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INTERNATIONAL ACCREDITATION FORUM

SUSTAINABILITY WORKING GROUP

CORPORATE SUSTAINABILITY INFORMATION

Position Paper

Accreditation and third-party conformity assessment system role to provide stakeholders with
accurate, reliable, credible and internationally recognized sustainability reporting and ESG Ratings

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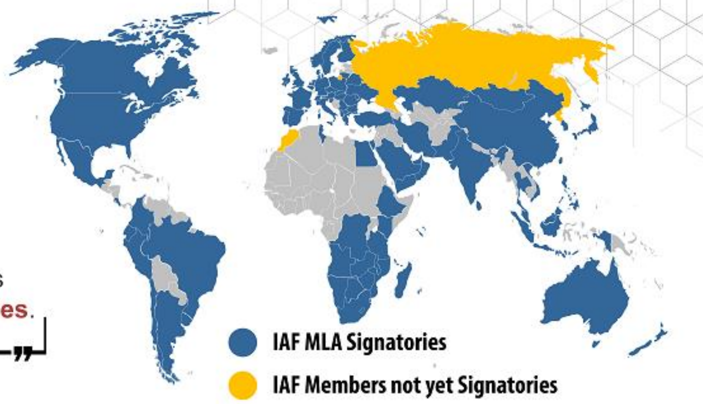
IAF MLA 2021

"5 recognised Regional Accreditation Groups
75 ABs, representing a total of 88 economies."



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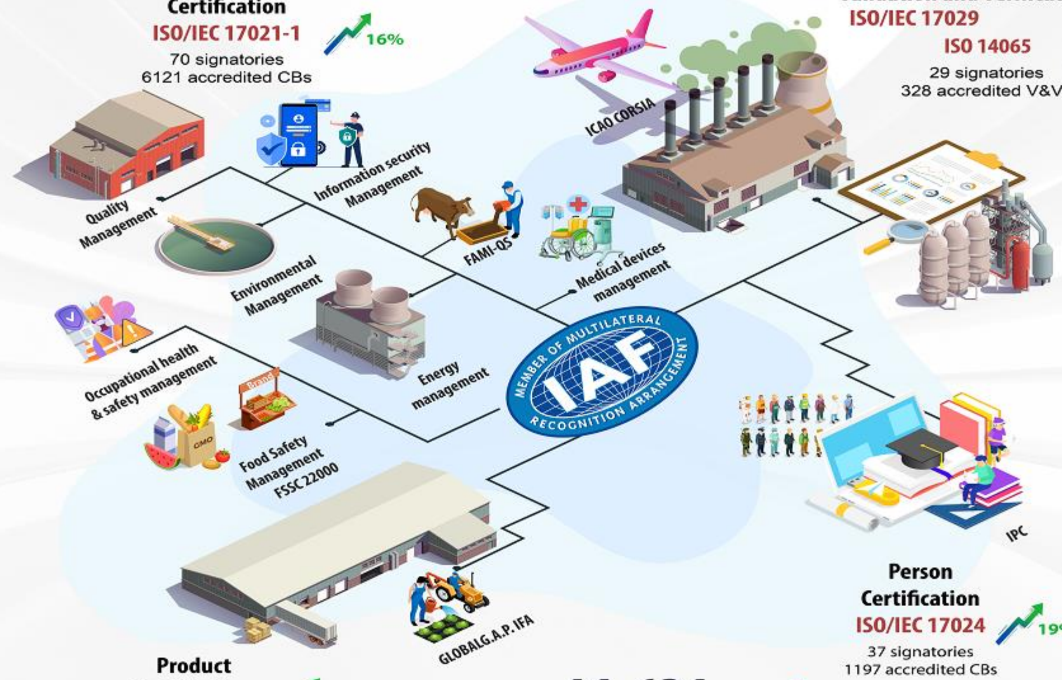
ABOUT IAF IAF is a global association of Accreditation Bodies (ABs), Associations of Conformity Assessment Bodies and other bodies interested in the certification of management systems, products, processes, services and persons, and validation and verification.

IAF MLA IAF's primary function is to manage a Multilateral Recognition Arrangement (MLA). The MLA recognizes the equivalence of accreditation programs delivered by AB members who are signatories to the arrangement. Through this recognition, the MLA supports the acceptance of products and services across national borders.

Management Systems Certification
ISO/IEC 17021-1 — 16%
70 signatories
6121 accredited CBs

Validation and Verification
ISO/IEC 17029
ISO 14065 — 8 %
29 signatories
328 accredited V&Vs



Person Certification
ISO/IEC 17024 — 19%
37 signatories
1197 accredited CBs

Product Certification
ISO/IEC 17065 — 4 %
64 signatories
3975 accredited CBs

11,621 Accreditation — 12 % increase since 2020
of Certification Bodies and Validation/Verification bodies

Gathering the evidence

BUSINESS BENEFITS — business-benefits.org
PUBLIC SECTOR ASSURANCE — publicsectorassurance.org

These 2 websites provide evidence to demonstrate the value of accreditation and accredited services with case studies and research papers.

As one CB & V/VB may have multiple accreditations, the number of accreditations is not the number of CBs & V/VBs accredited. The number of accredited CBs & V/VBs can be checked via IAF CertSearch database.

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International organizations (UN, ILO, OECD, WTO) have published declarations, guidance and recommendations aimed at promoting development models based on a greater balance between economic and financial results and aspects relating to the protection of collective values natural, human capital (the environment, protection of workers, local communities, etc.).

In recent years, there has been a rapid acceleration in the demand for accurate, reliable and credible non-financial information (around governance, human rights and working conditions, health and safety, environment, fair operating practices and consumer issues) to enable organizational stakeholders (investors and banks, customers and consumers, staff and local communities, public administrations, etc.) to make more informed decisions about the level of risk and the adverse impacts to which they might be exposed in relation to such non-financial aspects.

The action of regulatory authorities and standardization bodies has intensified the development of mandatory rules and voluntary standards in this space with the aim of introducing more stringent criteria for conformity assessment processes and bodies to provide stakeholders with more accurate, reliable and credible information on all aspects of sustainability.

At the same time as the demand for credible and reliable information has grown, there has been a proliferation of claims, marks, certifications, and ESG (Environmental, Social, Governance) ratings all over the world. These have evident weaknesses, including: incompleteness of evaluation criteria, poor compliance with international standards, lack of criteria to demonstrate the competence of persons who perform this activity, non-standardized evaluation procedures and methods, unreliable mechanisms to ensure impartiality and absence of conflicts of interest, and absence of controls on the bodies that issue such ESG labels, certifications and ratings.

The emerging regulatory framework and the growing needs of stakeholders increasingly focus attention on the integration between retrospective and forward-looking sustainability information.

Therefore, the conformity assessment shall include both verification (intended as confirmations of truthfulness of past results) and validation (intended as confirmation of plausibility of assumptions supporting the evaluation of expected performance).

In addition, the impacts must be considered in a double materiality perspective: the impacts that the environment exerts on the organization and current and potential impacts of the organization on the various stakeholders and their implications on short, medium and long-term financial results.

For example, in Europe, the EU Directive 2022/2464 on Corporate Sustainability Reporting (CSRD), published in the EU Official Journal on 16 December, introduced the obligation for companies to prepare a sustainability report in compliance with recognized standards (e.g. European Financial Reporting Advisory Group [EFRAG], Global Reporting Initiative [GRI], International Financial Reporting Standards [IFRS]) and to seek external assurance from statutory auditors or audit firms or independent assurance service providers.

Financial market participants are increasingly requested to comply with new obligations regarding the disclosure of pre-contractual information such as policies and strategies and accurate, credible and reliable information related to the exposure level to ESG risks of undertakings in their portfolio.

The banking system has been increasingly demanding the same information since 2019. In Europe, within the overall green deal strategy, EBA (European Banking Authority) published two fundamental documents: “Report on management and supervision of ESG risks for credit institutions and investment banks” and “Guidelines on LOM (Loan Origination and Monitoring)”. These two documents outline a scenario in which credit institutions will be requested to link, at the counterpart level (undertaking) the ESG rating with the credit risk and take decisions on pricing based on accurate, reliable, and credible information.

