



01 December 2023

To: IAASB
Via: ED-5000 webpage

RESPONSE TEMPLATE FOR EXPOSURE DRAFT OF PROPOSED ISSA 5000, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Corporate Reporting User's Forum (CRUF)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Contact CRUF here
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on ED-5000). Select the most appropriate option.	Global
	If "Other", please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on ED-5000). Select the most appropriate option.	User of sustainability information/ external reporting
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	Refer "About the Corporate Reporting Users' Forum (CRUF)" at the end of this letter

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to ED-5000).

Information, if any, not already included in responding to the questions in Parts B and C:

N/A

PART B: Responses to Questions in in the Explanatory Memorandum for ED-5000

Our Main Comments

Overall Questions

Global Baseline Standard for Sustainability Assurance

1. Do you agree that ED-5000, as an overarching standard, can be applied for each of the items described in paragraph 14 of this EM to provide a global baseline for sustainability assurance engagements? If not, please specify the item(s) from paragraph 14 to which your detailed comments, if any, relate (use a heading for each relevant item)

- **CRUF's View**

Agree, with comments below.

It is important for users of sustainability information to have confidence that high-quality assurance is provided based on an appropriate assurance process. ED-5000 is designed as a comprehensive set of requirements that are principle-based and broadly applicable.

There appear to be many cases where assurance practitioners may find it difficult to exercise their judgement. As users of sustainability information, we do not want to see the quality of assurance vary due to unjustified divergence in judgement among assurance practitioners.

In order to avoid such a situation, we recommend the IAASB develop more application guidance (including examples) for ED-5000. For example, we believe the IAASB could provide key considerations in the assurance process, based on the disclosure requirements in the International Sustainability Standards Board (ISSB) standards and the European Sustainability Reporting Standards (ESRS) for the EU Corporate Sustainability Reporting Directive (CSRD). The IAASB may refer effectively to the Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements (EER Guidance) for that purpose.

We believe more application guidance or educational material is needed for ED-5000 to provide a global baseline for consistent and high-quality sustainability assurance.

Based on the characteristics of sustainability information, we believe the IAASB should consider to strengthen the following points in particular:

- Connectivity with financial information
- Evaluation of materiality by the assurance practitioner (in particular, the importance of qualitative information)
- Identification and evaluation of misstatements (including those due to fraud)
- Representation of estimates and forward-looking information
- Matters to be communicated with management and those charged with governance (TCWG)

Some CRUF participants are also concerned that the proposed standard is agnostic and not specific about intended users. One of the problems for some CRUF participants is that preparers'

annual reports, which are the main documents of interest to CRUF, have become a depository for unintended users. Any business or corporate reporting should be meaningful and of value and therefore have key or material intended users in mind, such as shareholders for the annual report (which is why assurance reports on financial statements are addressed to shareholders). Therefore, for some CRUF participants, intended users should be defined.

Public Interest Responsiveness

2. Do you agree that the proposals in ED-5000 are responsive to the public interest, considering the qualitative standard-setting characteristics and standard-setting action in the project proposal? If not, why not?

- **CRUF's View**

Agree, with comments below.

Sustainability considerations are becoming increasingly essential in the investment process for almost all asset managers as well as asset owners, who manage billions or trillions of funds for their beneficiaries. Provision of reliable and comparable sustainability information is an urgent issue for all stakeholders who are interested in the sustainability of the global environment and economy.

Hence the ISSB's IFRS S1 and IFRS S2 standards and EU's CSRD and ESRS have been developed with a sense of urgency for companies to provide high-quality sustainability information to meet such needs. We believe it's IAASB's turn to develop the sustainability assurance standards and commend its very responsive effort to develop ED-5000 to meet the public interest.

However, some CRUF participants do not agree with a sustainability assurance standard being produced before we have seen the application of any sustainability reporting standards such as IFRS S1 and IFRS S2, which are only just being considered for adoption or endorsement in jurisdictions around the world. The main reason for this is that any assurance of preparer-reported sustainability information should only be needed if users of the reporting have lost trust in the preparers providing good quality relevant sustainability information. This reason also suggests that any preconditions for an assurance engagement in the proposed standard should include whether it has been requested by the key stakeholders (such as equity investors; not preparers) of the reporting.

