



# DEVELOPING AN OVERSIGHT REGIME FOR ASSURANCE OF SUSTAINABILITY- RELATED FINANCIAL DISCLOSURES

Issued 17 September 2025

ICAEW welcomes the opportunity to comment on the consultation developing an oversight regime for assurance of sustainability-related financial disclosures, published by the Department of Business and Trade on 25 June 2025, a copy of which is available from this [link](#).

ICAEW recognises the vital role a robust UK sustainability assurance market plays in providing comparable and decision-useful sustainability information, essential to help businesses and investors manage the risks and seize the opportunities presented by the transition to a net-zero, more sustainable and resilient economy.

## **A robust oversight regime for the benefit of users**

It is important that the UK has a regulatory framework consisting of high-quality and consistent reporting, robust assurance standards, strong and practical ethical and independence requirements, with effective monitoring and oversight by an empowered regulatory authority.

We strongly support the creation of a registration regime for assurance providers with voluntary registration as a pragmatic first step in the short-term but urge the government to establish a clear path to mandatory registration to address market fragmentation and enhance transparency. It is critical for the integrity of the market that there is a level-playing field for all providers of sustainability assurance. The same high bar should be applied to all with respect to professional standards, training, quality management, ethics and independence, plus monitoring and oversight.

ICAEW members have a long history of serving the public interest in building trust and confidence in financial reporting. Their skills and competencies mean they are well placed to play a pivotal role in relation to the growing market for sustainability management, reporting and assurance. We agree in principle with proposals to create a new legal category of “sustainability assurance provider” separate from the statutory auditor but consider that there are strong synergies between the two roles.

## **Working at pace to facilitate UK assurance, including on CSR**

We call on the government to act swiftly, working with the Financial Reporting Council, ICAEW and others to develop and implement a proportionate and robust regulatory framework. This will not only address current challenges and barriers posed by the lack of a UK scheme recognised in Europe but also support the UK's economic growth ambitions and ensure that UK firms can operate and engage effectively in the global market.

---

### **ICAEW**

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK  
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 [icaew.com](http://icaew.com)

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)  
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

This response of 17 September 2025 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has over 28,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2025

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: Audit and Assurance – [tdaf@icaew.com](mailto:tdaf@icaew.com)

## FOREWORD

1. We are delighted to see the UK Government publish its three highly-anticipated consultations relating to transition planning requirements, UK Sustainability Reporting Standards and assurance oversight. While we are commenting on each of the consultations individually, we offer below a number of overarching remarks.

## FINANCIAL RESILIENCE AND LONGER-TERM PROSPERITY: WHERE IT ALL STARTED

2. In his 2015 speech [Breaking the Tragedy of the Horizon – Climate Change and Financial Stability](#), the then-Governor of the Bank of England and Chair of the Financial Stability Board (FSB) Mark Carney spoke of how climate change poses a unique challenge to financial stability due to the long-term nature of risks falling outside typical decision-making horizons. Carney's speech was a catalyst for financial conversations around climate risk.
3. A decade on, with provisional statistics confirming the summer of 2025 as the warmest on record in the UK, it is important to refocus on the fundamental issues behind these consultations: the threat of financial instability if climate-related, and broader sustainability-related risks are not addressed. As Carney said:

*“The combination of the weight of scientific evidence and the dynamics of the financial system suggest that, in the fullness of time, climate change will threaten financial resilience and longer-term prosperity.”*

This warning is reiterated in the Office for Budget Responsibility's July 2025 [Fiscal risks and sustainability](#) report:

*“Climate change poses significant risks to economic and fiscal outcomes in the UK.”*

4. Transparency on the risks and opportunities faced by businesses is essential. The right information leads to better pricing of assets and avoids sudden, major collapse. The consultations, relating directly to the provision of the right information to financial markets, are critical to the resilience of businesses and the growth of the wider economy.

## TIME FOR THE UK TO LEAD WITH CONVICTION

5. Shortly after, the FSB established the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD's 2017 recommendations formed the basis for the architecture of the inaugural IFRS Sustainability Disclosure Standards (ISSB Standards) published by the International Sustainability Standards Board (ISSB) in 2023. In July 2023, the FSB announced that the work of the TCFD had been completed, with the ISSB Standards marking the “culmination of the work of the TCFD”. Having fulfilled its remit, TCFD disbanded in October 2023. The ISSB Standards provide a global baseline in sustainability reporting, including transition planning, with scope for jurisdictions to build on the baseline to meet their specific requirements. Transition planning is key to making the most of opportunities available from the transition to a low-carbon economy.
6. Momentum in the adoption of the ISSB's Standards is growing, with 17 jurisdictions, including Australia, Hong Kong SAR, Malaysia and Turkey having either formally announced or finalised their approach on the use of ISSB Standards; the UK is not yet one of them.
7. As well as risking the UK's position as a global leader in sustainable finance, this lack of progress is hindering inward investment and creating a barrier to growth in the UK's Professional and Business Services sector (PBS). Identified in the UK Government's Industrial Strategy as one of the eight sectors that have the greatest growth potential over the next decade, as stated in its [Sector Plan](#) “the PBS sector is central to driving climate transition and adaptation... The net zero transition is creating new demand for a wide range of climate, clean

energy, and environmental services, and the UK is well placed to capitalise on this demand due to its strong services sector and world-leading environmental and net zero commitments.”

