assurance.[13] (See below)



In the interest of global alignment, avoiding regulatory and standard-setting fragmentation, and achieving a global system of disclosure that effectively and efficiently addresses *global* sustainability issues and the objectives of the CSRD, IFAC urges the Commission to consider a pathway to completing disclosure requirements for the European Union that focuses first and foremost on climate-related information. This approach can serve as a template for identifying those disclosures and KPIs that are most relevant and that can be best aligned with the work of the ISSB—first on climate and then, over time, on the broader range of sustainability topics. **We believe that such a targeted approach—to first refine and globally align climate-focused ESRS—will best meet the objectives of the CSRD and broader ambitions of the European Green Deal.**

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[11] See IFRS Foundation statement on: ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives.

[12] See IFAC response to IFRS Consultation

[13] See page 8: The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

2. Target stakeholders and the nature of materiality

Stakeholder reporting must be as simple, clear, uncluttered, and decision useful as possible in order to achieve its intended purpose of allowing stakeholders to readily compare relevant, high-quality climate and sustainability information between companies and across jurisdictions. IFAC agrees with Accountancy Europe that:

> "To be effective, reporting [on sustainability] needs to capture information measuring what really matters. It will then enable the transition to circular and sustainable business models, and direct investment towards sustainable businesses. For this to happen, standards need to be easy to understands an apply. Too complex or burdensome reporting systems risk generating unhelpful pushback and slowing down adoption."[14]

Toward this goal, IFAC's 2020 roadmap for enhancing corporate reporting details the importance of adopting a "Building Blocks Approach"—a coherent, understandable, global system for interconnected corporate reporting. This approach—subsequently recognized by ISOCO, the IFRS Foundation, and others—acknowledges the importance of both sustainability disclosure to investors who make capital allocation decisions as well as disclosure intended to inform a broader group of stakeholders focused on material sustainable development and company impacts on economy, environment, and people.[15] Still further supplemental jurisdictional requirements to support local public policy/accountability may also be needed—i.e., such as those included in the Draft ESRS that allow for reporting entities to provide information needed "for transparency corresponding to the European public good."

<u>Materiality Perspectives</u>

In our recent response to the ISSB's two Exposure Drafts, we explained that the distinction between these two "perspectives"—the first focused on investor information needs and the second focused on other stakeholders—is nuanced and may change over time as investor assessments of materiality are dynamic in nature.

> **Perspective 1:** "Outside-in" disclosures address how ESG factors—and a company's actions related to ESG—can impact a company's enterprise value.
>
> **Perspective 2:** "Inside-out" disclosures address multi-stakeholder needs—societal impacts—not already captured by the assessment of enterprise value.

Further, IFAC encouraged the ISSB to develop its investor-focused, *comprehensive* global baseline of disclosure requirements addressing enterprise value <u>while taking into consideration whether some societal impacts may be relevant to investors' assessment of enterprise value</u>.[16]

The recent collaboration agreement between the IFRS Foundation and GRI[17] demonstrates how this approach can work in practice to effectively balance the information needs of investors and capital markets with those of other stakeholders who also want a better understanding of a reporting entity's societal impacts. We view this approach as consistent with the "double materiality" ambitions of ESRS. The diagram below illustrates this complementarity.

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[14] Accountancy Europe Letter to Mairead McGuiness, European Union Commissioner for Financial Services, Financial Stability and Capital Markets Union: "The European accountancy profession is becoming concerned that ESRS disclosure requirements, as currently appearing in the European Financial Reporting Advisory Group's (EFRAG) Project Task Force (PTF) Working Papers (WP), **will not help meet the Green Deal's objectives** (emphasis added)." 220329-Letter-on-sustainability-reporting-standards_Accountancy-Europe.pdf (accountancyeurope.eu)

