ISSA 5000 Consultation Response

November 2023

Part 1: Demographic Information

1. In what country or jurisdiction are you located?

United States of America

2. To which stakeholder group do you belong or best represents your responses?

- **Preparer of Sustainability Information**
- **Those Charged with Governance**
- **Investor, Analyst or Other User of Sustainability Information**
- **Sustainability Reporting Standard-Setter**
- **Academia**
- Other - If "Other", please specify: Assurance provider

Part 2: Survey Questions

1. **Do you agree that it is important for ED-5000 to be capable of being applied for each of the items listed above to provide a global baseline for sustainability assurance engagements?**
    - Yes
    - No
    - Undecided
    - No View

[If No] Please indicate which of the items listed above are, in your view, not important for ED-5000 to address and why.

Please also share any specific views you may have, and be as specific as possible about how ED-5000 should address each of the listed individual items and whether it does so.

All sustainability topics

BlueMark is a leading provider of independent impact verification and intelligence for the impact and sustainable investing market. BlueMark's verification methodologies draw on a range of industry standards,

frameworks, and regulations, including the Impact Management Project (IMP), the Operating Principles for Impact Management (Impact Principles), the Principles for Responsible Investment (PRI), SDG Impact, Sustainability Disclosure Requirements (SDR), and the Sustainable Finance Disclosure Regulation (SFDR).

BlueMark's **impact verification and intelligence services** include:

1. Evaluating the strengths and gaps in impact management systems
2. Conducting impact due diligence and ongoing monitoring across a given portfolio of fund managers
3. Evaluating client impact reports and reporting frameworks
4. Assessing the readiness of asset managers and other financial market participants for the mandatory ESG disclosure obligations associated with the Sustainable Finance Disclosure Regulation (SFDR)
5. Assessing the approach and results of impact-linked incentive structures
6. Assessing the relevance, reliability and measurability of preselected KPIs associated with sustainability-linked loans
7. Assessing the rationale and ambition of preselected ESG performance targets and KPIs associated with sustainability-linked loans
8. Assessing a borrower's capacity to monitor performance against ESG performance targets and provide accurate reporting to lenders

Beyond verification and intelligence services, Bluemark also offers the following **assurance** services:

1. Conducting limited assurance against a client's reported KPIs **and** ESG performance targets, to obtain a sufficient level of confidence that the client's reported data does not include any material misstatements.
2. Providing lenders with assurance on a periodic basis about the accuracy of a borrower's reported progress against the terms (i.e., KPIs and targets) in a sustainability linked loan.

Given the range of its services, BlueMark has a vast clientele and thus could be in a position where it provides assurance services that run the gamut of sustainability topics. The ED-5000 highlights the applicability of the ISSA 5000 ("the ISSA") to *"all assurance engagements on sustainability information,"* and on page 57, provides a comprehensive breakdown of possible sustainability topics and aspects of those topics that may be included in a report. This is vital because in the absence of this breakdown, BlueMark and other assurance providers could face uncertainty about what constitutes "sustainability information." Additional guidance is therefore required to ascertain whether ISSA 5000 wholly applies to sustainability topics that are not listed, including process-related management disclosures.

Furthermore, although ED-5000 outlines one scenario where the ISSA is not appropriate for use (i.e., separate conclusions provided on GHG statements), it will be useful to see a more comprehensive outline of other scenarios where the ISSA may be unsuitable, including in instances where alternative standards exist (i.e., ISAE 3400, ISAE 3402) that are better suited to providing assurance on the identified subject matter.

All mechanisms for reporting

The ED-5000 explicitly indicates that the ISSA will apply to various modes of reporting, including stand-alone, annual, and integrated reports. This nuance should be retained in future modifications of the ISSA as it will enable more specialized assurance providers like BlueMark to serve a range of clients with various reporting mechanisms.

Any suitable criteria

BlueMark provides limited assurance on preselected impact metrics reported in a client's report, with a view to ensuring that the client has not made any material misstatements. BlueMark also provides lenders with assurance on a periodic basis about the accuracy of a borrower's reported progress against the terms (i.e., KPIs and targets) in a sustainability linked loan.

Metrics may include KPIs such as:

- % of female senior professionals in Company X
- Number of companies provided with access to finance
- % reduction in GHG emissions

Metrics may also include ESG Performance Targets:

- Utilization of capital for contributions to climate change mitigation
- Utilization of capital in a country where energy access limits economic development
- Utilization of capital for the creation of "positive impacts"

The ED-5000 in the explanatory materials (Para. 72, Pg 87) clearly indicates the sources that management or governance personnel (i.e., BlueMark's clients) can utilize in crafting the criteria that the metrics will be assessed against. Para. 72c (Pg 88) further elucidates the characteristics that make any given criteria 'suitable.'

