

14 June 2024

Financial Reporting Council  
8th Floor  
125 London Wall  
London EC2Y 5AS

**RE: Assurance of Sustainability Reporting Market Study – Invitation to Comment**

Dear Sir/Madam

CFA Institute<sup>1</sup> and CFA Society United Kingdom appreciate the opportunity to provide perspectives on the Financial Reporting Council's ("FRC") [Assurance of Sustainability Reporting Market Study - Invitation to Comment](#) ("Invitation to Comment" or "ITC").

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related assurance provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

## **EXECUTIVE SUMMARY**

We laud the FRC's thoughtful interest in the market for sustainability assurance, which we believe is in a nascent stage as standards for both sustainability reporting and assurance are still in early development. That said, before the FRC can evaluate the functioning of the UK market for sustainability assurance, we believe it is essential that the FRC first consider whether investors are receiving useful and reliable sustainability reporting – the *product* of the sustainability assurance market – by addressing the following key questions:

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<sup>1</sup> With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org) or follow us on [LinkedIn](#) and [X](#).

- **Content of Disclosures:** What sustainability information will be reported and will it be useful to investors?
- **Form or Presentation of Disclosures and Assurance Reports:** How will investors access sustainability reporting information and assurance reports?
- **Assurance Quality and Trust:** Will sustainability reporting be reliable enough to use in investment decision-making and stewardship?

In our comments below, we discuss these foundational questions and issues before answering select questions posed to respondents.

We note that consideration of these key questions is not necessarily UK specific, as these are challenges for investors, and regulators, in a variety of jurisdictions and the jurisdictional differences are difficult to understand and integrate. However, the FRC is uniquely positioned to address these questions in its capacity as standard setter and regulator for both financial reporting and assurance engagements, in other words, it is an “integrated” oversight body.

Overall, when we step back from the sustainability reporting and assurance market, the underlying disclosures and assurance standards are still in a state of development and flux. While the research we cite herein shows that sustainability assurance providers in the UK are in many cases organizations other than the traditional assurance providers, we believe the market for sustainability assurance providers will likely also experience changes in the future and that these changes are, to a not insignificant degree, dependent on the underlying disclosures and assurance standards.

For that reason, we raise the questions above and we appreciate the FRC’s consideration of the functioning of the sustainability assurance market as it can consider the entirety of the ecosystem from sustainability disclosures to the assurance provided to the market participants. We think it is an appropriate time for regulators in other jurisdictions to do the same.

## INTRODUCTION

As we note above, we laud the FRC’s thoughtful interest in the market for sustainability assurance, which we believe is in a nascent stage as standards for both sustainability reporting and assurance are still in early development. The present moment is analogous to the early 20<sup>th</sup> century in financial reporting, but the business, regulatory, and legal environment that sustainability reporting is coming of age into is far more complex than it was a hundred years ago, which necessitates a careful approach by regulators to avoid unintended consequences. The FRC has an opportunity to set globally influential policy, owing to its uniquely broad portfolio of

roles and responsibilities among financial regulatory bodies<sup>2</sup>, and by virtue of the UK’s heritage as the birthplace of the modern auditing profession which enhances its global visibility.

The introduction to the ITC states that “[the FRC] want[s] to ensure the UK’s sustainability assurance market is working effectively, producing high quality assurance to support the production of useful, reliable reporting for investors...” However, the questions posed in the ITC are focused on the functioning and structure of the market from the perspective of preparers of sustainability information and assurance providers, not investors.<sup>3</sup>

**We believe the FRC’s priority must be ensuring that investors, the ultimate “customer” of sustainability assurance who pays for the service and bears the risk of loss from misstatements, are receiving useful sustainability reporting that is reliable enough to be used in investment decision making and stewardship.**

Market structure and competition concerns are secondary to investors’ concerns about the nature and quality of sustainability reporting and assurance they are receiving, since the market is still in a nascent stage. Similarly, we believe the FRC’s aim for “*high quality assurance with minimal burdens and costs on business*”<sup>4</sup> is not the appropriate focus. Rather we believe the FRC should emphasize the importance of *high quality and high value assurance services*, which are not necessarily those offered at the lowest cost.