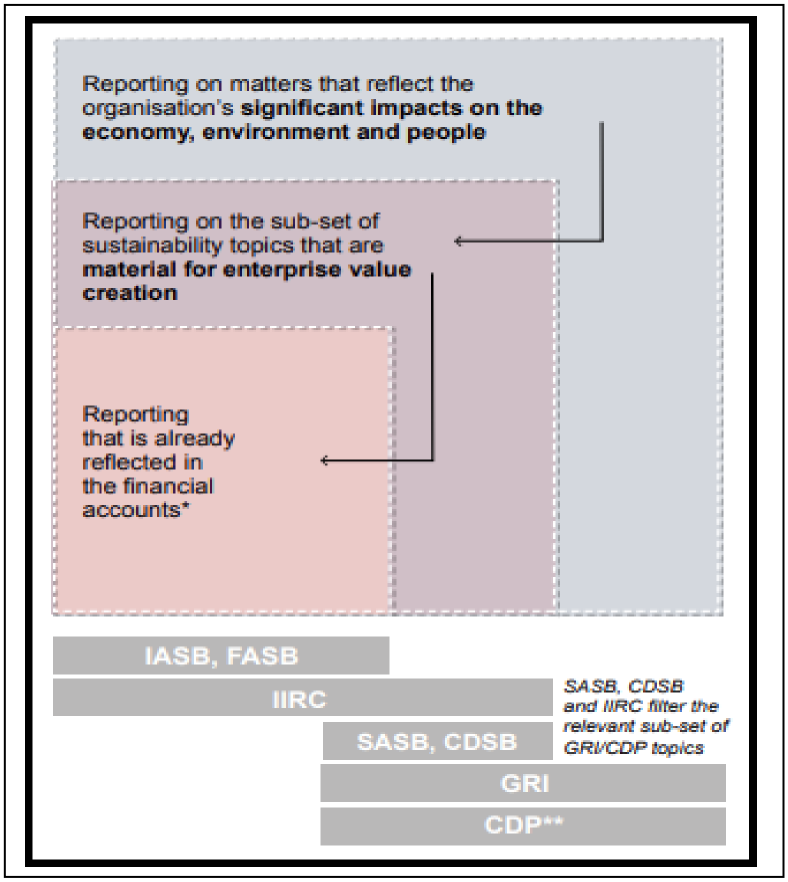
[15] See Enhancing Corporate Reporting – The Sustainability Building Blocks

[16] IFAC response to ISSB Exposure Drafts on General Requirements for Disclosure of Sustainability-Related Financial Information and Climate-related Disclosures

[17] See statement by the IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures

Standards addressing distinctive materiality concepts

(Source: Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf (netdna-ssl.com)



We believe that an approach to standard setting for the European Union that articulates financial/enterprise value materiality and societal/impact materiality—consistent with a Building Block Approach—has the greatest chance of success—i.e., a truly global system (inclusive of ESRS) for reporting sustainability-related information that serves the interests of capital markets *and* broader society.

Impact Materiality

With respect to impact materiality, we acknowledge the collaboration that has taken place to date with GRI in the development of ESRS—resulting in many ESRS disclosure requirements being "fully aligned or very closely aligned" with GRI Standards so that "thousands of EU companies already using the GRI Standards will be able to comply with the requirements of the ESRS more easily." However, given the global recognition and current use of GRI Standards,[18] **IFAC believes that even greater alignment and convergence with GRI will be beneficial—towards incorporating ESRS and other jurisdictional initiatives into a global system.[19]**

Rebuttable Presumption of Materiality

Finally, IFAC agrees with GRI "that all mandatory disclosure requirements established by the ESRS shall [not] be presumed to be material and recommends reviewing this approach against existing

[18] See page 6: The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

[19] See Encouraging progress on EU standards—with deeper alignment the next step

proven approaches, such as GRI's,"[20] that of SASB Standards, as well as financial reporting materiality conventions under IFRS Standards or US GAAP. We believe that the rebuttable presumption approach will lead to unnecessary cost, confusion, and lack of comparability. **We strongly urge reconsideration of the proposed ESRS rebuttable presumption of materiality.**