8. While acknowledging that some reporting requirements are in place through climate-related disclosure obligations introduced in 2022, a UK-endorsed version of the ISSB’s Standards remains unavailable for use, despite the previous government’s commitment to complete the endorsement process within 12 months of the issuance of the Standards. We urge the UK Government to act with conviction and proceed at pace to ensure globally comparable, sustainability-related financial information is delivered to the financial markets. To quote Carney:

*“The right information allows investors to assess which companies and assets are most exposed to climate-related risks and which are best placed to seize the opportunities from a low-carbon economy.”*

9. Appropriate assurance is vital to ensuring markets are provided with reliable information. The integrity and credibility of those providing sustainability assurance is a critical ingredient. With the market for voluntary assurance of sustainability-related information growing at pace and mandatory assurance already required in the European Union, the need for a proportionate and robust regulatory framework for sustainability assurance is increasingly urgent. As Carney concluded:

*“With better information as a foundation, we can build a virtuous circle of better understanding of tomorrow’s risks, better pricing for investors, better decisions by policymakers, and a smoother transition to a lower-carbon economy. By managing what gets measured, we can break the Tragedy of the Horizon.”*

10. It is in this context that we have commented on the government’s package of consultations.

## KEY POINTS

11. ICAEW welcomes this consultation, alongside the government's consultations on endorsement of UK Sustainability Reporting Standards (UK SRS) and transition plans.
12. Assurance of an entity's sustainability information is a critical component of the sustainability reporting infrastructure, providing investors with credible and decision-useful information. By helping to drive capital flows, high-quality sustainability assurance and related regulatory oversight will strengthen the UK's attractiveness for inward investment and as a centre for sustainable finance, which is essential for long-term economic growth.
13. It is important that momentum is maintained following the Financial Reporting Council (FRC) [market study final report and recommendations](#)<sup>1</sup> which provided valuable insight and made several recommendations to support the market's development.
14. We are pleased to continue our close engagement with the UK government, the FRC, and others on this important area as it progresses, and stand ready to provide advice and assistance.

## A REGISTRATION REGIME FOR UK SUSTAINABILITY PROVIDERS

15. We strongly support the creation of a registration regime with voluntary registration as a pragmatic first step that will support engagement and increased transparency across the market. While we support a voluntary registration initially, we believe the goal should be mandatory registration to address current issues of fragmentation as well as the lack of transparency and consistency in the sustainability assurance market. We would like to see the Department for Business and Trade (DBT) outline a clear path from voluntary to mandatory registration.
16. Sustainability assurance is first and foremost an assurance service. While we recognise that technical expertise across sustainability matters is required and we welcome a competitive market, this should not be to the detriment of assurance quality. We agree in principle with proposals to create a new legal category of "sustainability assurance provider" separate from the statutory auditor, while recognising the synergies that will flow from the auditor's understanding of the entity and environment, obtained from the statutory audit process. The auditor will already have a strong skill set that can be applied to sustainability information, including a deeply embedded understanding of (a) the business, (b) how to quantify the financial impacts of sustainability risks and challenges and (c) connectivity between the financial and sustainability reporting.
17. We continue to hear from members that the lack of a UK regulatory framework is a barrier to UK business, with sustainability assurance providers unable to provide assurance on reporting under the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD) and limiting choice of UK corporates who are unable to choose UK based providers. This is a pressing matter that is impacting on the competitiveness of the UK and needs to be addressed as a priority. The UK should identify and apply lessons from other jurisdictions and continue to be actively engaged in discussions and developments across Europe and globally.
18. While it is expected that the registration regime will be operated by the Audit, Reporting and Governance Authority (ARGA), once established, we welcome the news that the FRC will be responsible for and are progressing activity in the meantime, and will need to have the necessary powers and resources to do so.

<sup>1</sup> published in February 2025

19. In response to member feedback that this development was overdue, we started some months ago to develop a voluntary register as an interim measure. Following meetings with DBT and the FRC, we understand that our exploratory work has helped advance the government's and FRC's thinking, and are pleased that as a result, the FRC (rather than ARGAs, in due course) will now be developing the register. We are in the process of sharing lessons with the FRC from the work we've undertaken to date. We initially aimed for a register to be in place before the end of 2025 and understand that, due to the FRC now taking on the register, there is likely to be delay until 2026. We urge the UK government and the FRC to advance this important project at pace, recognising that improvements to the registration regime can be made at a later date.
20. We strongly support adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements* for the UK market<sup>2</sup> and call for its use to be mandatory for all sustainability assurance engagements (irrespective of whether undertaken on a voluntary or mandatory basis). Sustainability assurance providers, regardless of their profession, should apply the same standard and be subject to equivalent regulatory requirements in order to promote consistent quality across the market.
21. A framework that allows a voluntary choice of standards risks continued fragmentation, inconsistent application and reduced trust in sustainability reporting and assurance. A clear timetable, with transitional arrangements for the phasing-in of mandatory use of ISSA (UK) 5000 should be established. This will allow the range of impacted stakeholders, including preparers, assurance providers, and regulators, to adapt to new requirements thereby minimising disruption and ensuring a smoother transition.

## LOOKING AHEAD

22. We agree that assurance of UK SRS is desirable in the long term and support voluntary limited assurance in the first instance, followed by mandatory limited assurance before ultimately, moving to mandatory reasonable assurance when feasible and on an informed, phased and proportionate basis. Clear messaging is needed on the overall direction of travel for the market with practical and pragmatic phasing in of requirements. This will help impacted stakeholders, including preparers, assurance providers and regulators, to adapt to new requirements. This will also minimise disruption and ensure a smoother transition and allow businesses to make the necessary investment decisions over the short, medium, and long-term to ensure that the needs of the market are met.

<sup>2</sup>ICAEW response [FRC ISSA \(UK\) 5000 Consultation](#).

