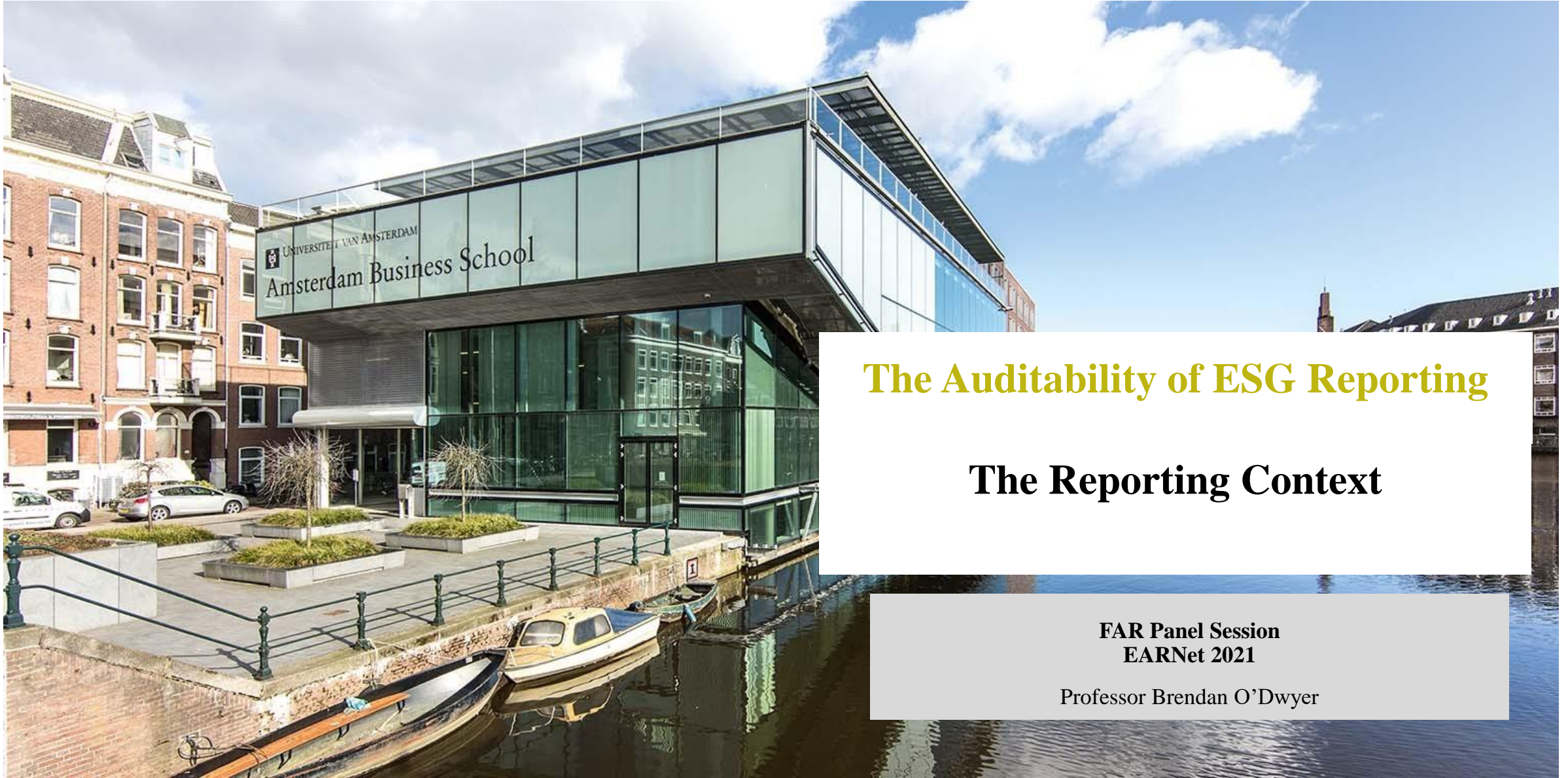




UNIVERSITY OF AMSTERDAM
Amsterdam Business School



The Auditability of ESG Reporting

The Reporting Context

FAR Panel Session
EARNet 2021

Professor Brendan O'Dwyer

The evolving ESG reporting context

First set of standards by mid-2022

FINAL REPORT

PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD-SETTING

February 2021



1

The Regulatory Space for Non-Financial Disclosure is Blowing Up



Value at risk as a result of climate change to manageable assets by 2100? up to \$43t

G7 backs making climate risk disclosure mandatory

The EU Sustainable Finance Disclosure Regulation

Mandatory ESG disclosure obligations for asset managers and other financial markets participants

- Corporate Sustainability Reporting Directive - Proposal
- **EU** sustainability reporting standards

September 2020

IFRS® Foundation



Consultation Paper on Sustainability Reporting

April 2021

IFRS® Foundation
Exposure Draft

31 OCT - 12 NOV 2021
GLASGOW

COP26

Proposed Targeted Amendments to the IFRS Foundation *Constitution* to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

Comments to be received by 29 July 2021

Corporate Sustainability Reporting Directive: Proposal

- An EU-wide **audit (assurance) requirement** for reported sustainability information
- Progressive approach – commencing with **limited** assurance ‘for the time being’
- Sustainability assurance standards => the legal requirement would automatically become ***a requirement for reasonable assurance instead of limited assurance***
- Creating an open market?:
 - *“Open up the market for sustainability assurance services to so-called ‘independent assurance services providers’. This means that Member States could chose to allow firms **other than the usual auditors of financial information** to assure sustainability information.”* (CSRD Proposal)
 - *“... it would be desirable that the assurance framework for sustainability information will ultimately be similar to that for financial statements.”* (IFRS Consultation Paper on Sustainability Reporting)



The auditability of (certain) ESG disclosures?

- Scenario analysis disclosures
 - The nature of the forward-looking information
 - *'Hypothetical constructs'* - not forecasts, predictions or sensitivity analyses
 - *Plausible*, distinctive, consistent, relevant, and challenging
- Assessing 'materiality assessments' of climate risks
- A role for shareholder/stakeholder engagement?
- The market for assurance of asset manager disclosures and product classifications (*EU SFDR*)
- Will 'auditability' drive future disclosure?