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<sup>2</sup> [FRC Roles and Responsibilities: Schedule of Functions and Powers](#). Unlike many other standard setting and regulatory bodies with more narrow responsibilities (e.g., IASB, IAASB, FASB, PCAOB), the FRC is empowered by law with standard setting and regulatory powers across financial reporting and auditing and assurance, as well as monitoring and maintaining the UK Corporate Governance Code and Stewardship Code and their associated guidance.

<sup>3</sup> ITC paragraph 4 and questions to respondents on page 7.

<sup>4</sup> ITC paragraph 6.

## FOUNDATIONAL ISSUES FOR SUSTAINABILITY REPORTING AND ASSURANCE

### *Content of Disclosures:*

*What sustainability information will be reported and will it be useful to investors?*

- (1) Sustainability reporting is highly fragmented and is undergoing significant change – investors don't know what sustainability disclosures they're going to get.***

*The State of Play: Sustainability Disclosure and Assurance (February 2024) from IFAC*, cited in the ITC, found that 97% of large, listed entities reported sustainability information under multiple reporting frameworks including standards issued by the Sustainability Accounting Standards Board (“SASB”), Task Force on Climate Disclosure (“TCFD”), Global Reporting Initiative (“GRI”), and the United Nations Sustainable Development Goals (“SDGs”).

**The creation of the International Sustainability Standards Board (“ISSB”) was supported by investors as it was meant to retain the SASB standards and consolidate the variety of heterogeneous sustainability reporting standards into a single global baseline.**

**However, several developments have dimmed the prospect of a single global baseline for sustainability reporting, including:**

- a. The highly principles-based nature of the ISSB standards (which leaves most reporting decisions to management) and the unknown degree to which the SASB standards will be used leaves investors questioning what they will see under ISSB standards and when. Will companies simply make climate disclosures under IFRS S2, or will they include consideration of the SASB standards on an industry specific basis as noted in IFRS S1?
- b. The need for consultation and endorsement of the ISSB standards by regulators in jurisdictions globally – and the degree to which the standards are localized (which some jurisdictions, including the UK, have expressed interest in) may result in different reporting requirements by jurisdiction, defying the notion of a global baseline.
- c. The European Union’s Corporate Sustainability Reporting Directive (“CSRD”) created its own set of sustainability reporting standards – the European Sustainability Reporting Standards (“ESRS”) – which stand apart from the rest because it has the force of law and its extraterritoriality. There remain differences between the ISSB standards and ESRS, despite stated objectives of interoperability, equivalence, and alignment. Reporting under

ESRS for certain EU entities begins this year (first reports due in 2025 for 2024 fiscal year).<sup>5</sup> The extraterritorial nature of the ESRSs has the impact of preempting the ISSB standards for global companies with operations in the EU. Whether companies that must report under ESRS will look to use these disclosures to meet requirements in their home jurisdictions is not yet clear to investors.

- d. Also on the horizon are climate disclosure requirements by the US SEC and certain US states, which have been stayed pending legal proceedings. If they are upheld, companies that must report under these requirements may look to use the required disclosures to meet requirements in their home jurisdiction, which again complicates the reporting landscape.
- e. Finally, will some entities continue to report under TCFD, GRI, and SDG frameworks where they perceive gaps in the ISSB standards, ESRS, or their home country requirements?

**In short, multiple sustainability reporting standards are here to stay and they are likely to stay imperfectly coordinated. The result is that investors are unsure what disclosures they will receive and when.**

Some stakeholders have pushed the notion of “interoperability” across reporting frameworks, while others are pushing the notion of “equivalence.” **What investors know from the attempted convergence of financial reporting standards is that neither interoperability nor equivalence are convergence and that the information to be provided is unlikely to be the same.** This is even more likely to be true for sustainability reporting where non-investor stakeholders are involved, and there are different materiality assessments being applied.

Before understanding the sustainability assurance market, investors – and regulators such as the FRC – need to understand the nature and quality of the underlying data to be assured and the choices made by companies.

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<sup>5</sup> There has been a delay in required adoption for non-EU companies for two years.