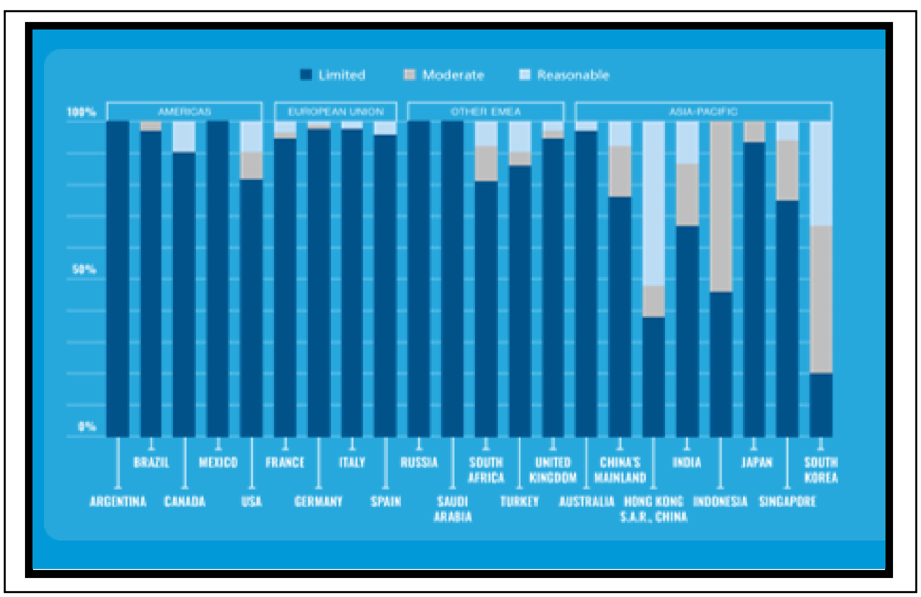
3. Assurance of sustainability disclosures

To be trusted and on par with financial information, climate and sustainability information must be subject to high-quality, independent, external assurance, based on global standards of the International Auditing and Assurance Standards Board (IAASB). This said, our research indicates that assurance lags reporting of ESG information. While 92% of the companies we examined in our latest benchmarking study report *some* information, **only 58% also obtain assurance** on (a portion of) the information they report.[21] (See Annex A)

IFAC supports the IAASB's current work to develop a global, overarching assurance standard on sustainability that encompasses all sustainability topics, all information disclosed about sustainability topics, all mechanisms for reporting, all reporting standards, and all users/stakeholders. <u>Consistent reporting of sustainability-related information is the best foundation for high-quality assurance</u>**.**

IFAC applauds the ambition of the Corporate Sustainability Reporting Directive (CSRD) to require high-quality assurance of sustainability disclosures and we support progress from a limited to a reasonable level of assurance. We note that ongoing work of the IAASB with respect to assurance standards for engagements on sustainability information contemplates both limited and reasonable assurance outcomes. While a transition to reasonable assurance would foster greater equivalency between financial and sustainability information, our research demonstrates that current market practice (without the support of regulatory mandate) results in limited assurance, especially when audit firms were engaged (i.e., 97% of audit firm-related engagements resulted in limited assurance reports). In contrast, 59% of engagements conducted by other service providers resulted in limited assurance, while moderate assurance (23%) and reasonable assurance (18%) were also prevalent.

82% of assurance engagements examined for 2020 resulted in limited assurance reports



[20] See Encouraging progress on EU standards—with deeper alignment the next step

[21] See The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

Our research and stakeholder engagement has identified best practices in reporting and assurance of sustainability information within the European Union, especially France. For example, in the 2019 and 2020 reporting cycles:

- More French companies obtained assurance of their sustainability disclosures than was evident in the other twenty-one jurisdictions reviewed.
- Professional accountants provided assurance for nearly all companies in our review in France, Germany, Italy, and Spain.
- ISAE 3000 (Revised) was the standard of choice for sustainability assurance engagements in France, Germany, Italy, and Spain.