## ANSWERS TO SPECIFIC QUESTIONS

### ESTABLISHING A REGISTER OF SUSTAINABILITY ASSURANCE PROVIDERS

***Question 1. Do you agree or disagree with the government's core proposal to create a voluntary registration regime for sustainability assurance? Provide justification.***

23. ICAEW strongly supports the creation of a registration regime for UK sustainability assurance providers. We believe the government's proposal for voluntary registration is an important and pragmatic first step in the short-term that will support engagement and increase transparency across the market.
24. Globally, there has been a growing market for voluntary assurance of all, or part of, publicly reported sustainability related information in both public and private sectors. Companies are obtaining assurance over the sustainability information they disclose at a significantly increasing rate - approaching 75% - as reported in the most recent [State of Play report](#) from the International Federation of Accountants (IFAC).
25. It is in the public interest that users of UK annual reports and accounts have access to high quality sustainability information. ICAEW Chartered Accountants find themselves in multiple roles: as directors, audit committee members, as management, and as assurance providers, and all have a key role to play in contributing to this.
26. It is critical to the integrity and confidence of the market that all sustainability assurance providers seeking to register should demonstrate the same high bar of professional standards, quality management, and ethics, including independence.
27. In recognition of the UK Government's economic growth ambitions, ICAEW also welcomes the intention for this regime to enable UK sustainability assurance providers to access business opportunities outside of the UK or where UK companies are currently subject to sustainability assurance requirements that originate in other jurisdictions.
28. We continue to hear from members that the lack of a UK regulatory framework is a barrier to UK firms being able to provide assurance on reporting under the EU's CSRD, which requires entities to obtain limited assurance from a third-party assurance provider from their first reporting year. How UK assurance practitioners are registered and meet the EU's requirements to perform a sustainability assurance engagement is a pressing matter that needs to be addressed as a priority if the UK is to effectively operate in and engage with this market.
29. While a voluntary registration regime is acceptable in the short term, we believe that a clear plan and path to mandatory registration is essential to address fragmentation as well as the lack of transparency and consistency. We have heard concern from some of our members that a prolonged voluntary regime could entrench market fragmentation and reduce comparability across assurance engagements.
30. We recommend the UK government establishes a clear pathway for a phased and timely transition to mandatory registration, which should provide sufficient time for all market participants to prepare accordingly. A pragmatic approach may be for the voluntary registration regime to become mandatory at the point at which there is a mandatory requirement for limited assurance of sustainability-related reporting. We would also seek UK Government support in implementing a framework that standardises and provides guidelines to assurance service providers. This would bring consistency and alignment across the industry and across multiple regulatory frameworks.

31. In response to member feedback that this development was overdue, we started some months ago to develop a voluntary register as an interim measure, with the aim of providing some structure and transparency to the sustainability assurance market. Following meetings with DBT and the FRC, we understand that our exploratory work has helped expedite the government's and FRC's thinking, and are pleased that as a result, the FRC (rather than ARGAs, in due course) will now be developing and maintaining the register. We are in the process of sharing lessons with the FRC from the work we have undertaken to date.
32. We initially aimed for a register to be in place by September 2025, and understand that, due to the FRC taking on the register, there is likely to be a delay until 2026. We urge the UK government and the FRC to advance this important project at pace, recognising that improvements to the registration regime can be made at a later date. The UK Government and the FRC should also acknowledge that other bodies have created registers in the sustainability reporting and assurance space. In the absence of an FRC register, there may be confusion in the market around various registers and how they differ.
33. We also note that DBT has indicated that while the consultation refers to ARGAs it can be read as the FRC, recognising that the setting up of ARGAs has been delayed further and the FRC will be progressing plans in the interim. To reflect this update, we shall refer to the FRC rather than ARGAs throughout our response.
34. We agree with proposals that the FRC should have the necessary powers to register and oversee sustainability assurance providers in a way that is consistent with its powers over statutory auditors. This would include responsibility for determining the qualifications and criteria to meet for initial and ongoing registration, and monitoring and regulating providers where they fail to meet expectations.
35. We recognise that key aspects of the registration regime and supporting regulatory framework are still to be defined. Addressing these aspects will be critical in developing an assurance regime in the UK that underpins high-quality, credible assurance that meets the expectations of investors, regulators, and the public. We comment on these further in the following consultation questions.

***Question 2. In your view, what are the advantages and disadvantages of the opt-in approach?***

36. We support the initial voluntary opt-in approach as a pragmatic initial step in developing the UK's sustainability assurance market. Its success depends on strong market uptake with assurance providers recognising the value of registration and, over time, its underpinning by regulatory oversight and a clear pathway to mandatory registration.

**Advantages**

37. We acknowledge there are certain advantages of an opt-in approach that include market engagement and the opportunity for providers to demonstrate their commitment to meeting professional standards.
38. As the reporting and regulatory landscape and best practice continues to evolve, it also gives time for participants to prepare and meet registration requirements.
39. We have heard from buyers of sustainability assurance services that they would welcome the transparency a register could provide, acting as a quality mark to inform choice when engaging sustainability assurance services. It is anticipated that buyers are likely to be increasingly interested in whether potential sustainability assurance providers have voluntarily signed up.



## Disadvantages

40. Disadvantages of the opt-in approach include the risk of low uptake across providers. This would impede transparency across registered and unregistered sustainability assurance providers and act as a barrier to consistent quality.
41. It also allows sustainability assurance providers to continue to operate without registering, which may lead to some less competent and reputable providers delivering lower quality work at reduced rates, with no apparent consequences. Deregistration from a voluntary regime will not deter bad actors. This could lead to further expectation and knowledge gaps that risk undermining confidence in assurance of sustainability reporting.
42. Another disadvantage is around potential difficulties in how the FRC (or ARGAs) would be able to take any required enforcement action against members of a voluntary register. There would need to be a mechanism whereby members would need to agree to be bound by a disciplinary framework.
43. We believe the disadvantages of an initial opt-in approach could be managed by the FRC providing clarity and certainty on the direction of travel for the market to transition to mandatory registration so all market participants can adequately prepare.