- (2) *Sustainability assurance is also fragmented, slated to change with a new standard this year, and opaque, making it difficult for investors to understand the nature of the service.*

The landscape is similarly confusing in sustainability assurance, but with less transparency to investors.

*The State of Play: Sustainability Disclosure and Assurance (February 2024) from IFAC*, cited in the ITC, found that in 2022 there were three different assurance standards used by sustainability assurance providers in the UK with at least 20% market share: ISAE 3000, ISAE 3410, and ISO 14064.<sup>6</sup> Additionally, there were a range of levels of assurance provided, from limited to moderate to reasonable, and assurance reporting practices differed. Sometimes an assurance report is included in the document containing the sustainability information, sometimes not.

Limited assurance is mandatory for the sustainability information reported under the ESRS by the largest European companies next year. The CSRD legislation does not specify which assurance standard is required to be used. Over the next few years, the European Commission will decide to move forward with reasonable assurance requirements.

**Investors do not understand the differences between the multiple sustainability assurance standards or between limited and reasonable assurance because the assurance reports, to the extent they are presented, do not contain this information.**

Investor's confusion is likely to only increase as the International Auditing and Assurance Standards Board ("IAASB") is expected to adopt a new sustainability assurance standard (ISSA 5000) this year, which is intended to replace ISAE 3000 over time. The differences between ISSA 5000 and ISAE 3000 are subtle and difficult to understand without technical expertise in assurance.

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<sup>6</sup> [IFAC-State-Play-Sustainability-Disclosure-Assurance-2019-2022\\_0.pdf \(ifacweb.blob.core.windows.net\)](#) page 43.

### ***(3) Sustainability reporting and assurance must serve investors.***

Sustainability reporting and assurance have attracted significant interest from policymakers and civil society stakeholders. Many of the comment letters to proposed sustainability reporting and assurance standards, for example, are from advocacy organizations from outside the investing and financial reporting ecosystem.

The civil society influence is clearly visible in the EU CSRD legislation, which emphasizes “other stakeholder” and “double materiality” perspectives, mandating that not only decision useful information for current and potential investors be reported but information useful to assess the impact of the organization on its external ecosystem for other purposes.

The general objective of ISSB standards is meant to be similar to the general objective of financial reporting under IFRS<sup>7</sup> – it is why we supported the formation of the ISSB – though we worry that efforts to make ISSB standards and ESRS interoperable may conflate materiality decisions and notions of financially value relevant information.

#### **Because it is not clear if ISSB standards, ESRS, or something else will take the lead in sustainability reporting, the question becomes who are these disclosures meant to serve and will investors information needs regarding financial value relevant information be met?**

The answer is crucial to several other key questions for regulators such as the FRC when considering sustainability reporting and assurance, including:

- a. What materiality concept and threshold to apply? We believe the appropriate concept is the same, long-established materiality concept used in financial reporting.
- b. Does true and fair in the financial statements, a long-established concept in the UK<sup>8</sup>, extend to sustainability reporting?
- c. How do standard setters assess whether their standards are meeting their general objectives and their defined group of users? We believe standard setters should conduct outreach with investors, their primary stakeholder.

#### **Our view is that sustainability reporting and assurance must serve investors because investors pay for it and bear the risk of misstatements.**

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<sup>7</sup> “The objective of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.” [ISSB-2023-A – Issued IFRS Standards](#) paragraph 1.

<sup>8</sup> “The whole essence of accounting standards is to provide for recognition, measurement, presentation and disclosure for specific aspects of financial reporting in a way that reflects economic reality and hence provides a true and fair view.” [Foreword to Accounting Standards \(frc.org.uk\)](#) paragraph 5.

*(4) Information in sustainability reporting is generated from outside the reporting entity, resulting in lower trust and verifiability than financial reporting.*

Another consideration on the minds of investors is that information in financial reports is generally generated from within the reporting entity, with some exceptions such as joint ventures and associates, and management commentary that may cite to third-party sources (e.g., market size information from a consultancy’s report), but **sustainability reporting, under both ISSB standards and ESRS, is expected to include significant amounts of information generated from an entity’s value chain, as well as quantitative information presented as ranges.**

It’s unclear if the lower reliability information will be labelled as such, especially if it’s presented alongside information of greater reliability like financial reporting. It is also unclear whether any third-party assurance can be effectively provided on information from an entity’s value chain, or if assurance providers will make scope exceptions.