IFAC believes that interconnecting sustainability assurance with the financial statement audit leverages the skills and competencies of professional auditors as well as their knowledge of company strategy, governance, business model, risks/opportunities, and performance—which maximizes value to companies and their stakeholders. Our research demonstrates that 71% of the time, globally, when a company chooses an audit firm to perform a sustainability assurance engagement, the company selects the same firm as the statutory auditor, especially in France.[22] (See Annex A)

We urge the European Commission, EFRAG and the SRB to a) actively engage with the IAASB in its new standard-setting work, b) take assurance into account in the development of ESRS, c) support the use of global IAASB assurance standards for engagements related to disclosure requirements under the CSRD, and d) promote regulations that sustain the best practices that have evolved to date amongst European Union companies.

4. Interconnected approach to financial and sustainability information

Climate and sustainability disclosures are most valuable to investors and other stakeholders when they are connected to financial reporting information. This includes improving the timeliness and proximity of location between financial and sustainability information when being made public.

Again, our research has identified best practices around the world in both the reporting and assurance of sustainability information. In the 2019 and 2020 reporting cycles we found:

- 100% of the companies we examined in France provided sustainability disclosures in annual or integrated reports. Companies in Spain (especially in 2020) also relied heavily on the use of annual reports or integrated reports. Note that the majority of companies, globally, still rely on separate sustainability reports for ESG disclosures.

Sustainability disclosures should be prepared and presented by companies taking an integrated mindset approach—not presented in separate, sustainability statements as part of a compliance-based reporting exercise. EU-domiciled companies examined in our State of Play review already demonstrate best practice, which should be encouraged through the CSRD. See Annex B for further information addressing the location of sustainability information and timing gaps between financial and sustainability reporting.

IFAC supports the use of management commentary or integrated reports for sustainability disclosure. Our response to the ISSB's recent Exposure Draft Consultations encouraged the ISSB and IASB to utilize principles and concepts from the Integrated Reporting Framework in their standard-setting work—seeking opportunities to align and incorporate the concepts of the Framework with similar concepts in the IASB and SASB conceptual frameworks.[23] Further, we note the recent consolidation of the Value Reporting Foundation with the IFRS Foundation—with the ISSB and IASB assuming joint responsibility for the Integrated Reporting Framework and their encouragement for continued adoption

[22] The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

[23] See IFRS Foundation statement on Integrated Reporting—articulating a future path.

of the Framework to drive high-quality corporate reporting.[24] IFAC supports this effort and notes the progress of integrated reporting around the world, including in the European Union. Our 2020 benchmarking review reveals:

- Ten of fifty companies we examined in France converted to Integrated Reports in 2020—having previously provided sustainability disclosure in annual reports.
- 24 of fifty companies domiciled in Spain and 15 of fifty companies domiciled in Italy also relied on integrated reports in 2020.

IFAC supports measures in Draft ESRS that promote the preparation of connected information, including consistency with data and assumptions used in the financial statements and overall cohesiveness between sustainability reporting and other public reports. We encourage ESRS and/or CSRD requirements that will promote best practices we observe today by EU companies—i.e., sustainability and financial information that is interconnected with respect to timing, presentation/location with primary financial information, and (increasingly) employing the principles of integrated reporting.

5. Targets and Goals in Climate Disclosure

Requirements for companies to disclose how they intend to meet their stated climate-related goals and targets are becoming of increasing importance to investors. Although financial reporting standards (i.e., US GAAP and IFRS Accounting Standards) have not changed, investors, as well as other stakeholders, increasingly consider climate change to be a material issue that can have financial consequences for many companies.

IFAC's Climate Action Point of View, issued in December 2019, highlights climate change as an urgent, global issue and outlines the influence and responsibility that IFAC's 180 member organizations and over 3 million professional accountant members have in climate reporting.[25] In 2021, IFAC issued a Statement that continued to advocate for and support the accountancy profession's role in enabling climate action by providing transparency and insights on the financial impacts of climate change.[26]

Emission targets and transition plans, if reported by a company, should be considered as part of the overall, high-quality climate disclosure information provided. However, based on outreach with investors and other stakeholders, IFAC believes that there is the potential for a gap between the expectations of many investors and the quality and extent of targets and transition plans currently reported by many companies. To inform evidence-based policy and standard-setting discussions, IFAC has commissioned another benchmarking study to analyze current market practice, across fifteen jurisdictions, with respect to company-reported emission targets, transition plans, and stated cost estimates. IFAC would be pleased to provide the results of this review, once completed later in 2022.