## CREATING THE CATEGORY OF 'SUSTAINABILITY ASSURANCE PROVIDER'

***Question 3. Do you agree or disagree with the government taking a profession-agnostic approach to sustainability assurance? Provide justification.***

44. ICAEW agrees in principle with proposals to create a new legal category of “sustainability assurance provider” separate from the statutory auditor, recognising the need to accommodate the wide range of technical expertise required for sustainability assurance.
45. To protect the integrity of the market, any profession-agnostic approach must be underpinned by a proportionate and robust regulatory framework. Sustainability assurance providers, regardless of their profession, should be subject to equivalent regulatory requirements in order to promote consistent quality across the market, and attain the same high bar of professional standards, ethics, training and quality management.
46. There should be a consistent level of competence when it comes to delivering assurance, no matter what the subject matter is. For this reason, the requisite qualifications and eligibility criteria, covering both assurance and sustainability expertise, is key. Qualifications and eligibility criteria will also need to evolve over time and keep pace as the subject develops.
47. Sustainability assurance is first and foremost an assurance service. While we recognise that technical expertise across sustainability matters is required and we welcome a competitive market, this should not be to the detriment of assurance quality. This in many ways, is no different to the professional requirements for statutory financial statements audits in ensuring that the team carrying out and reviewing the audit have the necessary competence and capabilities and are supported by adequate resources, skilled personnel and technical expertise across relevant subject matters.
48. Market analysis carried out as part of the [FRC's Assurance of Sustainability Reporting Market Study](#) and IFAC's most recent [State of Play report](#) also supports the need for a profession-agnostic approach with sustainability services provided by audit and non-audit firms.
49. We have been vocal in our support of the work undertaken by the International Auditing and Assurance Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) to develop framework-neutral international standards that can be applied by all

sustainability assurance providers. Through our responses to the IAASB's consultation on the [International Standard for Sustainability Assurance \(ISSA 5000\)](#) and the IESBA's consultation on [International Ethics Standards for Sustainability Assurance \(IESSA\)](#) we have also emphasised the importance of a level playing field, with all sustainability assurance providers being held to the same high bar, not least in relation to quality management, training, ethics and independence. Without a supporting regulatory framework with enforceable independence and other ethical requirements, there is a risk that objectives around consistent, high quality sustainability information are not met.

50. Given the connectivity between sustainability information and financial reporting, firms will need to strike the right balance in assembling and managing multi-disciplinary teams to ensure sustainability specialists understand assurance and vice versa.
51. Auditors will be able to take advantage of the synergies flowing from their understanding of the entity and environment, obtained through the statutory audit process. Understanding the subject matter and the complexity of the industries in which the entity is operating allows a holistic overview. Auditors already have a strong skill set that can be applied to sustainability information. This includes understanding (a) the business, (b) understanding how to quantify the financial impacts of sustainability risks and challenges, and (c) understanding connectivity between financial and sustainability reporting (for example, linking Scope 3 – category 15 (financed emissions) to the balance sheet). Auditors also have relevant competencies in understanding and testing underlying systems and controls, an area subject to increased focus following the FRC's revised Corporate Governance Code. As sustainability reporting matures and enables the quantification of financial impacts in the financial statements, auditors' work in this area will need to evolve. Fiduciary duty and whether controls around sustainability reporting are deemed material will be important considerations.
52. We believe the term should be sustainability assurance "practitioner" rather than "provider", to align with the term used in the prevailing international sustainability assurance standards developed by the IAASB and the IESBA and commonly used across existing regimes in Europe. It also better emphasises an individual's role and responsibilities in conducting assurance engagements, including adherence to ethical standards, competence, and professional judgement. "Provider" risks conveying only a commercial relationship, rather than capturing the accountability and ethical obligations of the individual performing the work, which are key aspects of the role. However, for the purposes of our response, we have used the term provider to reflect the terminology used in the consultation.
53. Stakeholders expect that sustainability and financial reporting will become increasingly integrated over time. With the importance of connectivity between sustainability and financial reporting in mind and given the pace of change seen across the sustainability assurance market in recent years, it will be important that the market is kept under review as it evolves further.

## ROLE OF FIRMS AND INDIVIDUALS

***Question 4. Do you agree or disagree that both individuals and firms should be able to be registered as sustainability assurance providers? Provide justification and explain whether any specific requirements are needed to ensure appropriate accountability.***

54. ICAEW agrees in principle that both individuals and firms should be able to be registered as sustainability assurance providers. This will ensure consistency and accountability by requiring firms and individuals to meet relevant registration and qualification requirements. We believe individuals signing assurance reports should be registered, and firms must

demonstrate that robust systems are in place around quality management and ethical compliance.