For these reasons, the International Accreditation Forum (IAF) has established a Sustainability Working Group organized in three sub-working groups. This position paper has been prepared by sub-working group #02, which is focused on "ESG verification, sustainability reporting external assurance and ESG rating".

This position paper aims to:

1. **outline the value of the international system of accreditation and accredited bodies in providing frameworks that ensure the credibility of the verification of sustainability-related information that meets the requirements of mandatory rules and the emerging expectations of stakeholders**
2. **highlight the benefits that the international accreditation system can offer to public authorities, financial and other stakeholders in meeting the growing demand for accurate, credible, and reliable non-financial information**
3. **affirm the centrality of ISO/IEC 17029 Conformity Assessment General principles and requirements for validation and verification bodies (e.g. an ESG rating or a sustainability reporting external assurance)**

This position paper is intended to support accreditation bodies (ABs) and conformity assessment bodies (CABs) in their relationship with public authorities, supervisory authorities, professional associations, and trade associations that must implement:

a) **policies for investment protection (e.g. Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector, Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending the Regulation (EU) 2019/2088, Directive (EU) 2022/2464 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting)**
b) **policies as regards the allocation of public funds (e.g. Regulation (EU) 2021/241 establishing the Resilience and Recovery facility)**
c) **policies for green public procurement**
d) **polices and rules as regards social and environmental due diligence**
e) **banking guidelines (e.g. EBA "ESG Framework" and "Guidance on Loan Origination and Monitoring) or policies for implementing**

I wish to thank the WG #02 "ESG Verification, sustainability reporting external assurance and ESG rating" convened by Cesare Saccani (Diligentia ETS) for preparing this position paper.

Emanuele Riva
IAF Chairman

Published in 2023

IAF POSITION PAPER "CORPORATE SUSTAINABILITY INFORMATION"

INDEX

IAF 10 principles for corporate sustainability information

The 10 IAF principles for
accurate, reliable, comparable and credible information on sustainability and ESG risks

The following accreditation principles provide stakeholders with accurate, reliable and credible claims on sustainability reporting and ESG risks:

1) Sustainability reporting and ESG ratings are claims (according to ISO/IEC 17029)
2) ISO/IEC 17029 is the standard for validation/verification of claims
3) Reliable validation/verification of claims requires standardized processes
4) Specific programmes in combination with ISO/IEC 17029 must be operated
5) Programme must be evaluated for accreditation purposes by an independent body signatory of a regional or international multilateral agreement (MLA) to ensure compliance with standards and confidence on the suitability for specific scopes (e.g. sustainability reporting external assurance and ESG rating in the bond and loans KPIs verification)
6) Robust assessment to provide accurate and reliable sustainability information
7) Assessment to be conducted by auditors with adequate and confirmed competence
8) Programmes' governance based on segregation of duties enhances credibility
9) Accreditation enhances credibility and reliability of programmes and Conformity Assessment Bodies
10) Accredited verification/validation bodies (according to ISO/IEC 17029) ensure reliable and credibility of claims (such as sustainability reporting assurance and ESG ratings)

The glocal value of accreditation

Glocalization is the "*simultaneous occurrence of both universalizing and particularizing tendencies in contemporary social, political, economic systems*"[1]. The concept represents a challenge to simplistic conceptions of globalization processes as linear expansions of territorial scales. Glocalization indicates that the growing importance of continental and global levels is occurring together with the increasing salience of local and regional levels." Glocal, an adjective, means "reflecting or characterized by both local and global considerations". The term "glocal management" in a sense of "think globally, act locally" is used in the business strategies of companies in an interdependent global market.

In the field of corporate sustainability information, the international accreditation system is the suitable framework in a glocal scenario because accurate, reliable, and credible information on sustainability aspects and related risks must be verified locally to provide global stakeholders (buyers, customers, banks, investors, non-governmental organizations [NGOs]) with trust and confidence in the organization's sustainability performance.

The emerging regulatory framework as regards corporate sustainability reporting applies to:

- undertaking established in the territory of the European Union
- parent undertaking of a large group that prepares a consolidated management report
- undertaking established in a territory whose ultimate parent undertaking is governed by the law of a third country

In Europe the proposal for a Directive on Corporate Sustainability Due Diligence shall apply to:

- all undertakings governed by the law of a Member State or established in the territory of the Union
- limited liability undertakings governed by the law of a non-Member State and not established in the territory of the Union when operating in the internal market by selling goods or providing services

These EU Directives will extend their implementation to global value chains. Similar regulations are being developed in other economic free zones (USMCA, ASEAS, Mercosur) to address sustainability issues and risks.

In such a scenario there is an increasing need for global and robust infrastructure to assure that conformity assessments conducted locally on undertakings are recognized globally according to the same criteria, procedures and control system.

This aligns with the role of the international accreditation system whose structure is based on the following pillars:

- Reference to internationally recognized standards for accreditation of conformity assessment bodies
- MLA signed agreement between ABs whereby the signatories recognize and accept the equivalence of the accreditation systems operated by the signing members

[1] *Encyclopedia Britannica. Retrieved 2018-03-10*

- Reliability of the conformity assessment results provided by CABs accredited by the signing members

The growing freedom of circulation of goods, persons and capital requires global infrastructure to support the mutual recognition of information on sustainability aspects and related risks.

The international accreditation infrastructure enables the global recognition of sustainability reporting external assurance and/or ESG rating performed locally in each economy in which undertakings sell their products or provide services, and therefore provides the infrastructure for mutually recognized conformity assessment and transparent, accurate, reliable, comparable and credible verified information throughout the world.

The principle *'Accredited once, accepted everywhere'* effectively applies the concept of "*think global, act local*" to the glocal vision of international economic systems.

We, at IAF (International Accreditation Forum), are fully aware that:

1) In the global markets there is an increasing need for accurate, reliable, and credible corporate sustainability information including forward-looking and retrospective information and both qualitative and quantitative information in the form of sustainability reporting or ESG rating or both.
2) The request from regulatory bodies to assure the corporate sustainability reporting (e.g. Corporate Sustainability Reporting Directive [CSRD] requirements for the external assurance process) needs reliable protocols for external assurance, competences of verifiers and their ability to conduct assurance processes ensured by corporations that are controlled by third-party authorities to ensure credibility of the entire process.
3) The demand for corporate sustainability information is driven by the regulatory framework and the need of a wide range of stakeholders (public authorities, banks, investors, buyers, consumers, civil society) to take more informed decisions on sustainability aspects and risks when they decide to interact with an undertaking.
4) There is an increasing proliferation of claims, marks, and ESG ratings in the field of sustainability that do not provide stakeholders with confidence in the completeness and relevance of criteria, compliance with standards, transparency and reliability evaluation procedures, competence of auditors and analysts and other issues.

We, at IAF, affirm

That the accreditation system of programs and third-party bodies in accordance with internationally recognized standards (e.g. ISO/IEC 17029 Conformity Assessment General principles and requirements for validation and verification bodies) is a robust infrastructure to meet the stakeholders' needs because:

1) It is a strong and credible framework that ensures the independence of accredited bodies that operate in conformity to standards, proper governance, organizational abilities to conduct conformity assessments recognized globally by regulatory bodies, financial market players (e.g. banks, investors, etc.), industries and other relevant stakeholders.

2) It is based on the following principles:
    - Service of public interest
    - Highest level of control conformity assessment

- Applies to both mandatory and voluntary fields
- Full compliance with applicable rules
- Accountability to stakeholders
- No predominance of any single interest group

3) It is extensively adopted to implement a wide range of regulatory and legislation framework in every continent and economic zone (e.g. NAFTA, EU, Mercosur, Asia, etc.) to facilitate the free circulation of goods, services, persons and capital.