Management personnel can rely on framework **or** entity-developed criteria. **Framework criteria** are developed by legal/academic/professional bodies and are therefore likely to be more stringent and robust than **entity-developed criteria**, which can be crafted in a manner that ensures that they are easily obtained by the entity in question. This increases the risk of greenwashing.

To address this risk and to better hold market actors accountable, Bluemark's **verification methodology** draws on a range of industry standards, frameworks, and regulations, including the Impact Management Project (IMP), the Operating Principles for Impact Management (Impact Principles), the Principles for Responsible Investment (PRI), SDG Impact, Sustainability Disclosure Requirements (SDR), and the Sustainable Finance Disclosure Regulation (SFDR). Referencing standardized frameworks enables BlueMark to apply a sufficiently rigorous approach, thus mitigating the risk of greenwashing and raising the bar across the industry.

To support its **assurance methodology**, BlueMark would benefit from a similar standardized approach that can be used to evaluate the credibility of the claims made by clients that apply either criteria in reporting their impact performance. To this end, future iterations of ED-5000 should provide:

- Suggestions of suitable **framework criteria** that management personnel can apply in developing their criteria.
- Measures that can be taken by management personnel to ensure that their **internally developed criteria** are at least as demanding as any suggested framework criteria.

Limited and reasonable assurance engagements

The ISSA clearly explains the distinction between both engagements as it pertains to the nature, timing, and extent of the procedures that need to be performed for each type of engagement. According to the Impact Management Project (Page 65), independent reviews comprise more than assurance engagements and may include additional services such as agreed-upon procedures, impact/outcomes evaluations, verifications, and rating services. Given that BlueMark's work features overlapping approaches (i.e., verification and assurance services), it will be useful to determine whether the principles of ISSA 5000 can be applied more broadly to other services (i.e., agreed-upon procedures, verifications, and rating services). In the event that the ISSA is restricted solely to assurance engagements, future iterations of the ISSA should include a disclaimer prohibiting its use for other types of independent reviews.

Use by all assurance practitioners

Although the standard is profession agnostic and can supposedly be used by both professional accountants and non-accountant assurance practitioners, it appears that there is still an expectation of reasonable audit and assurance competence. For example, page 11 of the exposure draft indicates that professional judgment as it pertains to completing assurance engagements within the scope of this ISSA can only be acquired following "*relevant training, knowledge, and experience, within the context provided by assurance and ethical standards.*" Moreover, page 15 indicates that the engagement leader should have *"competence and capabilities in assurance skills and techniques developed through extensive training and practical application."*

BlueMark is a specialist provider of expert, third-party impact verification services. Having completed over 150 verifications for investors with combined impact assets under management of $227 Billion Dollars, the BlueMark team possesses unrivaled knowledge in conducting specialized impact assessment services. BlueMark's verification methodology is informed by the verifiable framework criteria issued by standard-setting bodies in the impact investing market, including the Impact Principles and SASB. This ensures that a sufficiently rigorous approach is applied in our independent verification engagements, and thus mitigates the risk of greenwashing.

Although BlueMark leverages its extensive subject matter expertise in offering limited assurance for sustainability information, it is not an accounting firm and thus the engagement leader and the associated engagement team are not professionally certified accountants. It is unclear what constitutes

'extensive training' in assurance skills and techniques, specifically for prospective engagement leaders. Future iterations of this ISSA should outline the nature and extent of assurance training required for non-accountant assurance practitioners (i.e., the engagement leader and the engagement team). Any guidance on credible training providers will also be beneficial to ensure that boutique sustainability assurance providers can optimize the use of this framework.

2. **In your view, is the concept of "at least as demanding" clear?**

- Yes
- No
- Undecided
- No View

[If No] If not, how might the IAASB address this?

Please also share your specific views, if any, about why the fundamental premises in ED-5000 are important.

Given that the ISSA will be applied equally by both professional accountants and non-accountant assurance practitioners, it is important to ensure a level playing field in terms of accountants and non-accountants' ability to offer competitive assurance services.

The fundamental premises mandate quality management and firm-wide compliance with ethical principles for **all** assurance providers wishing to apply this ISSA. This creates a standardized framework from which all types of practitioners, including BlueMark, can operate.

3. **Do you agree with the terminology for sustainability matters, sustainability information and disclosures in ED-5000?**

- Yes
- No
- Undecided
- No View [If No]

If not, what suggestions do you have to make it clearer?