A harmonized, global system for reporting climate and other sustainability information will help accelerate sustainability—by providing reporting that addresses the climate crisis, by helping companies and their stakeholders measure and assess progress towards sustainability objectives, and by promoting more sustainable companies that will create long-term value for investors and society.

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[24] See IFRS Foundation statement on completing consolidation with the Value Reporting Foundation

[25] IFAC Point of View on Climate Action

[26] Corporate Reporting: Climate Change Information and the 2021 Reporting Cycle

As policymakers consider the best way forward for crafting the emerging global system,[27] IFAC—through our engagement with Professional Accountancy Organizations and Network Partners around the world, the Forum of Firms (comprised of the largest global accounting firm networks), IOSCO, the B20, G20 and other international bodies—supports the mission and activities of the ISSB and stands ready to assist the European Commission, EFRAG and the SRB in any way that we can.

Yours sincerely,

Kevin Dancey
Chief Executive Officer, IFAC

[27] The Finance Ministers and Central Bank Governors of the G7 recently expressed their agreement on i) "the need for a baseline global reporting standard for sustainability, which jurisdictions can further supplement," ii) welcoming "the International Financial Reporting Standards Foundation's programme of work to develop this baseline standard under robust governance and public oversight, built from the TCFD framework and the work of sustainability standard-setters, involving them and a wider range of stakeholders closely to foster global best practice and accelerate convergence" and iii) encouraging "further consultation on a final proposal leading to the establishment of an International Sustainability Standards Board ahead of COP26." [G7 FINANCE MINISTERS & CENTRAL BANK GOVERNORS COMMUNIQUÉ | U.S. Department of the Treasury]

ANNEX A: Verification of Sustainability Disclosure

IFAC believes that assurance improves user confidence, enhances access to capital, brings rigor to the development of company reporting systems and processes, promotes comparability of information, and *enhances investor protection*. The alignment of corporate reporting requirements and the development of a global baseline of disclosure for sustainability information must support evolution and harmonization of assurance standards and practice—in accordance with global standards of the IAASB.[28]

Current practice with respect to assurance of sustainability information mirrors the lack of standardization in reporting practice. Data from our IFAC/AICPA-CIMA study shows a situation that is still evolving, with significant differences in practice across jurisdictions.

Assured Sustainability Information by Jurisdiction – 2020

58% of the companies that disclosed sustainability information also obtained assurance

Providers of assurance services (be it addressing financial *or* sustainability information) must be independent, follow applicable standards for conducting assurance engagements, work in accordance with a system of quality control, be skilled and competent in assurance practice/procedures, and possess needed subject matter expertise (including working with subject matter experts where appropriate).

IFAC believes—based on investor feedback (see PWC's 2021 investor survey)—that this framework, delivered by professional accountants, is best positioned to provide investors with the appropriate