4) It is applied in a wide range of legislations as regard different sustainability aspects such as:
    - Human rights and labour conditions
    - Health and safety
    - Environment
    - GHG verification and validation
    - Energy efficiency
    - Water consumption reduction

We, at IAF, believe

That an accreditation system of programs and conformity assessment of claims in accordance with internationally recognized standards, such as the use of ISO/IEC 17029 for ESG rating and sustainability reporting, will:

1) prevent the creation of an oligopolistic market of sustainability reporting external assurance and ESG KPIs and rating service providers and result in affordable costs for undertakings (particularly those of small and medium-sized enterprises [SMEs])

2) enhance the quality of claims by ensuring the verification of sustainability reporting and ESG KPIs and risks

3) underpin evaluation and rating assurance programs, by accredited bodies in accordance with internationally recognized standards (ISO/IEC 17029)

4) increase healthy competition among service providers based on competence and quality

5) favour the rapid growth of auditors, reviewers and technical experts with appropriate competence (knowledge, skills, work experience) based on harmonized competence criteria and evaluation processes

6) quickly mobilize existing multidisciplinary competence with specific experience in the fields of social, safety, environmental and business ethics aspects and related risks

7) ensure the mutual recognitions of validation/verification of sustainability reporting and ESG KPIs and risk evaluation and rating at the global level

We, at IAF, assure

that the accreditation and third-party conformity assessment system provides confidence in the provision of accurate, reliable, comparable and credible information because:

1) ESG ratings and sustainability reporting are two types of claims as defined by ISO/IEC 17029.

2) ISO/IEC 17029 is the international standard for accreditation of programs and CABs that applies to validation/verification of claims (such as sustainability reporting and ESG risk evaluation and rating).

3) ISO/IEC 17029 specifies requirements for the CABs to ensure that validation/verification processes are conducted in accordance with the functional approach (selection, determination, review, and attestation) specified in ISO 17000.

4) The validation/verification of a claim must be carried out within a validation/verification programme positively assessed for accreditation purposes according to ISO 17029. Since the requirements in ISO/IEC 17029 are generic in nature, a programme for the particular validation/verification needs to be operated. Such a programme further specifies definitions, principles, rules, processes and requirements for validation/verification process steps, as well as for the competence of validators/verifiers. ISO/IEC 17029 Annex A (informative) specifies the minimum requirements that a validation/verification programme is requested to fulfil.

5) The conformity assessment program evaluation for accreditation purposes conducted by an AB in accordance with internationally recognized procedures (such as IAF MD 25:2023 *Criteria for Evaluation of Conformity Assessment Schemes*) assures the program compliance with ISO/IEC 17029 (and its Annex A), the program consistency to achieve the intended purposes and mutual recognition of conformity assessment results at the international level.

6) Accuracy and reliability of information regarding the plausibility of assumptions to estimate the exposure level to actual or potential risks of events that can result in future adverse impacts on the organization and its stakeholders is confirmed by means of an audit conducted by deploying appropriate methods for reaching reliable and reproducible validation/verification conclusions based on sufficient and appropriate objective evidence collected during the audit and reviewed before taking the decision.

7) Audit is conducted by an accredited third-party body periodically monitored in accordance with the verified program's procedure.

8) Only professionals with adequate competence (knowledge and skills) verified in accordance with transparently specified criteria and procedures provide stakeholders with confidence of accurate and reliable consistent conformity assessments aiming to confirm the reliability of data and the plausibility of assumptions.

9) Whereas ISO/IEC 17029 specifies that surveillance function of conformity assessment activities is not applicable (Annex A) a programme can introduce additional requirements consisting of periodic renewal of the declaration and the validation process at specified points in time to reconfirm the initial assumption and update the exposure level to ESG risks in order to add value by meeting specific stakeholders' needs (e.g. banks, investors, funds, etc.). Periodic renewal does not apply to sustainability reporting external assurance because this activity refers to a past reporting period declared by the undertaking and there is no scope for repeating the same process to a report already assured.

10) Only programmes based on clear distinction of roles among the scheme owner, the AB, the program operator and the CABs provide stakeholders with confidence of credibility, robustness, transparency and impartiality.

11) Accreditation, consisting of third-party attestation related to a CAB, conveying formal demonstration of its competence, impartiality and consistent (according to internationally recognized standards) operation in performing specific conformity assessment activities, ensures mutual recognitions of sustainability reporting (and/or ESG ratings) provided by accredited external assurance providers.

12) CABs accredited according to ISO/IEC 17029 and a specific verification/validation program (positively assessed for accreditation purposes) provide stakeholders with confidence of competence, impartiality, confidentiality and above all credibility of conformity assessment activities.

Accreditation and benefits for stakeholders

Accreditation is the most robust and internationally recognized framework providing stakeholders with confidence of accurate, reliable, impartial, comparable, and credible claims (such as sustainability reporting, ESG ratings, marks, etc.) verified/validated by an accredited third-party body.

Validation/verification are two different types of conformity assessment understood to be a confirmation of reliability of information declared in claims.

ISO/IEC 17029 is the international standard that specifies general principles and requirements for the competence, consistent operation and impartiality of bodies performing verification/validation of claims.

ISO/IEC 17029 requires that "*a programme for the particular validation/verification scope needs to be operated. Such a programme further specifies definitions, scopes, principles, rules, levels of assurance, processes, and requirements for validation/verification process steps*" as well as for competence of validators/verifiers (auditors or assessor) for a specific scope or sector. ISO/IEC 17029 – Annex A addresses the elements to be included in a verification/validation programme.

Requirements expressed in terms of performance is the fundamental and distinguishing feature of a validation/verification programme of claims (e.g., plausibility of assumptions to determine the exposure level to ESG risks in a looking forward perspective).

Considering the type and nature of information related to sustainability aspects (e.g., evaluation of performance for future use such as the exposure level to risks related to social or environmental aspects), a validation/verification programme must specify and declare the level of assurance (limited or reasonable) and the conditions to achieve them in order to provide stakeholders with proper information regarding the degree of confidence in the claim.

Consequentially, a validation/verification body providing sustainability reporting external assurance and ESG rating services is requested to comply with:

a) The general requirements specified in ISO/IEC 17029.

b) The specific requirements of a validation/verification program intended for a specific purpose such as sustainability reporting external assurance, an ESG risks evaluation and rating.

The accreditation framework plays a fundamental role in providing regulatory authorities and stakeholders (investors, banks, buyers, public bodies, civil society) with confidence in:

a) validation/verification programme compliance with the requirements specified in ISO/IEC 17029 and in accordance with internationally recognized criteria and procedures (e.g. IAF MD 25) to determine its suitability for accreditation purposes.

b) validation/verification bodies' compliance with ISO/IEC 17029 general requirements and specific requirements detailed in a verification/validation program positively assessed for accreditation purposes to achieve an intended objective (e.g. sustainability reporting external assurance, ESG risks evaluation and rating, etc.).

The accreditation framework consists of an MLA signed among IAF members whereby the signatories recognize and accept the equivalence of the accreditation systems operated by other signatories, and also the reliability of the conformity assessment results provided by CABs accredited by signatories.

This framework assures the principle *'Accredited once, accepted everywhere'*.

Benefits

For national governments and regulators
• **Operating in the public interest**: investors', banks', public bodies', buyers' interest is safeguarded by the MLA signatories who act as "checkers of checkers".
• **Supporting implementation of legislations** by confirming compliance with standards and applicable requirements.
• **Enhancing trade and economic growth** by giving governments confidence in accreditation and verified/validated claims in regards to sustainability reporting external assurance and ESG risks evaluation and rating.
• **Limiting costs and resources** by eliminating a number of administrative obligations. The MLA reduces the need to employ specialized assessment personnel for regulatory controls and avoids duplication of audits.

For industries
• **Boosting competitiveness**: with the MLA, undertakings can differentiate their activities by providing objective evidence of technical competence, impartiality and compliance with international requirements and avoid costs of duplicated verification/validation of claims.
• **increasing accuracy and reliability of sustainability related information** with an MLA accredited verified/validated claim removes the need to provide additional evidence.
• **Increasing reputation against financial market participants** (investors, banks, insurance) by providing more credible and verified information.
• **Assuring the international recognition of verification/validation** statements and attestation.