55. Registration of both firms and individuals reflects the model in place for financial audits, where both individual auditors and audit firms are registered as statutory auditors for the purposes of being appointed as a statutory auditor and to sign audit reports on the financial statements of UK companies. This model provides a helpful template that can be adapted to support this new registration regime. It is important that firms and individuals respectively are accountable where necessary, with lessons learnt from the statutory auditor register and other schemes being applied to avoid replicating known issues.
56. We think, however, enforcement action should be targeted at firms first, with any enforcement against registered individuals being proportionate. While individual registrants must demonstrate the requisite competencies and capabilities, plus high standards of professional and ethical behaviour, disproportionate enforcement action against them (eg, through press statements and / or disproportionate fines) is likely to deter high quality Responsible Individuals (RIs) from participating in this relatively nascent market. Where individuals are *both* sustainability assurance registrants *and* Public Interest Entity (PIE) audit RIs, this could be detrimental to both of these important assurance markets.
57. The FRC's current consultation into its supervisory strategy demonstrates an intention for the FRC to focus even more on firms' Systems of Quality Management (SOQM). Accordingly, for individuals intending to register as sustainability assurance providers, DBT (and the FRC) should recognise and place more reliance on the firms' own processes for registering a partner or other RI. The firms themselves likely have robust processes to get comfortable putting forward an individual for registration as a sustainability assurance provider (similar to putting forward a PIE audit RI). If the FRC's strategy is to place more reliance on firms' leadership, governance, culture and SOQMs, then it should leverage the firms' processes to help streamline the FRC's registration processes.
58. As ICAEW intends to say in its response to the FRC's supervisory strategy consultation, registration for an individual to become a PIE audit RI could be better served via an FRC case manager, having conversations with the proposed individuals to understand their experience, competence and capabilities, rather than reliance on a "tick box" exercise over email. Sustainability assurance registration should follow the same principles and may even involve the same individuals as PIE audit registration. High-quality audit and high-quality sustainability assurance requires the FRC to register high-quality individuals; we question to what extent the FRC can achieve this without interaction at a personal level. We wouldn't expect an auditor to perform an audit and demonstrate professional scepticism without ever seeing management face-to-face.
59. We note the request for input on how a registration regime could balance accountability with the reliance on multiple individuals contributing skills and expertise during an assurance engagement. We suggest identifying and applying lessons at how this is dealt with in the context of a financial statements audit, noting the key role the statutory auditor plays and how similar responsibilities and accountabilities should be reflected when defining the new category of "sustainability assurance provider".
60. Some members have raised concerns around implications for individuals registering who are also members of recognised supervisory bodies (RSB) noting that the personal risk is higher than for those who are not members of a RSB professional body. Furthermore, CSRD requires an individual to be registered and demonstrate that they meet EU requirements, as transposed and adopted across relevant jurisdictions. As such, the conditions and implications of registration for both an individual and a firm need to be clearly defined,

understood and applied consistently. Otherwise, there is a risk of unintended consequences that could negatively impact on the market.

## **ARGA'S ROLE IN OPERATING THE REGISTRATION REGIME**

### ***Question 5. In broad terms, what are the main principles that ARGA should consider when developing a registration regime for sustainability assurance providers?***

61. The sustainability assurance market cannot wait until ARGA is established to see a functioning regime and registration process put in place. We therefore welcome proposals for the FRC to be given responsibility to develop and administer the registration regime and establish the eligibility and qualifications criteria that will underpin it.
62. In our view, a registration regime should be clear in its scope and purpose as well as meet the needs of its users. It is also important that eligibility and ongoing continuous professional development (CPD) requirements are consistent and clear for firms and individuals. Any scheme should be administered in a fair and consistent manner with appropriate monitoring and oversight, with consequences of non-compliance for both registered individuals and firms clearly defined and understood.
63. We encourage the FRC to build on existing professional registration schemes and assess how to best leverage and interact with them. ICAEW has extensive experience of developing and administering professional registers, including the statutory audit register which we administer on behalf of the FRC as the Competent Authority. ICAEW also administers the Local Auditor Register, amongst other non-audit registers such as the Probate Register, which comprises both ICAEW member and non-member firms, and would be happy to continue to share these experiences to help inform the development of the registration regime and the criteria and qualifications underpinning it.
64. As this market develops further, it is important that the FRC approach is not overly complex or rigid in the early years. It will need to be adaptable, recognising the dynamic and evolving nature of the sustainability reporting and assurance landscape across the UK and internationally. This will also be important to create capability and capacity across all tiers of firms to address risks of market concentration, improve competition and choice, and to strengthen resilience of the market.
65. We also believe there is a need for education and clear communication across a broad range of stakeholders involved in the sustainability reporting and assurance eco-system to bridge gaps in knowledge and understanding. For example, to aid understanding of the nature and extent of assurance work performed, conclusions reached and why. This is likely to extend to a wider group of stakeholders beyond those typically involved in financial reporting.

### ***Question 6. How should ARGA work with other organisations when developing a future registration regime?***

66. We welcome the expectation expressed in the consultation that the FRC will work with industry to ensure that requirements for registration take into consideration the needs of companies and investors for high-quality assurance provision, as well as market capacity to provide sustainability assurance over time. We agree this will be important to ensure registration is achievable given the level of skills and expertise in the market at any given time.
67. To support this endeavour, we recommend a multi-stakeholder advisory group is established at the outset to guide the development of the regime. We envisage that the group would include:

- professional membership bodies such as ICAEW;
- assurance providers (both audit and non-audit firms);
- buyers and users of assurance services;
- regulatory bodies, including the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA);
- international assurance and ethics standard-setters;
- accreditation organisations such as the British Standards Institution; and
- other representatives that can provide insight and learnings from practices in other jurisdictions, as well as ensuring global alignment in the future.

68. Those with knowledge and experience of CSRD implementation may be particularly valuable in this regard, including the Auditing and Accounting Supervisory Authority in Ireland and the High Authority of Audit in France.
69. In addition to the insights and feedback that will be gathered as part of this consultation, and lessons we have shared with the FRC from our register project, collaborating and working with the stakeholders listed above will help ensure any regime is inclusive and aligned with market needs. ICAEW stands ready as a keen and active participant to support this important development.
70. Furthermore, and as referenced above in response to Q5, it is important that both initial and ongoing eligibility is kept under review and is updated as sustainability assurance training and qualifications develop and come onto the market.