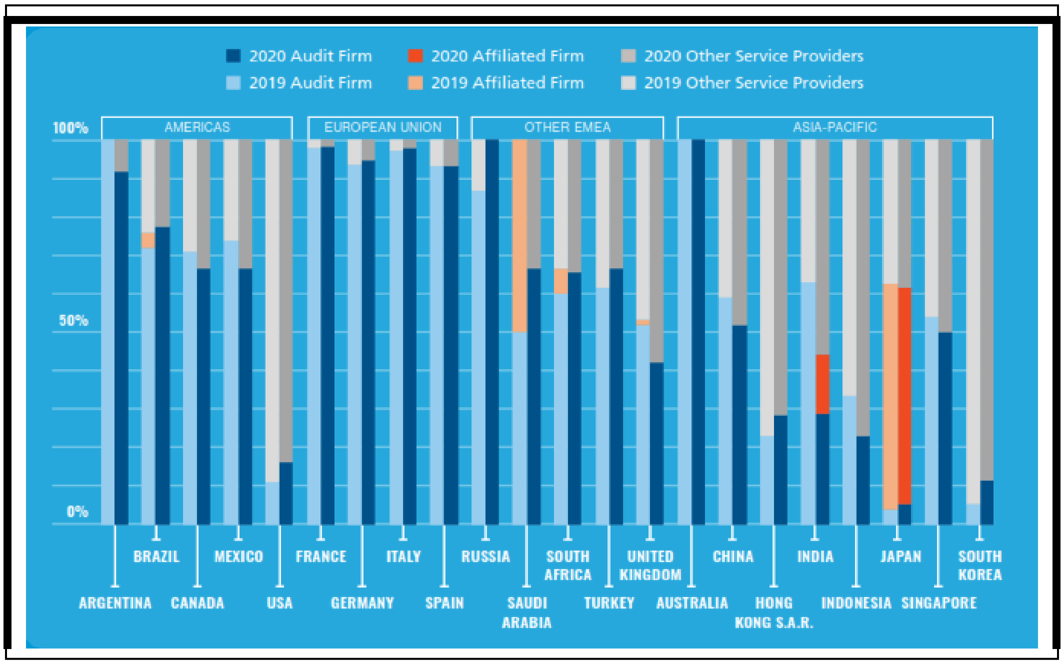
[28] See International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, as well as the IAASB Consultation on Extended External Reporting (EER) Assurance.

level of trust and confidence in the ISSB's global baseline of information so that can be used for capital allocation decisions.[29]

However, data collected in our IFAC/AICPA-CIMA study (based on the 2019 reporting cycle) demonstrates that over a third of assurance engagements addressing sustainability information conducted in 2020 were still conducted by service providers other than professional accountants.[30]

Type of Assurance Providers by Jurisdiction – 2020 vs.2019

In 2020, 61% of sustainability assurance engagements were performed by audit firms (or their affiliates)—compared to 63% in 2019



IFAC supports a level playing field for all assurance service providers and believes that all should be subject to professional requirements, or requirements in law or regulation, regarding their responsibility for a system of quality management and adherence to a code of ethics which are at least as demanding as the IAASB's ISQM 1 and the IESBA Code.

Based on our research and stakeholder engagement, IFAC concludes that an interconnected approach to sustainability assurance and financial statement audit engagements leverages the skills and competencies of professional auditors as well as their knowledge of company strategy, governance, business model, risks/opportunities, and performance—maximizing value to companies and their stakeholders.[31] Our study found that over 70% of companies choose who employ an audit firm to provide sustainability assurance choose the same firm as the statutory audit provider.

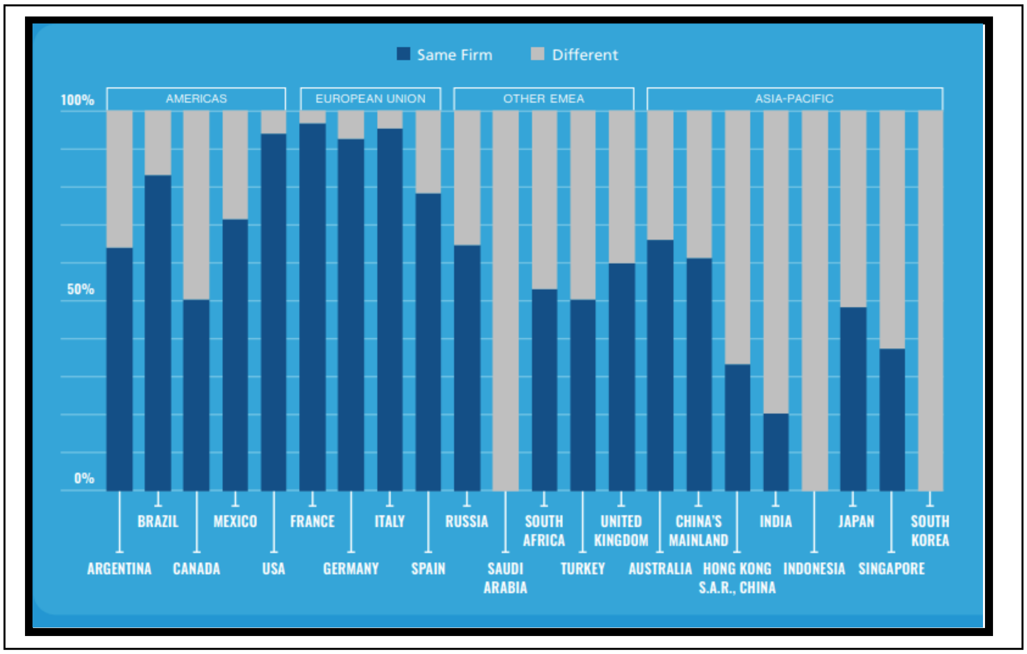
[29] Respondents to a 2021 investor survey conducted by PWC expressed high expectations of an organization providing assurance on ESG reporting: 82%of respondents think it is important that the assurance work is conducted using a recognized assurance standard; 82% say the firm should have appropriate quality management systems in place; 81% support work should be done by a team that collectively has expertise in both providing assurance and the subject matter covered by the assurance; 80% support an assurance firm and its employees who are subject to regulated ethical standards and independence requirements.