For investors, banks and other stakeholders
• **Supporting the implementation of investment and credit policies** according to regulatory frameworks and guidance provided by authorities (e.g. EBA – European Banking Authority).
• **Taking decisions on the basis of more accurate, reliable and credible information** included in a sustainability report and/or in an ESG risks evaluation and rating given by third-party accredited bodies.

- **Increasing trust of control authorities** by providing verified/validated information according to international standards and verification/validation programs positively evaluated for accreditation purposes.

For consumer and citizens
• **Creating trust**: consumers' confidence in the market is enhanced when they know that the undertaking they choose is controlled by an independent and competent body which is itself regularly assessed by an impartial body.   • **Increasing trust in control authorities** can be achieved by means of information verified/validated according to international standards and verification/validation programs assessed for accreditation purposes.

IAF REPORT "Accreditation for corporate sustainability information"

1 Scenario and stakeholders' needs

The demand for accurate, credible, and reliable corporate sustainability information is growing.

Different stakeholders have a different relation with corporate sustainability reporting depending on their role.

Stakeholders can be classified in three groups as follows:

Stakeholder type	Description	Examples
Influencer	Stakeholders influencing the demand for corporate sustainability information	• International organizations • Government bodies • Regulatory authorities
User	Stakeholders interested in communicating and using corporate sustainability information	• Companies • Banks • Investors • Buyers • Tendering authorities
Influenced	Stakeholders influenced by corporate sustainability information	• Civil society • Consumers

Every stakeholder has a different relation with the organization's sustainability initiatives and needs a different level of information.

1.1 Influencers

This group includes stakeholders in a position of indirectly or directly influencing the demand for corporate sustainability information.

1.1.1 International organizations

Over the past 50 years, international organizations (e.g. UN, OECD, ILO) have progressively developed recommendations to states and governments to introduce an increasingly stringent regulatory framework on a wide range of non-financial aspects such as governance, human rights and working conditions, health and safety, environmental protection, good competitive practices and the relationship with consumers.

At the global level, various frameworks and standards define ESG factors, while some of them use their own definitions. The following frameworks are currently used by institutions.

a. Frameworks addressing ESG factors

i. The United Nations Sustainable Development Goals (SDGs) are a collection of 17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all and are intended to be achieved by 2030.

ii. The Principles for Responsible Investment (PRI) aim at supporting signatories - asset owners/institutional investors, investment managers and service providers (including consultancy, information and data) - to incorporate ESG factors into their investment and ownership decisions.

iii. The United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking aim at aligning banks' business strategies with the objectives of the SDGs and the Paris Agreement.

iv. The Global Sustainability Standards Board Global Reporting Initiative (GRI) aims at helping organisations to better understand, manage and communicate their impacts on sustainability-related issues.

v. The Equator Principles aim to provide a common baseline and framework to identify, assess and manage environmental and social risks when financing projects.

vi. The World Economic Forum (WEF) report on 'Measuring Stakeholder Capitalism' provides for a core set of common metrics and disclosures on non-financial factors which can be used by companies to align their mainstream reporting on performance against ESG indicators and track their contributions to the SDGs.

vii. Standards such as ISO 26000 Guidance on Social Responsibility, ISO 32210 Sustainable finance – Guidance on the application of sustainability principles for organizations in the financial sector, ISO 14030-1 Green Debt instruments – Part 1: process for green bonds.

viii. The International Integrated Reporting Council (IIRC) Integrated Reporting Framework provides a framework for integrated reporting along the lines of six capitals (financial, manufactured, intellectual, human, social and relationship and natural) with the aim of making companies report a more complete picture of the way in which they create value.

ix. The International Finance Corporation Environmental and Social Performance Standards (IFC Performance Standards) define IFC clients' responsibilities for managing environmental and social risks.

x. The OECD Due Diligence Guidance for Responsible Business Conduct provides practical support to enterprises, by giving due diligence recommendations on the implementation of the OECD Guidelines for Multinational Enterprises. These Guidelines cover non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.

xi. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) Guidance for Applying Enterprise Risk Management to ESG-related risks proposes approaches to overcome ESG-related risk challenges across the ERM process and provides methods for managing both upside and downside ESG-related risks.

xii. The Sustainability Reporting Standards (IFRS, GRI, etc.) designed to help companies disclose financially-material sustainability information to investors.

b. Frameworks specifically addressing environmental factors:

i. The Natural Capital Protocol + Supplement (Finance) provides a standardised framework for organisations to identify, measure, and value their impacts and dependencies on natural capital.

ii. The recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD) provide a framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

iii. The Climate Bond Initiative Climate Bonds Standard provides sector-specific eligibility criteria for assets and projects that can be labelled as green investments.
iv. The International Capital Market Association Green Bond Principles are process guidelines that clarify the approach for issuance of a green bond.
v. The Partnership for Carbon Accounting Financials Global GHG Accounting and Reporting Standard for the Financial Industry provides methodological guidance to measure and disclose greenhouse gas emissions associated with six asset classes (listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans).
vi. The Climate Disclosure Project (CDP), UN Global Compact (UNGC), World Resources Institute (WRI) and World Wildlife Fund (WWF) Science-Based Targets initiative (SBTi) provides targets that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement, through which companies can define their path to reduce greenhouse gas emissions in line with the agreement.

Frameworks specifically addressing social factors:

i. The UN Guiding Principles on Business and Human Rights are a set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations.
ii. The eight fundamental Conventions of the International Labour Organization (ILO) cover subjects that are considered to be fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect to employment and occupation.
iii. The United Nations Global Compact is a non-binding pact to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation. It provides for a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption.

1.1.2 Regulatory authorities

In Europe the regulatory framework has been progressively introducing mandatory regulations that define the content and criteria for the disclosure of accurate and reliable information on all aspects and risks of a non-financial nature (Governance, Human Rights and Working Conditions, Health and Safety, Environmental and Business ethics).

1.1.3 Financial regulators (ECB, EBA)

In Europe, the financial sector is called upon to play a leading role in guiding the transition to an increasingly sustainable economy and to be more attentive to balancing economic growth with the protection of social, environmental, and ethical aspects. This vision is also at the heart of the EU Capital Markets Union project (2017).[2]

[2] https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52017DC0292&from=EN

In 2018, the Commission published a Communication addressed to the European Parliament, the European Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions entitled "**Action Plan on Financing Sustainable Growth**[3]".

The Action Plan reaffirms the role of finance in directing investments and credits that take into consideration not only economic return but also environmental and social aspects and recalls the concept of "sustainable finance" as a "*process that takes due account of environmental and social factors in investment decisions to achieve greater investment in sustainable and longer-term activities*".

More specifically, environmental considerations refer to the reduction of impacts on climate change, adaptation to climate change and related risks (e.g. natural disasters).

Social considerations refer to human rights issues (e.g. discrimination and inclusiveness, child labour, forced labour, etc.) and labour practices (collective bargaining, working hours, wages, etc.).

In line with the 2030 Agenda, the Commission Communication underlines the interdependence of environmental and social aspects and the Commission's Action Plan pursues 3 (three) key objectives:

1. Redirecting capital flows towards a more sustainable economy.
2. Integrating sustainability into financial risks.
3. Promoting transparency and a long-term vision in economic and financial activities.

The following table outlines the objectives and action plans proposed by the EU Commission in 2018 to finance sustainable growth.

Objective	Action Plans
Steering capital flows towards a more sustainable economy	1. Establishing an EU classification system for sustainable activities 2. Creating standards and labels for sustainable financial products 3. Encouraging investment in sustainable projects 4. Integrating sustainability into investment advice 5. Developing sustainability benchmarks
Integrating sustainability into risk management	6. Better integrating sustainability into ratings and research 7. Clarifying the responsibilities of institutional investors and managers 8. Integrating sustainability into prudential requirements
Promoting transparency and long-term vision	9. Increasing disclosure on sustainability issues and administrative regulations 10. Promoting sustainable corporate governance and mitigating the short term in capital markets

1.2 Users

Stakeholders interested in communicating and using corporate sustainability information (enterprises, banks, investors, public bodies).