## SCOPE OF INFORMATION BEING ASSURED

***Question 7. Do you agree or disagree that the UK's registration regime should recognise 'sustainability assurance providers' as being capable of providing high-quality assurance over multiple reporting standards (TCFD, UK SRS, ESRS)? Provide justification.***

71. We agree that the UK's registration regime should recognise "sustainability assurance providers" as being capable of assuring disclosures across multiple reporting standards including the TCFD, UK SRS, ESRS and any other jurisdiction-specific standards that are in line with IFRS Sustainability Disclosure Standards. This is important to reflect the current and near-future reporting requirements by UK companies, which is driving demand for assurance of that information. We note that UK Climate-related Financial Disclosures (CFD) is not specifically listed.
72. We also believe the register should explicitly encompass providers of assurance of individual sustainability-related metrics disclosed in the annual report and accounts. It is essential that UK entities can access high-quality assurance to meet their needs, and that may include separate assurance over individual metrics as well as for the reports produced in accordance with specific frameworks.
73. We note in this context that the proposal states "other disclosures" intended for purposes other than financial decision-making are out of scope of the registration regime. The example of "company marketing" is cited in the proposal as an example of such a disclosure. We believe that greater clarity on what is and what is not proposed as being in scope is needed. This is essential to the success of the regime and to avoid unnecessary confusion or complexity.

74. We view the implementation process as a journey and advocate for a proportionate approach that considers the varying readiness of entities. Clarity on scope and timing within that process is essential to help entities plan effectively and prioritise their efforts and resources.

## USE OF SUSTAINABILITY ASSURANCE STANDARDS

***Question 8. Do you agree or disagree that sustainability assurance providers must follow UK-equivalent standards to ISSA 5000? Provide justification and, if you disagree, indicate whether any other standards are considered appropriate.***

75. We strongly agree that sustainability assurance providers must follow UK-equivalent standards to ISSA 5000. The IAASB developed ISSA 5000 with the goal of enhancing the trust and confidence of investors, regulators and other stakeholders in sustainability information. It serves as a comprehensive, stand-alone standard suitable for any sustainability assurance engagement. It can be applied to sustainability information reported across any sustainability topic and prepared under multiple frameworks. It is also designed to be used by both professional accountant and non-accountant assurance practitioners.
76. We believe alignment with international practice is critical to establish a global baseline to underpin the provision of consistent, comparable and credible reporting. By following UK-equivalent standards to ISSA 5000, burdens for firms carrying out assurance engagements across multiple jurisdictions will be minimised and greater international alignment of sustainability assurance engagements will be achieved.
77. As we expressed in our response to the FRC's consultation on ISSA (UK) 5000<sup>3</sup>, mandating ISSA (UK) 5000 would help establish a level playing field across assurance providers. Mandating would promote consistency and comparability in sustainability assurance engagements, so long as all providers are held to the same high bar of professional standards, quality management, ethics and independence.
78. We believe the UK government should mandate the use of ISSA (UK) 5000 for all sustainability assurance engagements carried out in the UK (irrespective of whether undertaken on a voluntary or mandatory basis, and irrespective of whether the sustainability information reported on is based on "framework criteria", eg, reporting under UK SRS or "entity-developed criteria" that may underpin certain sustainability metrics the entity is voluntarily reporting on). Without mandating the use of a common assurance standard - with appropriate regulatory oversight - there will continue to be a diverse, unregulated and fragmented voluntary assurance market with assurance supplied with reference to a range of standards. Until then, it will continue to be difficult to compare the quality of assurance provided and leaves the UK open to increased risk of greenwashing and consequential loss of trust.
79. We recognise until such time ISSA (UK) 5000 is mandated there will be a number of different standards in use across the market. A clear timetable for phasing in mandatory use of ISSA (UK) 5000 should be established, with transitional arrangements established to minimise disruption and allow sufficient time for all market participants to prepare.
80. We also agree with the government's expressed intentions to introduce legal requirements, in a similar manner as for financial audits, for sustainability assurance providers to conduct assurance engagements in accordance with international ethical and technical standards.

***Question 9. How should ARGAs exercise its proposed functions in respect of sustainability assurance standard setting in the future?***

<sup>3</sup> ICAEW Response FRC ISSA (UK) 5000 Consultation

81. Recognising further detail is needed on the proposed functions of the FRC, we would like to see the FRC align UK assurance standards with IAASB's ISSA 5000 and provide clear thresholds to application, and implementation timelines with a phased approach. It is important that lessons from other jurisdictions across the EU and globally are identified and applied.
82. We also encourage the FRC to engage with a range of stakeholders to ensure standards are practical and proportionate. This will enable the FRC to take into account the broad range of assurance providers and range of services provided, which ranges from assurance on individual metrics and sustainability-related financial disclosures, through to entire sustainability reports.
83. We strongly encourage the FRC to provide guidance specific to UK jurisdictions only when required, leveraging existing and relevant materials published by standard setters ie, IAASB, IESBA and the International Sustainability Standards Board. This may include UK specific guidance to support implementation, particularly for smaller firms, including illustrative examples, FAQs, and training materials on matters such as value chains or forward-looking information.
84. Implementation of UK SRS will be a journey, both in terms of reporting and assurance, and perfect reporting should not be expected at the outset. A phased approach will allow preparers to build capability, improve data quality, and embed processes over time.
85. To support implementation, we believe ongoing education and communication will be key, particularly in relation to:
  - assurance conclusions;
  - inherent limitations of sustainability information;
  - restatements; and
  - expectations around the integration of sustainability assurance with the statutory audit.
86. We encourage the FRC to take a holistic approach that considers broader developments. It is important that sustainability assurance standard-setting keeps pace with topics such as effective internal controls (reiterated in the recently revised UK Corporate Governance Code) and changes in corporate reporting such as the ongoing non-financial reporting review being undertaken by DBT.
87. As part of previous discussions and consultations relating to UK audit and corporate governance reform, ICAEW has long supported the recommendation from the [2019 Brydon Review](#) that companies should develop and publish an Audit and Assurance Policy (AAP). ICAEW remains strongly supportive of the introduction of the AAP as a means for communicating the assurance an entity has obtained on financial and non-financial information. The AAP has the potential to clearly and transparently communicate how an entity seeks assurance in the context of its strategic objectives and risk appetite. In addition, it would demonstrate how its regulatory obligations are being complied with and how it ensures that information provided to users is fair and balanced.
88. It is important that thought is also given to the future of assurance. Assurance of AI is gaining traction and other types of assurance may emerge. If overarching principles around registration, accreditation, training, and the monitoring and oversight regime can be established for sustainability assurance, they could be applied to other assurance types, rather than having to "reinvent the wheel" and design a new regime each time assurance evolves.