[30] See The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

[31] See IFAC's Vision for High-Quality Assurance of Sustainability Information.

Statutory Auditors vs. ESG Assurance Providers – 2020

Over 90% of companies in the EU who employed an audit firm to provide assurance on sustainability disclosures choose the same firm as the statutory audit provider.



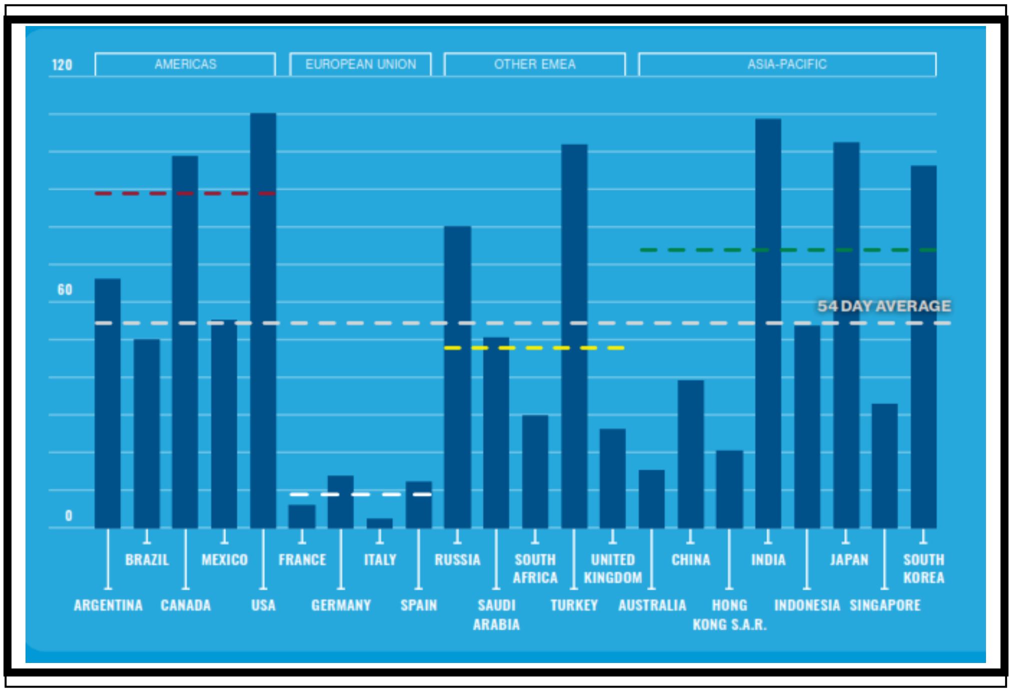
ANNEX B: The Role of Location and Timeliness in Sustainability-related Disclosure

Based on extensive stakeholder outreach that IFAC has conducted to understand ESG reporting practice and identify best practices, we conclude that aligning sustainability disclosure with financial reporting (i.e., improving timeliness and including ESG information in annual or integrated reports) supports and promotes reporting and assurance practices that *connect* financial and sustainability-related information.