1.2.1 Organizations

Organizations are increasingly requested to prepare and disclose corporate sustainability reporting to provide stakeholders with information regarding the sustainability aspects and, more specifically, the exposure level to actual or potential risks of events that can result in adverse impacts on the organization and its stakeholders.

[3] https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52018DC0097&from=EN

In Europe the Directive 2022/2464 of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) N°537/2014 as regards corporate reporting on sustainability[4] was approved in November 2022.

The EU Directive 2022/2464 replaces the EU Directive 2014/95 and amends some previous European regulatory acts in the field of financial accounting, auditing, and transparency.

The new Directive renames the term "non-financial reporting" to "sustainability reporting". This is not a simple change of name but a deeper intervention in the name of the consistency, credibility, comparability and transparency of Corporate Sustainability Reporting.

The key elements of the EU Directive 2022/2464 are:

- Gradual quadruplication of companies affected by the CSRD: from the 11,000 covered by the NFRD (present) to the nearly 50,000 covered by the CSRD (2026).
- Groups will have to produce a consolidated sustainability report (a sub-holding will be exempt from the consolidated Sustainability Report, if its parent company produces such a document according to European rules and standards).
- Differentiated and simplified European reporting standards will be issued for listed SMEs, which will still be applicable after three years compared to other companies. The sustainability report must be included in the Report on Operations, and not in a separate file, thus becoming an integral and substantial part of the company reporting (so-called "One Report").
- The sustainability information will be both quantitative and qualitative and must contain both retrospective and forward-looking information, focused on assessing the level of exposure to future adverse impacts.
- Obligation to certify Corporate Sustainability Reporting by:
  - ➢ Audit firms and auditors (from the moment of approval of the Directive) AND
  - ➢ Accredited bodies (option left to Member States upon transposition)
- Reference to sustainability reporting standards prepared by EFRAG which the Commission has mandated to prepare in line with IFRS standards.

It is useful to underline that, in the world of ISO standards, Corporate Sustainability Reporting is a type of ethical claim (ISO/TS 17033) and is subject to verification/validation activities by accredited bodies according to ISO/IEC 17029 and a programme positively assessed for accreditation purposes.

1.2.2 Banks

Credit institutions are increasingly demanding information regarding the exposure level to ESG risks of counterparties.

To meet the increasing demand from banks (particularly from Credit and *Risk Management* functions) for information regarding non-financial aspects, credit rating agencies (e.g. Moody’s, Standards and Poor, Fitch) have developed a range of specific services with the aim of providing information on the exposure level to non-financial risks.

The latest study by the ESG European Institute found that in 2018 there were more than 600 ESG ratings globally.

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[4] https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52021PC0189&from=IT

In recent years, several studies and research have been underlying scepticism about "ESG ratings".

In Europe the ECB (European Central Bank) and EBA (European Banking Authority) have been recommending credit institutions to adopt and implement approaches aiming to reduce the exposure level to ESG risks and to create links between the credit risk and non-financial information.

EBA published two fundamental documents:

- EBA Report on management and supervision of ESG risks for credit institutions and investment banks
- EBA Guidelines on Loan Origination and Monitoring

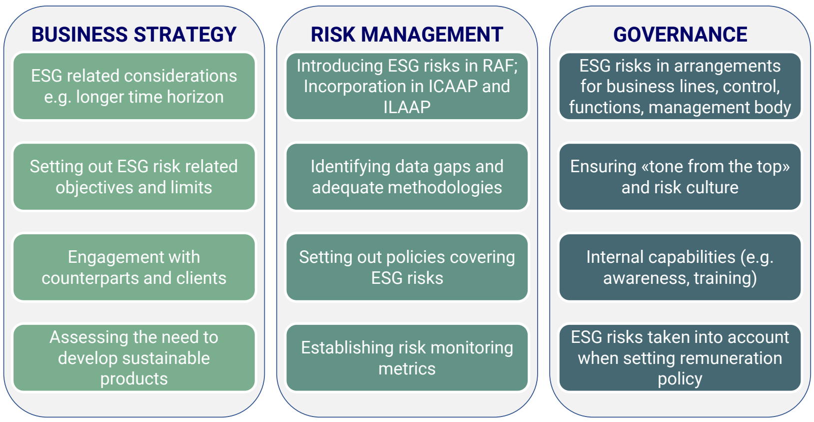
These documents are creating the need for accurate, reliable and credible information regarding undertakings' exposure level to ESG risks.

The EBA framework on risk management is aligned with the risk management principles, approaches and processes defined by ISO 31000[5].

The Framework proposed by EBA provides for the incorporation of ESG risks by a credit institution in three specific areas:

a) Governance
b) Business Strategy
c) Risk Management

EBA Framework on ESG risks



For the purpose of this position paper we just highlight general aspects in each area.

A detailed analysis of the EBA Framework on ESG is included in the original document.

Governance

The EBA recommends that institutions integrate ESG risks in governance structures, establishing clear working procedures and responsibilities for relevant business lines, internal control functions, committee(s) and management bodies, to ensure a sound and comprehensive approach to the incorporation of ESG risks into business strategy, business processes and risk management.

This should cover the management body, allocation of tasks and responsibilities related to ESG risks as drivers of financial risk categories in decision-making, adequate capacities and internal arrangements for effective management of ESG risks and remuneration policies aligned with the institution's interests, strategy and objectives.

Business strategies

Institutions must take into account the impacts of ESG risks when setting their strategies to ensure the resilience of business models over the short, medium and long-term time horizons.

[5] ISO 31000:2018 "Risk Management – Guidelines"

The EBA recommends that institutions:

- incorporate ESG risk considerations into the definition of business strategies, in particular by extending the time horizon for strategic planning to at least 10 years, at least qualitatively, and testing their resilience to different scenarios
- establish, disclose and pursue strategic objectives related to ESG risks, including related key performance indicators, in accordance with the institution's risk appetite
- activate processes of interaction with counterparties, investee companies and other stakeholders
- assess the potential need to develop sustainable products or to adapt the characteristics of existing products, to contribute to and ensure alignment with strategic objectives and/or boundaries.

Risk management

The most implicated part of the EBA document concerns risk management and, particularly, the recommendation to institutions to integrate ESG risks into their risk management framework, taking into account an assessment of their relevance over different time horizons:

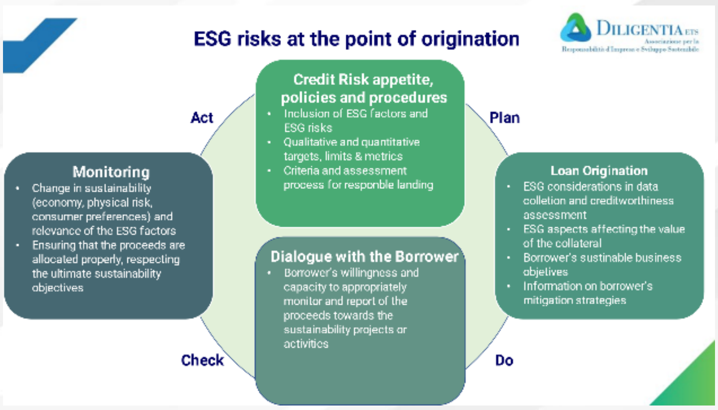
- integrating relevant ESG risks into risk appetite
- managing ESG risks as drivers of financial risks, in a manner consistent with risk appetite and as reflected in the ICAAP and ILAAP frameworks
- identifying gaps in data collection methodologies and systems and taking corrective action
- defining appropriate policies that take ESG risks into account when assessing the financial soundness of counterparties
- developing risk monitoring metrics at the exposure, counterparty and portfolio levels
- developing methodologies to test their resilience to ESG risks, in order to improve understanding of the robustness of their business model and investment strategies

ESG risks should be proportionately incorporated into the analysis of the business model, in particular with regard to the analysis of the business environment, the current business model, the strategic analysis and the assessment of the profitability and sustainability of the business model.