*(5) How will sustainability reporting connect with financial reporting?*

IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, requires entities to provide information “in a manner that enables users of general-purpose financial reports to understand the connections between disclosures provided by the entity...across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements.”<sup>9</sup> Investors don’t know if this principles-based approach to disclosing “connected information” will deliver value-relevant information in a useful form.

Further, the ESRS may include certain financial effects disclosures, but their purpose is not to provide investors with financially value-relevant information.

For sustainability information to be useful to the broadest range of investors, it must be connected to the entity’s financial reporting by quantitative disclosure and discussion of how and where sustainability risks and opportunities and relevant effects are reflected in the financial statements. Investors need to understand the financial consequences of sustainability risks and opportunities. We worry that the ESRS with different objectives and reporting under ISSB standards without direct connection with the financial reporting standards will leave investors with more questions than answers on the effects of sustainability disclosures.

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<sup>9</sup> IFRS Sustainability Disclosure Standard S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, paragraph 21.



Investors will judge the quality of sustainability reporting and disclosures by their connection to financial statement cash flows.

*Form or Presentation of Disclosures and Assurance Reports:  
How will investors access sustainability reporting and assurance reports?*

*(6) Location of sustainability information and the audit and assurance reports*

As shown in the IFAC report, *State of Play: Sustainability Disclosure and Assurance (February 2024)*, large listed entities report sustainability information in various locations, with different jurisdictions developing different customs. For example, US entities report sustainability information in a report separate from their financial reporting, while UK entities typically include sustainability and financial reporting in a single “annual report.”

ISSB standards do not mandate a specific location for sustainability reporting besides including it “as part of...general purpose financial reports.” This may include a management report, a different area with information required by regulations, or a separate report incorporated by cross-reference.<sup>10</sup>

Location of the information matters not only in terms of investors ability to find it, but impacts the legal liability associated with the information, auditor responsibilities related to it, regulatory scrutiny, and likely the connectivity of the sustainability information to the financial reporting. For investors, the current sustainability reporting environment represents a complex labyrinth to navigate to determine not only which sustainability standards are followed but the location of information before assessing its usability and quality.

Sustainability assurance standards have even less specificity in regard to where assurance reports are presented. ISAE 3000 and the exposure draft of ISSA 5000 from the IAASB require an assurance report in writing and its form and general contents, but do not require its inclusion in the document containing the sustainability information or its location within that document, which is beyond the power of the IAASB. While the audit opinion nearly always precedes, or immediately follows, the financial statements and specifically references the information subject to audit, the basis of its presentation and the assurance standards followed, this is less clear in the sustainability reporting ecosystem.

**For sustainability reporting to be useful and reliable for investors, it must be presented in the same location as financial reporting, along with a written sustainability assurance**

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<sup>10</sup> IFRS S1 paragraphs B45 – B47.

**report that is precise in the information covered by the assurance report, the information subject to the assurance (i.e., including its location), the basis of presentation of the information, the assurance standards followed, and the degree of assurance in an understandable manner.**

*(7) The varying levels of assurance and gaps in assurance are confusing, lack sufficient transparency, and do not appear to be related to the value relevance of the information.*

Determining which company-reported information is assured and to what degree is already confusing for investors and will be further complicated by the addition or expansion of sustainability reporting. The table below, which varies by jurisdiction and is intended only for illustration, shows how sustainability reporting and assurance will enter an already complex landscape.

**Types of Information Reported by Listed Entities and Required Levels of Assurance**

Types of Information	Level of Assurance	Assurance Report
<b>Financial Statements (including notes)</b>		
Interim	Reviewed (generally)	None (generally)
Annual	Audit (reasonable assurance)	Included before or after financial statements
<b>Disclosures Outside Financial Statements (including non-IFRS/non-GAAP measures)</b>		
If included in document containing audited financial statements (e.g., MD&A or management commentary)	Read for inconsistencies with audited financial statements	No assurance, so no report.
All other documents (e.g. press release, presentation, conference calls)	None	No assurance, so no report.
<b>Sustainability Reporting</b>		
Annual	Limited assurance	Yes, but location not specified.
Interim	Likely not required	Not applicable if not required

In many, if not most, jurisdictions there will be greater assurance over sustainability information than other important information used by investors such as non-IFRS/non-GAAP metrics.