Our recently published analysis for the 2020 reporting cycle indicates that significant timing gaps may exist between the audit of financial information versus the assurance of sustainability information obtained by companies.[32] We view these timing gaps as a proxy for discrepancies in the timeliness and interconnectedness of financial vs. sustainability-related reporting. We note that the lowest average day gap—nine days—was observed in the European Union.

Days Between Issuance of the Statutory Audit and ESG Assurance Report – 2020

On average, 54 days separate the issuance of the statutory audit report from the ESG assurance report—with significant jurisdictional differences observed



The average gap for companies examined from France, Germany, Italy, and Spain was only 9 days—the lowest observation in our review.

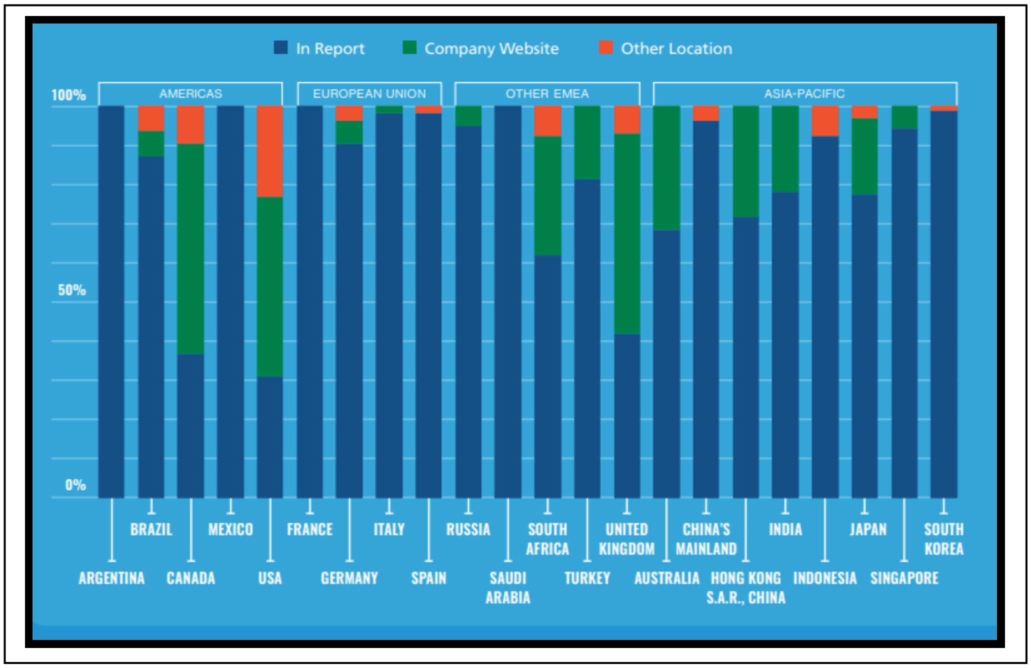
Location of sustainability assurance reports also signals connectivity between financial and sustainability information. Again, companies from France, Germany, Italy, and Spain demonstrated high levels of connectivity.

[32] Analysis conducted on behalf of IFAC and AICPA-CIMA indicates an average gap of 9 days for companies reporting in the EU, 48 days in other EMEA, 73 days in Asia-Pacific, and 89 Days in the Americas.

Over 90% of companies within the four EU countries included in our study provided assurance reports in their Annual or Integrated Report. IFAC believes that such alignment of sustainability disclosure with financial reporting (i.e., applying an integrated mindset, improving timeliness, and including disclosures in management commentary or integrated reports) serves to break down information silos within companies and supports an interconnected approach to both reporting and assurance of sustainability information—for the benefit of all stakeholders.[33]

Where did we Find Assurance Reports? – 2020

On average, 76% of companies included sustainability assurance reports in the Annual Report.



[33] See IFAC's Vision for High-Quality Assurance of Sustainability Information.