Specific Questions

Relevant Ethical Requirements and Quality Management Standards

4. Is ED-5000 sufficiently clear about the concept of "at least as demanding" as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1 regarding a firm's responsibility for its system of quality management? If not, what suggestions do you have for additional application material to make it clearer?

- **CRUF's View**

Yes, with comments below.

The requirement itself is clear enough in general.

That said, we are concerned that it is not clear who judges if a non-PA assurance practitioner has an ethical code and the quality management system “at least as demanding” as the IESBA Code regarding relevant ethical requirements for assurance engagements, and ISQM 1.

We suppose that it would be national or regional regulators that are responsible for that judgement. We believe it should be clearly stated in the ISSA 5000 that who is in charge of that judgement and key considerations for their judgement.

As users of sustainability information, we agree in principle with the requirements that assurance practitioners need to apply the IESBA Code of Ethics and ISQM 1 or requirements that are "at least as demanding". We should not compromise the quality of assurance, which provides investors with confidence in the quality of sustainability information.

That said, we recognise that as this area of assurance is in its nascence, all parties need to work together to rapidly develop an increased capacity among potential assurance providers to meet the impending demand.

We therefore recommend the IAASB to cooperate closely with IOSCO to foster an expansion in the capacity of the market in this area. Ethical standards must continue to be applied in order to maintain investor confidence, though enforcement may need to be applied with intelligence and flexibility for an initial few years.

Definitions of Sustainability Information and Sustainability Matters

5. Do you support the definitions of sustainability information and sustainability matters in ED-5000? If not, what suggestions do you have to make the definitions clearer?

- CRUF's View

Yes, with comments below

We agree with how sustainability information is defined and used differently in various sustainability reporting criteria as pointed out in ED-5000. We believe it is a realistic approach to define sustainability matters first and regard those filtered through the materiality process as sustainability information.

Preliminary Knowledge of Engagement Circumstances, including the Scope of Engagement

9. Does ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?

- CRUF's View

Yes, with comments below

We have serious concerns on the sentence at the beginning of A275 of ED-5000 saying that “management's materiality process” differs from materiality considered or determined by the practitioner. We were concerned that this sentence may confuse the users if management and the assurance practitioner use the definition of materiality differently.

Materiality in financial and sustainability reporting is defined as a concept that determines whether omissions or misstatements of information would impact a reasonable user's decision making as stated in A271. We believe that the management and assurance practitioner should apply the same concept of materiality but the consequential materiality judgement could be different initially. We understand this initial difference would be eliminated to determine which sustainability information is material enough to be disclosed through the assurance engagement and the dialogue between management and assurance practitioners.

We raised this concern in the roundtable held on 5th October in Tokyo. We have found that the FAQ material published on 25 October 2023, "The Application of Materiality by the Entity and the Assurance Practitioner" addresses our concern directly and persuasively. We appreciate the IAASB's very prompt response to our concern and hope this clarification is reflected in the final ISSA 5000.

In the meantime, some CRUF members believe that any differences of materiality judgements should not necessarily be eliminated. They point out that it will be more important for users to know what the differences are and these should come out in the reporting, probably the assurance report. We generally agree with their view that this type of information would be very useful if disclosed in the KAM-like disclosure of the assurance report in the future. Please also see our comments on Q22.

Suitability and Availability of Criteria

11. Does ED-5000 appropriately address the notion of "double materiality" in a framework-neutral way, including how this differs from the practitioner's consideration or determination of materiality? If not, what?

- CRUF's View

Yes, with comments below.

We think "double materiality" is defined appropriately in a framework-neutral way in A180 as the information needs of users to be considered in the assessment of "suitability of the criteria" (paragraph 72 (c) (i)).

We believe that materiality as defined in ED-5000 is consistent with those definitions of various sustainability disclosure standards, including single materiality as defined in the ISSB and double materiality as defined in the European CSRD/ESRS framework.