We believe regulators, such as the FRC, should:

- a. Take steps to improve the transparency of sustainability reporting and assurance by:
  - i. Requiring sustainability assurance reports in writing in any document that contains assured information, regardless of the level of assurance, and
  - ii. Requiring entities to label information with a “level of assurance” tag to reduce investor confusion on what is and is not assured.

- b. Consider why sustainability reporting should receive assurance while other disclosures outside the financial statements such as non-IFRS/non-GAAP financial measures should not. In our view, more investment decision making is made based on non-IFRS/non-GAAP financial measures than sustainability reporting, and thus building trust in those measures through independent assurance would increase the resilience of capital markets.

***(8) Timing and time period of financial reporting and sustainability reporting, along with related assurance, must be the same.***

IFAC's report, [\*The State of Play: Sustainability Disclosure & Assurance 2019-2022, Trends & Analysis\*](#), shows that only 25% of sustainability assurance reports were signed on the same day as the financial statement audit report, with many jurisdictions showing lags of more than a month. We also observe that many entities' sustainability reporting lags financial reporting by months or quarters and is often only presented annually.

**For sustainability reporting to be most useful for investors, it must be reported and assured at the same time as the related financial statements and presented together.**

***Assurance Quality and Trust: Will sustainability reporting be reliable enough to use in investment decision-making and stewardship?***

Independent assurance of sustainability reporting builds trust in the information to be used in investment and stewardship decision-making. Investors do not necessarily need the same level of assurance on sustainability information as the audited financial statements on day one, but some degree of assurance is valuable, as shown in our [member surveys](#) which have consistently shown that close to 70% of respondents believe it is important for sustainability reporting be subject to some level of independent verification.

In the preceding sections we described considerations related to investors' uncertainty regarding the assurance standards to be followed and the location of assurance reports. On page 22 of our [2022 comment letter to the ISSB on its Draft IFRS 1](#) we provide a summary of assurance challenges for assurance providers on sustainability information (the details of which are provided on pages 4-8 of [appendix to that letter](#).) Below we describe several additional considerations.

***(9) Investors do not require audit firms to conduct sustainability assurance engagements, but the assurance provider must meet many of the same common-sense professional standards that have been established for auditors of financial statements for the assurance to be credible.***

Our [member surveys](#) show that investors broadly do not have a strong preference that is must be *audit firms* conduct sustainability assurance engagements, but that the assurance provider must be able to credibly complete the engagement by meeting the following requirements:

- ***Competence*** – Does the assurance provider have competence in the underlying subject matter (e.g., sustainability matters) *and* in assurance procedures?
  - We note that **education requirements for sustainability assurance have not been developed like they have for financial statement auditing. The FRC can play an important role in setting competence requirements in this rea.**
- ***Independence*** – Is the assurance provider independent from the reporting entity in fact and appearance? Does anyone on the engagement team have relationships, past or present, financial or otherwise, that compromise their objectivity?
  - We note that sustainability assurance providers’ use of experts, which we expect to be significant, must not compromise the assurance provider’s independence by, for example, relying on management’s expert or someone else that has a business relationship with the reporting entity.
  - We also note **that there is confusion among investors as to whether sustainability assurance qualifies as a “non-audit service” and is therefore subject to fee caps if provided by the same service provider as the statutory audit under UK law.**
- ***Ethical behavior*** – Is the assurance provider bound by a code of ethical behavior that puts the interests of investors and the integrity of capital markets before their own commercial interests?
- ***Standards enforcement***– Is the assurance provider’s adherence to assurance standards and to competence, independence, and ethics requirements overseen by a regulator with the proper expertise?
  - We note that it’s not clear to us if the FRC oversees and inspects non-audit firms that conduct sustainability assurance engagements.
- ***Capacity*** – Does the engagement team and engagement partner leading the engagement have the time, human capital, and where needed, access to third-party experts, to competently perform the engagement in accordance with the assurance standards?
  - We note capacity concerns if members of the engagement team and, especially, the engagement partner, are shared among the sustainability assurance engagement and financial statement audit.
- ***Financial wherewithal*** – Does the assurance provider maintain adequate professional liability insurance and, for self-insured risks, balance sheet capacity?

