CONSULTATION RESPONSE SEPTEMBER 2025

DEPARTMENT OF BUSINESS AND TRADE: DEVELOPING AN OVERSIGHT REGIME FOR ASSURANCE OF SUSTAINABILITY RELATED FINANCIAL DISCLOSURES

E3G RESPONSE

E3G is pleased to provide feedback to the Department of Business and Trade (DBT) Consultation on developing an oversight regime for assurance of sustainability related financial disclosures. E3G strongly supports the establishment of the Audit, Reporting and Governance Authority (ARGA) as the authority for assurance of sustainability related disclosures. With the right powers and governance ARGA could be highly successful at addressing some of the key issues seen in the current assurance market and issues we anticipate as new disclosure requirements come in. These include:

> **A lack of capacity to provide assurance services at the scale needed** now for disclosures under current requirements such as TCFD. Additionally, a future lack of capacity to provide assurance for climate-related disclosures following the implementation of the UK SRS and transition plan requirements.

> **Lack of consistency in approaches** leading to challenges for firms in assessing the right provider of assurance services and holding the potential to undermine comparability of the assured data.

> **More work needed to develop best practices for assurance processes as the market develops.** This also requires supervision of ongoing professional development to ensure that the assurance market can

improve and be flexible to changes in firms' sustainability related disclosures.

Questions

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

It is clear that a registration scheme is needed. The Financial Reporting Council (FRC) 'Assurance of Sustainability Reporting Market Study' final report[1] made clear that this market is fast growing and that a large group of companies and financials rely on assured information for critical decision making.

> **Sustainability-related information is critical to decision making.** For example, 79% of global investors believe climate risk disclosure to be at least as important as financial disclosure.[2] This makes it essential that market actors have confidence in the information that they receive from firms.

> **This is a nascent market with best practice still being developed.** The proportion of FTSE 100 companies using their auditors to provide sustainability assurance grew from 25% in 2019 to 37% in 2023.[3] It is imperative that best practice develops credibly, and consistent approaches are developed to avoid divergences in methodologies undermining the comparability of climate-related data. Rapid market development and fast-moving changes in best practice have resulted in a lack of consistency in approaches[4] and could result in the risk of errors. It is also essential that professional development opportunities are made available, to ensure that practitioners can keep up with changes in best practice. A registration regime, if properly administered, could address both these challenges.

[1] FRC, 2025, **Assurance of Sustainability Reporting Market**
[2] Emirhan Ilhan and others, 2023, **Climate Risk Disclosure and Institutional Investors, The Review of Financial Studies, Volume 36, Issue 7**
[3] FRC, 2025, **Assurance of Sustainability Reporting Market**
[4] ACCA, 2020, **The assurance of social, environmental and sustainability information**

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

E3G recommends that the government makes registration mandatory in the medium term.

> **There is a risk that firms do not register voluntarily**. If uptake is not great enough there is a risk that potential customers, faced with a lack of supply, would not see registration as essential in their selection process – although they likely would still see it as preferable. This could disincentivise registration which would be problematic given the need for an assurance regime (see the answer to Question 1).

> **Starting off voluntary with a clear timeline to when registration would be mandatory is the best option.** A mandatory approach to registration could be a barrier to smaller firms entering the market. Beginning with voluntary registration could allow time for these firms to build the capacity and systems needed to meet registration requirements.

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

No answer

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.

No answer 5. In broad terms, what are the main principles that ARGA should consider when developing a registration regime for sustainability assurance providers?

No answer

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

No answer

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 (that is, TCFD, UK SRS, ESRS)? Provide justification.

No answer

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

E3G agrees that UK assurance providers should follow relevant international standards such as ISSA 5000.

> **ISSA 5000 has been designed to meet multiple disclosure frameworks and reduce fragmentation in approaches.** According to IAASB it "serves as a comprehensive, stand-alone standard suitable for any sustainability assurance engagements. It applies to sustainability information reported across any sustainability topic and prepared under multiple frameworks."[5]

> **Aligning with international best practice helps the wider market's development.** Common approaches build investor trust and confidence and ensure that assured information is trusted by regulators and other stakeholders globally.[6] The vast majority of firms captured by sustainability related disclosure requirements (including, in time, the UK SRS) will be multinationals and so promoting international trust in assurers registered with the UK registration scheme is key. Following ISSA 5000 and equivalent standards is a critical step to building that trust.

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

No answer

[5] IAASB, 2024, **International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements**
[6] Cuadrado-Ballesteros et al, 2017, **Mitigating information asymmetry through sustainability assurance: The role of accountants and levels of assurance**

10. What factors should ARGA consider when developing its approach to enforcement. Provide justification.

It is essential that ARGA is set up with the right powers to be able to intervene to correct issues where necessary. These enforcement powers should be modelled on the FCA and other peers and include the ability to levy fines and suspend registered status. Supported by meaningful powers, ARGA can then iteratively design its enforcement regime to meet specific challenges as the market develops.

> **Enforcement will be necessary to avoid unintentional greenwash or allegations of greenwash.** The market must be able to be confident in sustainability related disclosures and poor assurance practice could undermine this. The need for strong assurance is clear given that 87% of investors believe that current corporate reporting contains unsupported sustainability claims.[7] ARGA must be set up with the right powers to tackle this challenge.

> **Should registration become mandatory then ARGA will have far greater ability to set a good standard in the market and penalise poor practice.** The potential ability to hand out swingeing fines and suspend or withdraw registered status would be a strong deterrent to poor practice and would increase ARGA's influence over assurance firms.

> **The market is too nascent to design enforcement mechanisms now.** It would be better to let ARGA, once established do a stock take of market practice and work with assurance firms to design targeted and proportional enforcement measures to counter any shortcomings identified.

11. Do you agree or disagree that assurance of UK SRS disclosures is desirable in the long term? Explain your view and also indicate whether there are any implementation approaches (for example, timelines for phasing-in requirements) or alternative measures to regulation that the government should consider.

E3G strongly supports that ARGA takes steps to ensure consistency and good practice in assurance of disclosures under the UK SRS.

[7] PwC, 2022, **Global Investor Survey**

- **UK SRS, as well as any UK transition plan requirements, will become the main sustainability-related disclosures** that investors, supply chain partners, consumers and other users of sustainability disclosures utilise for their decision making. It is therefore essential that there is confidence in the assurance of those disclosures.
- **ARGA should work to establish best practice ahead of the UK SRS first reporting cycle.** Building off of current market best practice around TCFD disclosure assurance and learning from firms disclosing to voluntary frameworks. This will ensure that the market can trust in the credibility of UK SRS disclosures from day one.

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.

No answer

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.

No answer

About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**