We would also like to point out that the materiality in ED-5000 is applicable to the ICMA Principles as well. A180 defines "financial materiality" and "impact materiality," respectively, which appears to correspond to the ICMA Principles' with emphasis on environmental and social impacts created by sustainable finance and impact investments.

However, some CRUF participants do not agree with double materiality because they believe single materiality already includes double materiality. If, as IFRS defined for accounting and sustainability standards, information is material if its omission or misstatement in a financial report would impact a reasonable user's decision making, this will cover both matters that impact the business of the preparer and that are impacted by the business of the preparer. We already live in a world of too much information, a lot of which is irrelevant, giving rise to the disclosure

problem. Having the concept of double materiality when it is not needed will only exacerbate the disclosure problem. There is a need for preparers to decide their priorities in reporting and the IFRS definition of materiality is probably the most useful way to do this and, as a result, should be adopted by all corporate reporting rule-makers and standard setters.

Estimates and Forward-Looking Information

16. Do you agree with the approach to the requirements in ED-5000 related to estimates and forward-looking information? If not, what do you propose and why?

- CRUF's View

Yes, we agree with the ED-5000 approach in general but we would like to point out the following as additional considerations;

- Estimates and forward-looking information are often provided in graphs and charts, processed from data. Although Section 134 provides additional procedures for estimates and forward-looking information under limited assurance, we think the assurance practitioner should consider the appropriateness of the methodology, assumptions and data selection, as well as the appropriateness of the presentation of the processed data.
- In order for users to understand the characteristics and limitations of the data, it is necessary for them to know the creation data date, the measurement method, the facts assumed, the estimation process, etc. This information should be accompanied with a clear reminder that states future information is not guaranteed. The assurance practitioner should consider if these are disclosed appropriately, because they are material to users in nature.

Fraud

19. Do you agree that ED-5000 appropriately addresses the topic of fraud (including "greenwashing") by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error? If not, what suggestions do you have for increasing the focus on fraud and why?

- CRUF's View

Agree, with comments below.

We generally agree but with some reservations.

Sustainability information includes narrative information, estimates and forward-looking information. Therefore, management bias could be more likely to lead to misstatement than for financial information. In addition, it appears to be particularly difficult to judge whether qualitative information is misstated, and there could be many cases in which assurance practitioners are unable to judge with conviction.

In order to ensure that there is no significant variation in judgement among assurance practitioners, we believe the IAASB should enhance the guidance (including examples) with regards to "identifying disclosures where material misstatements are likely to arise (limited assurance)" or "identifying and assessing risk of material misstatement (reasonable assurance)" (paragraph 110) and "evaluating the effect of uncorrected misstatements" (paragraph 144).

For example, it may be considered to develop guidance (including examples) on misstatements with regard to estimates and forward-looking information particularly on climate change, by referring to the disclosure requirements in the ISSB standards as well as the ESRS.

Communication with Those Charged with Governance

20. Do you support the high-level requirement in ED-5000 regarding communication with management, those charged with governance and others, with the related application material on matters that may be appropriate to communicate? If not, what do you propose and why?

- CRUF's View

Yes, with comments below

Given the different regulations are enforced among jurisdictions, we propose the ED-5000's guidance to provide examples of what is to be communicated by the assurance practitioners with management and TCWG, including connectivity with financial statements, in order to make assurance procedures more robust.

Reporting Requirements and the Assurance Report

21. Will the requirements in ED-5000 drive assurance reporting that meets the information needs of users? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included.

- CRUF's View

Yes, with comments below

First of all, we believe that the assurance report on sustainability disclosure should be easy enough for users of information to understand.

We agree that ED-5000's requirements would make assurance reports informative and well-structured. It is a good idea to place the conclusion in the first section of the assurance report for those who only want to know the conclusion. That said, it would end up comprehensive but too complex for users to fully understand.

We recommend the IAASB publish educational material to explain differences between assurance engagement for sustainability reporting and audit engagement for financial reporting, the differences between limited and reasonable assurance, and the differences between fair presentation and compliance, etc.