*(10) Where appropriate, information should be shared among the financial statement auditor and sustainability assurance provider to strengthen both engagements.*

An entity's financial statements and sustainability reporting are not only connected by virtue of providing information about the same reporting entity, but they are also likely to be prepared by many of the same individuals and overseen by the same internal control and governance functions – or at least that is our hope. As a result, we expect the external auditors and sustainability assurance provider to perform many of the same risk assessment and other assurance procedures and communicate with the same management and board personnel.

Given the obvious synergies between the financial statement audit and sustainability assurance engagement, **we recommend the FRC craft assurance and auditing standards that motivate the appropriate two-way sharing of information between the financial statement auditor and sustainability assurance provider to strengthen both engagements and ensure that they can both be completed in similar time frames with a complete set of information.** For example, suspected fraud, especially involving senior management, in either the financial statements or sustainability information should be shared so that the engagement teams can undertake appropriate fraud risk procedures.

*(11) Additional transparency may be necessary in sustainability assurance reports.*

Investors have long sought greater transparency in financial statement audit reporting on matters ranging from assurance over forward-looking information, the use of experts, communication with other auditors/assurance providers, ethical and professional considerations such as independence and objectivity, group audit matters, matters related to fraud, and the nature of the reporting. Some of the need for transparency has been fulfilled with key audit matters, but significant gaps remain.

Sustainability assurance appears even more complex (and novel) than financial statement auditing because of the breadth of disclosures, the lower verifiability of the underlying data, and the need for technical expertise in many areas outside accounting. There will be a significant set of decisions which impact the quality of the assurance that traditional assurance reports do not communicate. **Regulators including the FRC should consider whether sustainability assurance reports need greater transparency to communicate the complexity and uncertainty inherent in sustainability information.**

## ANSWERS TO CONSULTATION QUESTIONS

***Q1. How well is the UK sustainability assurance market currently functioning? To what extent does it help support economic growth or create burdens and costs on business?***

We're unable to comment on the functioning of the market or the market's contribution to economic growth or burdens on business as this is questioned for preparers and assurance providers, rather than investors.

That said, we see the UK sustainability assurance market as a nascent market with significant change on the horizon as new sustainability reporting (e.g., ISSB and ESRS standards) and assurance standards (ISSA 5000 from IAASB) are adopted. Any evaluation of the market today is likely to become quickly outdated.

As our introductory comments above indicate, we believe the FRC's focus should be on whether investors are receiving useful and reliable sustainability reporting as new standards and regulations are implemented. Our perspectives in the prior section provide investor considerations on the key issues and questions that, if addressed, can make for more useful and reliable reporting and assurance.

Over time, it will become more appropriate to examine market function and cost considerations of sustainability assurance market when there are clearer answers to investor considerations outlined above.

***Q2. What, if any, interplays exist between the UK sustainability assurance and UK audit markets?***

There are pervasive interplays between sustainability assurance and the financial statement because sustainability reporting and financial reporting are prepared by the same entity for the same primary users (current and potential investors) and, in some cases, are assured by the same service provider.

**We urge the FRC to set standards and use its regulatory authority to ensure that sustainability assurance and financial statement audits are conducted in a mutually beneficial manner, and not allow one engagement to drain resources from the other and reduce the quality of reporting and assurance.**

***Q3. To what extent do UK companies have sufficient choice of sustainability assurance provider? What factors, such as quality, influence their choice? How might this change?***

We note that [IFAC's The State of Play: Sustainability Disclosure & Assurance 2019-2022, Trends & Analysis](#) report shows that non-audit firms (“other service providers”) have an about 60% share of the sustainability assurance market among large, listed entities in the UK and it’s our understanding that the market share among other service providers is fragmented. Other service providers have much lower market share in other jurisdictions, for example in Germany, France, and Italy, in which statutory auditors have 90% or more market share of sustainability assurance.