## OVERSIGHT AND ENFORCEMENT

### **Question 10. What factors should ARG consider when developing its approach to enforcement? Provide justification.**

89. We welcome the government's intention to ensure that the FRC will have the powers and resources it needs to give investors and companies confidence that registered sustainability assurance providers are operating within the requirements of the regime.
90. We recommend a graduated approach is taken to enforcement, with education and remediation as first steps before punitive measures. Assurance of sustainability-related financial information is a new frontier and, like the reporting, will be a learning journey for preparers, assurers and regulators.
91. While the FRC can use learnings from their oversight of statutory audit, and should have at their disposal a range of powers commensurate with being an empowered and effective regulator (covering a range of potential sanctions from issuing fines and de-registering providers, with the mandate and ability to undertake inspections and reviews), it is important that the relative immaturity of sustainability assurance is recognised.
92. With this in mind, we are supportive of the government's expectation that the FRC will take a regulatory approach that encourages and assists providers to build capacity over time, consistent with the approach and ambition of the FRC to be an improvement regulator.
93. We also welcome plans for the FRC to be responsible for issuing guidance and support for providers and acting as a convenor that shares knowledge and best practice. We also recognise the important convening role and reach ICAEW has across its members that can also be brought to bear.
94. As outlined in our responses to the FRC's Assurance of Sustainability Reporting Market Study<sup>4</sup>, there needs to be a supportive and pragmatic approach to enforcement in the first years of application. The aim would be to avoid the possible emergence of a culture of non-compliance to achieve the ultimate goal of decision-useful and credible information to investors.
95. To encourage registration and compliance, we believe enforcement should be fair, proportionate, transparent and predictable. It should focus on improving the quality of assurance and protecting the users of sustainability information. By contrast, an overly punitive approach, particularly in relation to individuals, is likely to deter participation in the voluntary scheme and may lead to unintended consequences.
96. That said, we do support the prioritisation of proportionate enforcement action where there are clear and evidence-based instances of egregious wrong-doing or deliberate greenwashing, including when individuals can be identified as being directly accountable. We believe the ability for the FRC to take decisive action when it is warranted is important to protect the integrity of the market. We recognise though that de-registration from a voluntary register will not prevent bad actors from continuing to provide sustainability assurance services.
97. To support a balanced enforcement approach, the FRC may wish to consider introducing a regulatory sandbox concept for sustainability reporting and assurance. This could act as a valuable educational tool to increase understanding and inform future enforcement activity. It would allow the FRC to fulfil its ambition to act as an 'improvement' regulator for the foreseeable future, supporting assurance providers in their efforts to grow, and playing an

<sup>4</sup>ICAEW Response to [Assurance of Sustainability Reporting FRC Market Study](#) and [FRC Sustainability Assurance Market Study - Emerging Findings Consultation](#)



important convening role to inform and share best practice while the market and supporting regulatory regime develops.

98. We support the view that the FRC will need to build on learning from its oversight of statutory financial accounts, while recognising that sustainability assurance is relatively immature. We also believe that timely and clear communication is needed with all relevant stakeholders. This will play a vital role in managing expectations and to ensure the evolution of the sustainability assurance market is orderly, and as effective and as efficient as possible.
99. We would also encourage the FRC to share examples of good practice. This would help promote the value of sustainability reporting and assurance, together with the potential for economic growth and value creation that an effective sustainability assurance market can provide across companies, sectors and economies.
100. As this market continues to evolve, the FRC and other policy makers need to ensure that there is an effective transition period for implementation of new requirements by corporates and assurance providers. Without sufficient time there is an increased risk that quality could be compromised, and the value and integrity of the assurance market undermined. It will be important to acknowledge that adoption of sustainability reporting and assurance will involve a steep learning curve for many. Shared understanding of areas of difficulty will grow in the regulatory community as well as across the broader eco-system through the early years of implementation. Clarity will also be important in respect of how internal and external assurance can interact and work collaboratively to minimise duplication and maximise the value that both can provide.
101. The FRC will need to ensure it is sufficiently resourced to engage with and review the increasing number of sustainability assurance engagements, in terms of numbers of reviewers as well as their competencies and capabilities around both assurance and sustainability matters.

## MANDATING ASSURANCE OVER FUTURE UK SRS DISCLOSURES

***Question 11. Do you agree or disagree that assurance of UK SRS disclosures is desirable in the long term? Explain your view and indicate whether there are any implementation approaches or alternative measures to regulation that the government should consider.***

102. We strongly agree that assurance of UK SRS disclosures is desirable in the long term and support mandatory assurance of UK SRS disclosures as the ambition. Assurance of UK SRS disclosures is a key element of delivering investors with decision-useful and credible information that will ultimately lead to sustainable economic growth in the UK. This will provide a consistent baseline of assurance across company UK SRS disclosures, providing greater confidence in sustainability-related financial disclosures across companies and the market as a whole.
103. Assurance of sustainability and climate-related financial disclosures is increasingly valued and sought by investors. As well as safeguarding against greenwashing, it builds investor confidence to make investment decisions that support the transition to net zero and support long-term economic growth.
104. As noted in our response to the consultation on UK SRS, we support the government's ambition to require economically significant companies to report against UK SRS, following the endorsement consultation. However, it is difficult to comment definitively on the merits of this requirement without a clear definition of what constitutes 'economically significant.' We recommend that the government consider carefully the needs of users when determining this threshold. In addition, it will be important to understand the capacity and capability for required UK SRS disclosures to be assured.