The combined reading of the EBA Report "Management and supervision of ESG risks for credit institutions and investment risks" and the LOM (Loan Origination and Monitoring) Guidelines allows for visualization of a perfect analogy between the ESG risk management system (from concession policies to monitoring) and the PDCA cycle common to management systems.

The process consists of four steps:

1) Definition of policies, procedures and risk appetite including ESG risks (Plan)
2) Granting of the loan and dialogue with the counterparty to verify the achievement of objectives and carrying out activities for sustainability (Do)
3) Dialogue with counterparties (Check)



4) Monitoring and reviewing results and improving policies (ACT)

Regarding the ESG risks management and supervision, the EBA identifies three methodological approaches to assess ESG risks:[6]

A) Portfolio alignment method

B) Risk framework method

C) Exposure method

Although the "portfolio alignment" and the "risk framework" methods are considered useful for assessing the level of exposure to ESG risks of the entire credit portfolio, with regards to the assessment of counterparty ESG risk, the **EBA recommends using the quantitative methodological approach of the exposure method** because it:

- covers all three aspects of ESG (while other approaches and tools tend to focus on the risk of a single variable such as climate change)
- can be used to complement the standard assessment of financial risk categories
- allows for consideration of specific ESG factors at the level of economic activity (materiality)
- applies to individual exposures and allows them to be classified according to specific ESG attributes
- incorporates ESG risks into business risk measurement and monitoring processes with quantitative correction effects of counterparty probability of default
- is better suited to incorporate ESG exposure level into pricing

Some studies and the first application experiences of Italian banks confirm that the approach to the assessment of ESG risks related to loans must be functional to the credit strategy and compared to the depth of the approach (from the macro-categories of customers to the individual corporate customer) to obtain the right trade-off between business needs and credit risk management with particular[7] attention to environmental impact and climate change.

For this reason, the EBA recommends integrating portfolio-wide analysis methodologies with a more in-depth assessment of the counterparty with the aim of gathering predictive information to more accurately determine its true exposure to ESG risks and how these risks can increase the PD (probability default) of traditional credit ratings.

Considering the importance assigned by the EBA to the exposure method in the assessment of counterparty ESG risk, it is worth making some considerations on the assessment criteria and for this reason it must first be clarified that:

1) Traditional client segmentation criteria (legal nature, size, actuated, level of assets, characteristics of the transaction requested, type of collateral and sector of activity) are important but not sufficient in the assessment of ESG risks.
2) The needs of the institutions (in line with the indications coming from the OECD and the Community regulatory framework) require increasingly accurate, reliable and credible information on the level of exposure to risks with a predictive character (or "forward looking").

[6] EBA "Management and supervision of ESG risks for credit institutions and investment risks" (2021)

[7] AIFIRM Position Paper no. 29 "Integration of ESG Factors in Credit Risk Assessment»

General criteria for segmentation of the credit portfolio based on the classification introduced in the EU Regulation 852/2020 should be implemented to manage the classification of economic activities according to environmental impacts. The Taxonomy qualifies an economic activity as "environmentally sustainable" if it contributes to the achievement of one or more economic objectives without causing significant danger to other environmental objectives (DNSH – Do No Significant Harm). In other words, the classification based on the Taxonomy allows for assessment of the exposure to the "inside-out" type of a counterparty on the environment (but does not consider the "outside – in" risks).

The taxonomy criterion is the starting point in the assessment of counterparty ESG risks but certainly not sufficient.

The Taxonomy of Regulation 852/2020 is exclusively focused on the environmental aspect but in the ESG field other aspects must be considered (Governance, Social, Health and Safety and Business Ethics). For example, in the case of a loan for a project for the construction of a solar power plant (environmentally unexceptionable) that provides for land expropriation at prices not in line with the expectations of the communities concerned, social reactions could occur that could compromise the profitability of the project and therefore generate a financial risk for the lending authority.

Furthermore, a firm's membership of a sector and/or segment with a high level of exposure to ESG risks does not imply that a counterparty is exposed to the same level of exposure to ESG risks as all other counterparties operating in the same sector.

A second set of criteria indicated by the EBA concerns the certification of compliance with internationally recognized ISO standards.

So far, the bodies have limited themselves to requesting a management system certification issued to the counterparty by an accredited certification body.

However, a well-implemented management system is a necessary but not sufficient element of assessment to provide information on an organization's performance and even less in the area of ESG risks. A management system, for example on safety or environment or social accountability, can give information on the fact that the company "has a risk management system" but does not say anything about the effectiveness of this system or about the actual level of exposure to risks (e.g. environmental or safety) that may have an adverse impact in the future.

1.2.3 Investors

Like credit institutions, investors (funds, private equity, etc.) are increasingly demanding information regarding the exposure level to ESG risks of counterparties.

The PRI (Principles for Responsible Investment), an independent initiative supported by the United Nations, has established six principles for responsible investment developed by investors, for investors. In implementing them, PRI signatories contribute to developing a more sustainable global financial system. The six principles have attracted a global signatory base representing a majority of the world's professionally managed investments.

PRI – 6 Principles for Sustainable Investment
PRI Signatories will
***1** …**incorporate** ESG issues into investment analysis and decision-making processes.*
***2** …be **active owners** and incorporate ESG issues into our ownership policies and practices.*

*3 …seek appropriate **disclosure** on ESG issues by the entities in which we invest.*

*4 …**promote** acceptance and implementation of the Principles within the investment industry.*

*5 …work **together** to enhance our effectiveness in implementing the Principles.*

*6 …each **report** on our activities and progress towards implementing the Principles.*

In Europe, the demand for accurate and reliable information on the exposure level to ESG risks is driven by the regulatory framework:

- Regulation 2019/2088 on sustainability reporting in the financial services sector[8]
- Regulation 2020/852 so called "Environmental Taxonomy"

Regulation 2019/2088 aims to protect investors through greater transparency on how financial market participants and financial advisers integrate sustainability risks into their investment decisions and investment or insurance advice.

Regulation 2019/2088 applies to all financial market participants; together with the RTS linked to it, it shall establish harmonized rules on transparency for financial market participants and financial advisers with regard to the integration of sustainability risks and the consideration of adverse sustainability effects in their processes and in the disclosure of sustainability-related information related to financial products.

According to Regulation 2019/2088, financial markets participants are requested to:

a) ensure transparency on their sustainability risks policies

b) consider principal adverse impacts of investment decisions on sustainability factors

c) disclose a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available

d) disclose the manner in which sustainability risks are integrated into their investment decisions

e) disclose a clear and reasoned explanation of whether, and, if so, how a financial product considers principal adverse impacts on sustainability factors

f) disclose transparent information of sustainable investments in pre-contractual information

g) ensure transparency of the promotion of environmental or social characteristics and of sustainable investments on websites

h) transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports

The financial markets' participants are now required to disclose information related to their policies related to sustainable investment and accurate, reliable and credible pre-contractual information on ESG risks and sustainability performance of undertakings in their portfolio.

1.2.4 Buyers

Buyers need to reduce the exposure level to risks related to sustainability aspects of suppliers.

As part of actions to improve the effectiveness of controls on all non-financial aspects and better support the transparency of information, the Commission adopted the:

- Proposal for a Directive "Corporate Due Diligence and Corporate Accountability" (22/02/2022)

[8] https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:32019R2088

The proposed Corporate Due Diligence and Corporate Accountability Directive introduces a sustainability Due Diligence obligation with the aim of ensuring that companies operating in the internal market fulfil their duty to respect human rights, the environment and good governance by avoiding causing or contributing to the emergence of ESG risks, including in relation to their business relationships.