It therefore appears that UK companies have a wider selection of sustainability assurance providers to choose from than in other jurisdictions.

As mentioned earlier, it is not clear to us what degree of oversight the FRC has on other service providers. Does the FRC inspect their work?

***Q4. How does competition work in the UK sustainability assurance market? How might this change?***

We have commented previously on how competition works in the audit market. As we note in our comment letters to [the Competition and Markets Authority on audit market competition](#) and the [Brydon Review on audit quality](#), **we believe quality of the audit and transparency on audit quality should be the objectives, not increasing the number of sellers in the market per se, because increasing competition without transparency on audit quality is likely to reduce quality.**

***Q5. What, if any, capacity issues exist in the UK sustainability assurance market? How might these change?***

We suggest the FRC study this by examining whether there are service shortages and fees outpacing inflation, rather than surveying issuers and assurance providers, who may be experiencing shortages due to a lack of competitive compensation.<sup>11</sup>

We’re not aware of entities unable to procure audit or assurance services or having to pay significantly higher fees for them (i.e., audit fee increases outpacing increases in broad price indexes) recently.

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<sup>11</sup> [Auditing Challenges and Talent Trends for Public Companies | PCAOB \(pcaobus.org\)](#).

16 May 2024 Speech by Board Member Christina Ho. “...if public companies and audit firms start paying their entry level accountants more, it could induce more college students to select accounting as their major.”

Finally, we note that it would be strange for there to be material over-capacity in the audit and assurance market at any time save for a severe recession.

***Q6. What are the opportunities for firms in the UK sustainability assurance market? To what extent are there any barriers to entry/expansion?***

IFAC's The State of Play: Sustainability Disclosure & Assurance 2019-2022, Trends & Analysis report shows that non-audit firms ("other service providers") have about 60% share of the sustainability assurance market among large, listed entities in the UK and it's our understanding that the market share among other service providers is fragmented. It therefore appears that the market's barriers to entry are significantly lower than that for statutory audit which, among UK listed entities, is dominated by the Big Four.

***Q7. How might international regulatory developments affect the UK sustainability assurance market?***

The most significant international regulatory developments that may affect the UK sustainability assurance market, in our view, are:

- a. Mandatory sustainability reporting and (limited) assurance on that reporting under the EU's CSRD, which will impact many UK entities that have significant operations in the EU or have securities listed on EU exchanges.
- b. The adoption of IFRS S1 and S2 and the ongoing development of future ISSB standards as well as how they interact with EU CSRD reporting requirements (i.e., are they compatible such that reporting under ISSB standards satisfy EU CSRD reporting requirements and vice versa or must separate reports be issued).
- c. The adoption of the IAASB's new ISSA 5000 standard for sustainability assurance engagements.
- d. The US SEC's climate disclosure rule, which is currently stayed pending legal proceedings, that would apply to UK entities that are US foreign private issuers.

UK entities with multiple listings (e.g., Unilever PLC ordinary shares listed in Amsterdam, London and traded as American Depositary Receipts on the NYSE<sup>12</sup>) may face the most challenging issues in terms of what standards to comply with, where the information is provided, who it is prepared for (i.e., investors or others), the definition of reporting entity, and the level and location of assurance.

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<sup>12</sup> [About Unilever shares | Unilever](#)



***Q8. What, if anything, would you like to see change in the UK market? (For example, any regulatory/policy changes and/or any specific actions taken by FRC, Government, firms, companies or others)***

See our overall comments above which highlight key foundational issues and questions that investors face with sustainability reporting and assurance that the FRC should study and address through standard setting.

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more details. If you have any questions or seek further elaboration of our views, please contact Matthew P. Winters at [matt.winters@cfainstitute.org](mailto:matt.winters@cfainstitute.org) or Sandra J. Peters at [sandra.peters@cfainstitute.org](mailto:sandra.peters@cfainstitute.org).

Sincerely,

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