Sustainability matters

As identified in Question 1, the listed topics are not prescriptive. Therefore, further guidance is required to ascertain if ISSA 5000 wholly applies to sustainability topics that are not listed, and/or the specific scenarios wherein ISSA may be unsuitable, including in instances where alternative standards/frameworks exist (i.e., ISAE 3000, ISAE 3400).

Additionally, BlueMark believes that qualitative and contextual information related to the sustainability strategy, practices, and governance are equally important as the sustainability metrics and KPIs themselves.

Sustainability information

To enable Bluemark to accurately determine the nature of the sustainability information that falls under the scope of ISSA 5000, future iterations of this ISSA should seek to identify the areas of confusion (refer to the 'sustainability matters' section above).

Additionally, BlueMark would benefit from practical assurance-based examples that illustrate what constitutes sustainability information.

Disclosures

This definition is sufficiently clear. Paragraph A16 (page 55) clearly outlines the distinction between sustainability reporting disclosures and financial statement disclosures. Moreover, Appendix 1 (Page 170) provides an overview of the possible topics and aspects of topics that may be included in sustainability reporting disclosures.

4. **Do you agree with the way in which ED-5000 addresses the entity's "materiality process"?**
    - Yes
    - No
    - Undecided
    - No View [If No]

If not, what approach would you suggest?

According to the Exposure Draft, entities should implement materiality processes that enable them to focus their reporting on information that is most useful to the primary users. This *'threshold of significance'* is therefore applicable to qualitative and/or quantitative disclosures (Para. 91, page 25) below which misstatements would be clearly trivial and would not have a material effect on the sustainability information. Practitioners including BlueMark must obtain a preliminary knowledge of the engagement circumstances to determine whether the entity has applied an appropriate process regarding the disclosure of material information. Unfortunately, the Exposure Draft does not subsequently assist practitioners in this assessment, by providing a recommended process for determining a range of appropriate qualitative topics. The sole available list (Para. A278, page 114) is too generic for our impact and sustainable investing clientele.

To solve this market gap, Impact Frontiers' recently developed a set of Impact Performance Reporting Norms as a comprehensive source of guidance on the types of contextual information necessary for quality impact reporting. Furthermore, The Impact Management Project in 2016 developed a range of reportable data categories that investors can use to understand their impacts on people and planet across five core impact dimensions (What, Who, How Much, Contribution and Risk). This prescriptive tool can be used to guide the practitioner's assessment of whether the impact reports contain information that is significant to the intended users. Future iterations of this ISSA can replicate the model developed by the *Impact Management Project* by segregating reportable data categories into appropriate dimensions. This will provide assurance providers like BlueMark with a framework from which to determine whether our assurance clients have selected appropriate topics for disclosure, and can in turn influence the determination of our proposed scope (i.e., less time devoted to 'immaterial'

disclosure topics). Furthermore, it will be useful for future iterations of this ISSA to provide specific guidance on how the materiality process may differ in accordance with the nature of the entity (i.e., investors vs. corporates) and the type of information they may have access to.

Given that BlueMark will provide limited assurance services more broadly, we are most concerned with identifying disclosures where material misstatements are likely to arise. This ISSA provides assistance in determining the specific areas where misstatements may arise (i.e., Para. A401, Page 141) and this section should therefore be retained.

Provide your specific views, if any, about the approach for addressing the entity's "materiality process."

See above.

5. **Do you agree that ED-5000 appropriately addresses the notion of "double materiality" in a framework-neutral way?**
    - Yes
    - No
    - Undecided
    - No View [If No]

If not, what do you propose and why?

Provide your specific views about how ED-5000 addresses or should address the notion of "double materiality."

In Paragraph A180 (Page 91), the ISSA provides an adequate distinction between financial materiality (i.e., the impact of sustainability matters on an entity's financial performance) and impact materiality (i.e., the impacts of the entity on sustainability matters). Paragraph A274 (Page 113) provides additional clarification and defines double materiality as "applicable criteria that refers to both financial impacts on the entity **and** the entity's impacts on the environment, society, economy or culture."

The only criticism we have is that the ISSA does not explain how limited assurance should be conducted on firms and investors that apply both financial **and** impact criteria in their reporting metrics/KPIs. There is little mention of whether the assurance procedures applied by firms like Bluemark should be more stringent where double materiality is reported, relative to investors that report on metrics pertaining to financial **or** impact materiality.

6. **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?**
    - Yes
    - No
    - Undecided
    - No View

[If No] If not, why and what suggestions do you have?