The Directive applies to:

1) **Companies incorporated in the territory of the European Union** that meet the following criteria: 500 employees and net turnover of at least 150 million globally and companies operating in sectors defined as high impact (e.g. textiles, agriculture, mineral extraction) with 250 employees and a net turnover of 40 million generated globally (for this second group the directive enters into force two years later than group 1). The definition of "company" also includes financial undertakings irrespective of their legal form.
2) **Companies incorporated outside the territory of the European Union active in the EU with** a turnover threshold aligned with group 1 and 2 generated in the EU.

The proposal for a directive defines minimum obligations applicable to companies in identifying, preventing, monitoring, reporting internally, addressing and correcting and disclosing risks that their activities may cause in respect to human rights, environmental protection and good governance.

The Directive introduces the principle of corporate liability for any adverse impacts they may cause in the conduct of their ESG activities throughout their value chain.

The most important aspect of this proposal for a Directive is the scope which includes:

- all undertakings governed by the law of a Member State or established in the territory of the Union;
- limited liability undertakings governed by the law of a non-Member State and not established in the territory of the Union when operating in the internal market by selling goods or providing services.

The proposed directive is introducing an '**independent third-party verification**' meaning verification of the compliance by a company, or parts of its value chain, with human rights and environmental requirements resulting from the provisions of this Directive by an auditor which is:

a) independent from the company,
b) free from any conflicts of interests,
c) has experience and competence in environmental and human rights matters and
d) is accountable for the quality and reliability of the audit.

The combined effects of the directives on the reporting of non-financial risks and those on the introduction of the obligation of due diligence of these risks, can encourage the spread of ESG risk detection methodologies increasingly oriented towards quantitative risk estimation and a higher level of credibility, thanks also to independent third-party certification.

1.3 Influenced

Stakeholders influenced by corporate sustainability information include communities (NGOs...), consumers and citizens.

1.4 Corporate sustainability information

The range of corporate sustainability information has been outlined in documents prepared by international organizations (e.g. United Nations, ILO, OECD), regulatory authorities (e.g. EU), standardization bodies (e.g. ISO, IEC) and standard setters for sustainability reporting (e.g. EFRAG, IFRS, GRI).

According to OECD Due Diligence guidance and ISO 26000 Guidance on social responsibility, the core subjects of sustainability information are classified as follows:

Governance	Organizational governance
Social	Human rights
	Labour practices
	Community involvement and development
Safety	Health and safety
	Welfare
Environment	Pollution
	Sustainable resources
	GHG emissions and climate change
	Protection of the environment
Business Ethics	Fair operating practices
	Consumer issues

The regulatory framework and the increasing needs of different stakeholders are creating the demand for sustainability data that:

- is forward-looking (in addition to the retrospective) perspective
- is focused on the exposure level to actual or potential risks of an event that could result in adverse impacts on the organization and its stakeholders
- includes both qualitative and quantitative information
- considers short-, medium- and long-term horizons
- is not limited to the organization’s boundary but extended to the entire value chain
- is based on the results of the stakeholder engagement and, subsequently, the materiality assessment

The criteria for evaluating both sustainability- and ESG risks-related information are:

• compliance with standards	• completeness
• accuracy	• reliability
• verifiability	• comparability
• credibility	• transparency
• timeliness	

In addition to the above criteria another important feature is required: mutual recognition of verification/validation.

The international accreditation system plays a fundamental role in providing interested parties with a framework enabling the international recognition of validated/verified claims at the global level.

Directive 2022/2464/EU on corporate sustainability reporting

2. The information referred to in paragraph 1 shall contain:

a) a brief description of the undertaking's business model and strategy, including the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters;
b) the opportunities for the undertaking related to sustainability matters;
c) the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council (*), and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;
d) how the undertaking's business model and strategy take into account the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
e) how the undertaking's strategy has been implemented with regard to sustainability matters;
f) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence;
g) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;
h) a description of the undertaking's policies in relation to sustainability matters;
i) information about the existence of incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies;
j) a description of:
    i) the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;
    ii) the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the undertaking is required to identify pursuant to other Union requirements on undertakings to conduct a due diligence process;
    iii) any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions;
k) a description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks;
l) indicators relevant to the disclosures referred to in points (a) to (g).

1.5 Corporate sustainability information: critical issues

At present, different types of sustainability information such as sustainability reporting assurance, ESG ratings, and other marks and labels present several critical issues that do not provide stakeholders with accurate, reliable, comparable and credible information in regards to sustainability aspects and related risks.

1.5.1 Sustainability reporting external assurance: critical issues

Sustainability reporting has become standard practice for many companies, with a rapidly increasing growth rate over the past decade.

In 2022, approximately 95% of the world's largest 250 companies (35% in 2000) and 75% of the next largest 4900 companies (18% in 2002) had published corporate sustainability reports.

Increasingly, companies are voluntarily turning to external assurance (third-party) to demonstrate the quality of the information they disclose.

Benefits of external assurance include increased recognition, trust and credibility; higher data quality and reliability; strengthened internal reporting processes and management systems; improved governance; and broader stakeholder engagement.

At present, the external assurance approaches present several areas of concern:

The growth of reporting frameworks can be an asset to the reporting agenda, since organizations can identify the approach that is most suitable for them. On the other hand, this growth creates confusion and opens up the possibility of companies identifying the approach or indicators that show them in the best light.

There are many interrelated issues related to sustainability reporting and its assurance:

- prevalence of retrospective information rather than identifying the material topics and reporting information related to sustainability aspects and related risks
- differences in reporting frameworks resulting into poor comparability
- poor alignment among reporting frameworks and guidelines that leave room for interpretation in their reporting requirements
- lack of harmonization in sustainability reporting standards (the harmonization process is on-going)
- lack of standardization in the material topics names and criteria for their aggregation (resulting in poor comparability of reports)
- lack of internationally recognized standards for conducting external assurance and, whenever existing, such standards are not suitable for accreditation of assurance providers and competence and evaluation criteria for professionals (verifiers, assurers, etc.)
- unclear definition of the external assurance process scope to achieve a specified level of assurance: "limited" or "reasonable"
- poorly defined thresholds make it challenging to determine whether the criteria for issuing an assurance statement have been met or not
- vague definition of the competence required of the professional in charge of carrying out external assurance
- lack of adequate guidelines or standards specifying criteria and processes for approval of external assurance entities (statutory auditors, audit firms or independent assurance service providers).

There is an increasing scope for defining standards for sustainability reporting external assurance (this is required by EU Directive 2022/2464 – Clause 26a) specifying:

a) The requirements of the external assurance process to achieve a specified level of assurance (limited or reasonable) including but not limited to: scope, sampling, assessment approach, supporting evidence, thresholds for taking a decision, assurance reporting and assurance statement).

b) The requirements for accreditation and monitoring of external assurance independent providers

c) The competence criteria and evaluation system to be applied to verifiers (assessors, auditors)

1.5.2 ESG rating: critical issues

A study published by the MIT Sloan School of Management, aiming to compare the ESG ratings issued by different international agencies on the same organization, has demonstrated a consistent variability in ESG ratings: in terms of correlation, the degree of affinity of ESG ratings issued by different rating agencies is equal to 61% (in the case of Credit Risk the degree of affinity is almost absolute (about 99%). This study has opened a reflection carried out in the context of financial risk management associations such as AIFIRM (2021) and in more recent times by EBF (2022) and the Bank of Italy (2022).[9][10][11][12]

This work has highlighted the reliability limitations of current ESG rating systems and identified the causes of divergence in assessments on non-financial aspects.

The main critical aspects of existing ESG rating systems include:

- **Lack of transparency**: The EBF emphasizes the lack of transparency of information on the methodologies with which ESG ratings are developed (criteria, weights, metrics and assessment process). There is also no transparent information about whether and how ratings reflect real ESG risks with *forward-looking* logic. EBF notes that "most institutions have difficulty understanding the methodologies behind ESG ratings, as these methodologies are often owned by rating agencies", do not always cover all aspects of sustainability, and consider and aggregate individual attributes in an uneven way, making comparability difficult. For example, some ESG ratings only assess companies' non-financial information while others combine financial and non-financial data to assess the long-term value and sustainability of its business.
- **Non-homogenous methods**: the analysis considered showed that 53% of the divergences result from the fact that the agencies measure the same categories differently and 47% of the divergences are explained by the fact that the aggregation of common data takes place according to different rules. The EBF points out that, because of these divergences, "a company could be considered high, medium and low risk at the same time when assessed by three different ESG rating agencies". The EBF points out that "The lack of comparability is due to the lack of uniformity of ESG ratings, their criteria and objectives, as well as the lack of standardized disclosures."
- **Trade-offs between criteria**: methodologies and metrics for calculating ESG ratings present the risk of offsetting higher scores in one aspect of sustainability with very low scores in another aspect, generating possible biases.