Sustainability reporting would cover more diverse topics than financial reporting, including climate change, biodiversity, human capital, human rights, etc. It should include quantitative and qualitative information. Even a single sustainability report may include disclosures based upon several criteria such as the ISSB standards, the ESRS and others. There may also be sustainability information within or out of the scope of assurance engagements.

Sustainability assurance reports would be very complex in nature. We agree that the list of contents in paragraph 170 of ED-5000 are all necessary for users of sustainability information to

fully understand the scope and the level of assurance to assess the reliability of the sustainability report accurately. It is ironic that the more comprehensive and informative the assurance report becomes, the more complex and difficult it becomes for users to understand.

We need some educational material to fully understand and utilise the sustainability assurance report.

22. Do you agree with the approach in ED-5000 of not addressing the concept of “key audit matters” for a sustainability assurance engagement, and instead having the IAASB consider addressing this in a future ISSA? If not, what do you propose and why?

- CRUF's View

Agree, with comments below

We believe that KAMs provide essential insights for users to assess the quality of assurance engagement. That said, we would accept ED-5000's approach not to address the concept of KAMs at the inception of mandatory sustainability assurance and to leave it for the IAASB's consideration in the future.

Current assurance reports issued by some assurance practitioners already include information similar to KAMs in financial audit reports. Such information is very useful for users to understand what kind of procedures assurance practitioners undertake, including communication with TCWG on KAMs. We believe KAM-like information would be all the more important for reasonable assurance.

In KAMs disclosed in future sustainability assurance reports, we would like to see significant matters that assurance practitioners have discovered as well as outcomes of assurance procedures.

In the meantime, we would welcome a permissive regime whereby practitioners were enabled – indeed encouraged – to identify key assurance matters relevant to their report on their sustainability assurance assignment.

25. Are there any other matters you would like to raise in relation to ED 5000?

- CRUF's View

Assurance on completeness of sustainability report

It is important for users that all material sustainability information for the entity is disclosed in the sustainability report. We understand that it is technically difficult for assurance practitioners to exercise their judgement appropriately on materiality to ensure completeness of sustainability reports.

We recommend the IAASB develops guidance for assurance practitioners to ensure completeness of the information disclosed in the sustainability report during the engagement. For example, IAASB could require the assurance providers to perform some procedures with leverage of knowledge obtained in the assurance engagement regarding completeness of sustainability information disclosed in the sustainability report which materially impacts on users of the assurance report and are outside the scope of the assurance report.

Development of assurance standards and guidance on connectivity

We believe ISSA5000 series should add in the future an individual standard and guidance on assurance practitioners' consideration about connectivity between sustainability and financial information. ISSA-5000 series is intended to enhance the overall quality of sustainability assurance as profession-agnostic standards. We believe that a prerequisite for the IAASB to achieve that goal is to develop an easy-to-understand standard for non-PA assurance practitioners without experience in financial statement audit.

There may be some cases where assurance practitioners find it difficult to understand the connectivity between sustainability information and financial statements. We are concerned that the quality of assurance may diverge between PA practitioners and non-PA practitioners, and that this divergence would become even wider when the mandatory assurance regime moves away from limited assurance to reasonable assurance. The IAASB should work with regulators and professional bodies to help to minimise any such divergence in the capacity of practitioners drawn from different skill bases. Over time, our shared ambition should be that a profession develops with a skilled understanding across both financial and sustainability reporting which is fully able to deliver on investor needs for assurance across company reporting as a whole.

As users of both financial and sustainability information, we are very much interested in the financial impacts of sustainability risks and opportunities and believe such information should be very useful for users.

Indeed, connectivity between sustainability and financial information is one of the core concepts of the ISSB standards. The International Organization of Securities Commissions (IOSCO) also discusses development of sustainability assurance standards regarding connectivity in the "Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting" published in March 2023.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held in the CRUF ESG sub-group and also CRUF globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Yours sincerely,

(Signatures)

Goro Kumagai

Peter Reilly

Peter Parry

Charles Henderson

Kazuhiro Yoshii

Koei Otaki



Keiko Mizuguchi

Kei Tsuchiya

Naoki Hirai

Naoko Seriguchi