Provide your specific views or suggestions, if any, for improving the focus on fraud (including "greenwashing") in ED-5000.

Paragraphs 59-61 (page 19) provides a clear insight into the professional skepticism and alertness that practitioners must demonstrate throughout an engagement, with a view to recognizing the possibility that material misstatements due to fraud could exist. Paragraphs 116L, 116R and 117-118 address the practitioner's required responses to identified or suspected fraud.

Whilst the ISSA emphasizes the mindset that practitioners ought to imbibe (i.e., skepticism and alertness) and the risk assessment measures that practitioners can take to evaluate whether an entity's risk assessment process is appropriate to the entity's circumstances (Para. 104R; Page 28), there is additional scope to contribute to fraud prevention and detection:

1. **Alignment with Anti-Fraud Measures:** Organizations have anti-fraud programs and measures in place; this may include but is not limited to internal controls, anti-fraud policies, and employee training. Sustainability assurance engagements following ISSA 5000 can be integrated with these anti-fraud initiatives to provide a holistic approach to risk management.

2. **Fraud Awareness:** Although Paragraph A296 highlights the ways in which material misstatements due to fraud in sustainability information may arise, this list is not prescriptive and does not cover the range of possible avenues that may contribute to fraud. To this end, the ISSA can provide suggestions of training courses and other tools for non-accounting practitioners that will foster an increased awareness of fraud red flags and indicators while conducting their engagements. This vigilance can help in detecting and preventing fraud.

3. **Independent Verification:** Where assurance engagements involve the evaluation of appropriate evidence against a given KPI to obtain sufficient confidence that the client's reported data does not include any material misstatements, a core component of BlueMark's impact verification service that may be relevant to consider for ISSA 5000 is our **composite rating approach**, where we undertake an independent, comparable, and holistic analysis of a fund's impact strategy, governance, management, and reporting systems. At each stage, we test for completeness, reliability, and transparency as it pertains to the development and execution of a firm's impact thesis; this allows us to promptly identify impact-related errors or fraud and, in turn, enables our clients to avoid greenwashing. Therefore, assurance does not replace the need for expert, independent impact verification services and future iterations of this ISSA should distinguish between assurance and verification or ratings-based services.

7. Do you agree that the requirements in ED-5000 will drive reporting on sustainability assurance engagements that meet the information needs of intended users?

- Yes
- No
- Undecided

- No View

[If No] 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.

Specific views about whether the ED-5000 reporting requirements will drive reporting that meets the information needs of intended users.

1. From BlueMark's perspective, the **users** of impact reports comprise all affected stakeholders (i.e., investors, fund managers, limited partners, regulators, policymakers, researchers, etc). By contrast, the ISSA refers to **'intended users'** (Page 10) as *"any individual, organization or group that the practitioner expects will use the sustainability assurance report."* Future iterations of the ISSA should emphasize this distinction. For example, Paragraph A26 (Page 56) notes the challenges that a practitioner may face in identifying all those who will read the assurance report (i.e., users), and suggests that *"intended users may be limited to major stakeholders with significant and common interests."* This level of nuance should be captured in the definition section.

2. As highlighted in the response to Question 4 above, the current Exposure Draft does not provide a recommended process that entities can utilize in selecting a range of appropriate qualitative topics for disclosure. To this end, The Impact Management Project has developed a range of reportable data categories that investors can use to understand their impacts on people and planet across 5 core impact dimensions (What, Who, How Much, Contribution and Risk). Future iterations of this ISSA can replicate the model developed by *The Impact Management Project* by segregating reportable data categories into appropriate dimensions, to ensure that impact reports solely contain information that is significant to those they are intended for (i.e., investors).

3. According to *The Impact Management Project* (Page 65), independent reviews comprise more than assurance engagements and may include additional services such as agreed-upon procedures, impact/outcomes evaluations, verifications, and rating services. For practitioners that conduct overlapping engagements (i.e., verification and assurance services), it will be useful to determine whether the principles of ISSA 5000 can be applied more broadly. In the event that the ISSA is restricted solely to assurance engagements, future iterations of the ISSA should include a disclaimer prohibiting its use for non-assurance independent reviews.

4. BlueMark currently provides expert third party verification services and limited assurance services. Does the IAASB foresee any consequences of simultaneously providing both services to a given client?

5. It is our understanding that ISSA 5000 is currently designed as a stand-alone standard. Therefore, practitioners are not required to concurrently apply ISAE 3000. Given the overlaps

between ISSA 5000 and ISAE 3000, as well as the overlaps in reportable sustainability information, are there any consequences for practitioners that decide to rely solely on ISAE 3000?