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Thursday 27 June 2024

Dear FRC colleagues,

**Assurance of Sustainability Reporting – Market Study**

We welcome the opportunity to respond to your market study on the assurance of sustainability reporting.

The Quoted Companies Alliance has examined the market study and formulated this response from the viewpoint of small and mid-sized quoted companies.

The sustainability assurance market has grown in recent years and is continuing to expand and develop. However, there are concerns around certain issues that exist within the market. These issues predominantly relate to the burdens and costs that are placed on companies as a result of seeking assurance from external service providers, and the complexity and lack of transparency between the multiple assurance standards and the different levels of assurance provided that make it difficult for investors and other users to understand.

Given that obtaining a level of assurance over reported information is increasingly expected by investors, it is important that these issues within the assurance market are addressed.

We have provided answers to the specific questions on the following pages.

**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?**

At present, sustainability reporting is of a fragmented nature, with some entities reporting sustainability information under multiple reporting frameworks, such as TCFD, SASB and the GRI, amongst others, and other entities not using a framework at all. As a result of this, the sustainability assurance market is also of a fragmented nature and is currently in a developmental stage, particularly given that there is likely to be significant change in the near future as a result of new sustainability reporting requirements, such as the ISSB standards, and the onset of new assurance standards, such as those from the IAASB.

We do not have any comments to raise in terms of the extent to which the sustainability assurance market supports economic growth. However, we do note that seeking assurance over sustainability information can create burdens and result in significant costs for businesses in obtaining assurance over reported information. The cost of seeking assurance is especially pronounced for small and mid-caps, who typically do not have the same level of resource as their larger counterparts. Assurance is also troubling for these smaller companies in terms of the time it takes to obtain assurance, particularly as these companies are already stretched in adhering to reporting requirements and deadlines.

Moreover, there are issues with complexity and transparency within the sustainability assurance market. For instance, it is difficult for primary users, such as investors, to understand the differences between multiple sustainability assurance standards. Similarly, the varying levels of assurance provided, such as limited and reasonable assurance, are confusing and lack sufficient transparency. This creates issues for these users in determining what information is assured and to what extent.

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

There are substantial overlaps that exist between the UK sustainability assurance and UK audit markets given that sustainability reporting and financial reporting are both prepared by businesses for investors, and can even be assured by the same provider. As a result of this, there is potential for there to be further capacity constraints within the audit market if more audit firms are also providing sustainability 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?**

Currently, and whilst there are a mix of assurance providers in the UK from both audit and non-audit firms, we do not consider that UK companies have sufficient choice of sustainability assurance providers. In particular, smaller companies can often find it difficult to acquire an appropriate assurance provider from a cost perspective.

We have concerns that the cost issues associated with the audit market (as highlighted in a recent report conducted by the QCA<sup>1</sup>) could also occur within the sustainability assurance market. We found that audit fees had increased for small and mid-sized quoted companies by 75% over a five-year period and meant that many companies encountered significant issues in affording their audit and finding appropriately priced auditors when conducting a tender. Given that the cost of obtaining sustainability assurance is already very

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<sup>1</sup> QCA, 2024, It Doesn't add up: The crisis of unaffordable audits (see here - <https://www.theqca.com/news-insights/thecrisisofunaffordableaudits/>)

high, further increases in cost would be prohibitive for many companies, and in particular smaller companies. A situation must not arise whereby the price of sustainability assurance is prohibitive for these entities.

We also note that some companies are forced to go overseas to find service providers due to issues around cost, capacity and choice within the UK market.

Finally, there are also substantial differences in both quality and methodology between different service providers. As further standardisation is increased, this should be mitigated to some extent, and the overall quality of assurance will increase. However, this might have a knock-on effect of reducing choice within the market.

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

We have no comments.

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

Please see our response to Q1 (regarding reporting timelines) and Q2 above.

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

We have no comments.

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

There are several international regulatory developments that may affect the UK sustainability assurance market. For instance, these include, but are not limited to:

- The adoption of IFRS 1 (general requirements for disclosure of sustainability-related information) and IFRS S2 (climate-related disclosures). In addition to this, there is the potential development of future ISSB standards.
- The adoption of the IAASB's new standard (ISSA 5000) for sustainability assurance (to replace ISAE 3000). Currently, under ISAE 3000, the varying levels/degrees of assurance can give rise to confusion for investors, and it is not yet clear whether this will be resolved with ISSA 5000. The differences between the two standards are fairly opaque and difficult to understand without technical expertise.
- The EU's CSRD, which will impact UK companies who have significant operations in the EU or are listed on a European exchange.
- The development of climate disclosure obligations by the US SEC.

**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).**

Overall, we would like to see increased affordability for companies, combined with reduced complexity and improved transparency between the different assurance standards and the varying levels of assurance provided.

We would urge the FRC to consider our comments above in light of its growth and international competitiveness remit in order to address the current issues with the assurance market.

We hope that you find these comments useful. If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink that reads "James Ashton." The signature is written in a cursive, slightly slanted style.

James Ashton  
Chief Executive