105. We also agree that it is important for the government and the FRC to work closely with the FCA and the PRA to consider the views of those stakeholders who rely on sustainability-related disclosures when raising finance and making investments within the UK's capital markets.
106. While the aim is to provide investors with sustainability information that is on an equal footing with financial information, we strongly recommend a phased and proportionate approach to requiring sustainability assurance. Reflecting the nascent state of sustainability reporting, we support starting with voluntary, limited assurance of UK SRS disclosures before progressing to mandatory, limited assurance and, following adequate consultation, ultimately moving to mandatory, reasonable assurance.
107. A phased approach provides preparers and assurance providers with time to put appropriate systems and processes in place and aligns with the readiness of preparers and allows the market to build capacity.
108. While we believe it is important to clearly identify the ultimate goal and establish a clear pathway to that goal, we recognise that reaching it will take time. A balance will need to be struck between maintaining momentum, to ensure the UK does not fall behind other jurisdictions, and rushing ahead, with the risk of unintended consequences. The UK has the opportunity to identify and apply learnings from a number of jurisdictions, including across the EU plus jurisdictions that have already developed assurance regimes, such as Australia and Mexico. Ultimately the goal should be to reach reasonable assurance at some point in the future to realise the ambition of sustainability reporting being on a par with financial reporting. This will take time however and should not be rushed.

## INTERACTIONS WITH EU CSRD

***Question 12. Provide evidence where assurance providers have been excluded from or where you anticipate future barriers to competing for CSRD assurance engagements, due to a lack of UK registration regime or other reasons. Where possible, include quantitative estimates of the scale of impact on UK companies.***

109. Our members tell us that UK firms are continuing to face challenges in accessing the CSRD assurance market due to the lack of a UK regulatory regime and as a result have been unable to work with EU network firms and lost opportunities to EU competitors. With the UK government's [Professional and Business Services Sector Plan](#) in mind, we urge the government to move at pace with establishing a UK registration regime and engage with EU counterparts to facilitate market access.
110. Quantitative estimates are limited, but anecdotal evidence indicates that UK firms are losing opportunities to EU-based competitors. Such evidence includes:
  - A UK member firm told us that they were unable to respond to a request from an existing UK-based client to bid for CSRD assurance work as they were unable to demonstrate how they would meet the CSRD requirement to be “authorised under the law governing the parent undertaking in a non-EU country”.
  - Member firms that are starting to see demand from UK groups with EU-domiciled subsidiaries.
  - Preparers with operations in both the UK and across Europe who are currently selecting assurance providers based outside the UK, not only due to their jurisdiction having a registration scheme in place but also due to their familiarity with CSRD requirements.
111. We understand implementation of a regime that fully meets current CSRD requirements will require changes to primary legislation which will take time. In the meantime, we encourage the government and the FRC to continue their engagement with the EU to identify practical

and achievable actions that can be taken to address the immediate issue and barrier UK firms are facing to providing CSRD assurance.

## INTERACTIONS WITH THE NON-AUDIT SERVICES FEE CAP

***Question 13. Provide evidence where the non-audit services cap has been a barrier to accessing or providing high-quality sustainability assurance. Where possible, include quantitative estimates of the scale of impact.***

112. Having called for DBT to reconsider the non-audit services cap in previous consultation responses<sup>5</sup>, we believe sustainability assurance engagements should be excluded from the cap. We support the need for greater competition in the market, as identified by the FRC's Market Study, but restrictions on the use of incumbent auditors may be counterproductive to high quality sustainability assurance engagements, especially in the short term when the market is nascent. Prohibition of certain auditors delivering the services may also adversely impact the quality of statutory audit, given increasing interconnectivity of the financial statements and sustainability information.
113. The government is committed to reducing the regulatory burdens on businesses, but forcing companies to use one firm for the financial statements audit and another for sustainability assurance work may involve greater management and audit committee time (eg, tendering) and may increase costs where there is overlap and duplication.
114. We have also heard that firms may need to maintain some headroom below the 70% non-audit services fee cap in order to be able to react to ad hoc requests. One such example might be transactions services / IPOs. It is imperative for business and potentially the government's growth agenda that firms are able to support these transactions. Were sustainability assurance to be mandated by law at a point in time in the future, this may alleviate this tension.
115. We note that in the EU, the fee-cap explicitly excludes CSRD sustainability assurance. This may be an appropriate way forward for the UK. During our outreach we have been made aware of an example where an incumbent UK audit firm (mid-tier), has been precluded from providing sustainability assurance services on the basis that the total fees were approaching the fee-cap.
116. We have heard from buyers of sustainability assurance that there are tangible benefits to using their statutory auditor for sustainability assurance. This includes their familiarity with the company, sector, governance arrangements, and underlying processes and controls. All of which should translate into a greater understanding of how sustainability-related disclosures impact on the financial information.
117. Integration with statutory audit can also be more cost-effective. We heard from companies that they would like to see greater synergies and integration between the statutory audit and sustainability assurance engagements where possible.

<sup>5</sup> ICAEW Responses [Assurance of Sustainability Reporting FRC Market Study](#) and [FRC Sustainability Assurance Market Study](#) Emerging Findings Consultation