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9 F.Berg J.Kolbel R.Rigobon *"Aggregate Confusion: The Divergence of ESG ratings*" MIT Sloan School of Management 2019

10 AIFIRM Position Paper 31 "*Sustainable economy: risks and opportunities for the banking system"* July 2021

11 EBF (European Banking Federation) Response: ESMA call for evidence on market characteristics for ESG rating providers in the EU – March 2022

12 "Supervisory expectations on climate and environmental risks" Bank of Italy – April 2022

- **Lack of an overall score**: many agencies provide environmental, social and governance scores for each individual aspect, but do not provide an overall score of the company's performance and sustainability risks.
- **Exclusion of materiality analysis**: although there is a growing awareness of the materiality analysis' relevance to prioritize the non-financial variables in a given context, the ESG ratings proposed by independent agencies do not take into account or verify the results of the materiality assessment and the existence of differences among companies operating in a different context.
- **Lack of consistency of initial data**: the EBF underlines an important limitation of accuracy and reliability of an ESG rating due to the nature of the information sources adopted by providers in the calculation of the ESG synthetic judgment. In fact, EBF points out that in many cases, to produce an ESG score, agencies often use the information published by companies or publicly available on different media without verifying its reliability or analyzing it critically.
- **Limited capacity to provide predictive information**: EBF highlights the lack of consistency of a predictive risk assessment based on the collection and analysis of publicly available information carried out by interdisciplinary working groups with the addition of questionnaires and other information obtained from reports, news, blogs, etc.
- **Weakness of monitoring over time**: Another critical aspect depends on the fact that ESG factors and risks (potential risk and opportunity impacts) occur over longer time horizons than those on which a counterparty's creditworthiness assessments are carried out. There is a need to increase the degree of visibility on events that may occur over time horizons for the purposes of reviewing ratings, *outlooks* and *headroom ratings*. This problem can only be overcome by adopting ESG rating systems that are not limited to taking a snapshot of the state of risks at a given moment of time (the initial one) but also provide for periodic monitoring aimed at verifying the durability of the initial judgment on the merits. Any significant changes that may emerge in the sustainability conditions of the *business* of the entrusted entity initially detected, should lead (for example through appropriate ESG *covenants*) to a modification of the conditions initially granted.
- **Boundary limits**: while the OECD and the EU aim to extend the assessment of non-financial risks to the entire value chains, current ESG rating methodologies are limited to the perimeter of the company (e.g. a large issuer). However, since the greatest exposure to risks that can result in adverse impacts on the organization, which can expose an entity to financial risk, depends on event occurring along value chains, the reliability of an ESG rating is limited because it does not take into consideration the ESG risk mitigation measures taken by the organization towards its supply chain.

The problems highlighted above for ESG ratings are an impediment to creditworthiness decision-making and lead to two consequences that are difficult to avoid:

a) low probability that an ESG risk will be adequately reflected in pricing: the dispersion (and therefore relatively less reliability) of the ESG rating assigned to the same company by different agencies represents an objective obstacle to including this indicator among those that determine the actual cost of the operation, lacking the necessary requirements of clarity and reliability.

b) the divergence of ESG ratings assigned to the same company by different agencies constitutes an incentive to *cherry picking* choices (i.e. to choose the rating of one agency rather than another in order to obtain "arbitrarily" the best rating), with possible loss in terms of credibility towards the market and the rating agencies themselves.

In light of these issues, the EBF has put forward and submitted to ESMA three operational proposals, aimed at filling the gaps in the current ESG rating system and aimed at requiring rating agencies to fulfill the following:[13]:

- **Increased transparency on the primary source of the ESG data**, specifying whether it is public information, estimates, or a primary source, and greater periodicity in updating the data.
- **Increased transparency on the methodologies used by rating agencies,** to allow market participants to make comparisons between different offers and to assess the quality and suitability of ESG ratings for their particular use case, including changes in methodologies.
- **Greater transparency of purpose** "about what a particular product aims to measure." The analysis carried out on the criteria for evaluating and choosing an ethical statement (including an ESG rating) will show the possibility of overcoming these critical issues in line with the direction desired by the banking and supervisory authorities (EBF, EBA and Central Banks) and the Community strategy in the field of responsible and sustainable investment.

1.5.3 Other marks and labels

Over the past 20 years there has been a proliferation of marks, labels, and other forms of assertion to attest social responsibility and sustainability of organizations and/or products.

The weaknesses of this type of initiative are:

- Poor or no reference to internationally recognized standards
- Lack of programs' compliance with specified standards
- Incompleteness of requirements and partial coverage of sustainability aspects
- Requirements not expressed in terms of performance
- Materiality assessment not considered in the evaluation process
- Lack of transparency in the evaluation procedures
- Impossibility of providing stakeholders with forward looking risk-oriented evaluation
- Lack in defining and verifying competence of auditors and assessors
- Lack of controls on organizations conducting conformity assessment

The combination of these features does not provide stakeholders with accurate, reliable and credible information and, above all, does not meet the emerging requirements of the regulatory framework (e.g. Directive 2022/2464 CSRD) or other stakeholder needs (e.g. ESG rating for banks and investors).

Many schemes and marks are effectively marketed but present poor consistency.

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13 ESMA = European Security Market Authority

1.6 How ISO standards meet the stakeholder needs

Claims such as ESG ratings, corporate sustainability reporting and certifications regarding organizations' sustainability and social responsibility characteristics are being made increasingly often in the marketplace.

Such claims cover a wide range of issues relating to governance, social, safety and environmental sustainability, among others. They can be declared by manufacturers, importers, distributors, retailers or anyone else likely to benefit from such claims.

These claims can take the form of statements, symbols or graphics on product or package labels, or in product literature, technical bulletins, advertising, publicity or telemarketing, as well as digital or electronic media, such as the internet.

Some ethical claims are declared individually outside specified programmes whereas others are declared according to a programme, which is overseen by an operating entity. There are also many different communication channels and variations in geographical coverage and types of recognition.

The proliferation of ethical claims has led to confusion in the marketplace, particularly where terms are used that are insufficiently or inconsistently defined, and where the scope of a claim, the basis of conformance, or method of verification is unclear.

It is important that ethical claims are accurate and not misleading to avoid negative market effects such as trade barriers or unfair competition. The evaluation used by those who make ethical claims needs to be clear, transparent and documented so that those who purchase or can potentially purchase, use or dispose of products can be assured of the reliability of the claims.

The analysis of the weaknesses of existing sustainability claims systems makes it appropriate and necessary to digress on the most recent developments in international standards on claims, in particular, ISO/IEC 17029 General principles and requirements for validation and verification bodies, which can be completed at the national level (e.g UNI/Pdr 102: 2020).

Recently ISO has launched a project for two new standards:

- ISO/NP 14019 Validation and verification of sustainability information -- Part 1: General principles and requirements
- ISO/NP 14019 Validation and verification of sustainability information -- Part 2: Verification process

These standards aim to specify general principles and requirements for the validation and verification process of sustainability information, including reporting on ESG and other sustainability aspects. It provides general principles and requirements for determining the categorization of quantitative and qualitative information.

These principles and requirements contribute to the set of rules and procedures that are provided in validation/verification programmes. This document can also be used as the basis for validation and verification activities that support other conformity assessment schemes.

The standard can be applied by validation and verification bodies according to ISO/IEC 17029.

1.6.1 ISO/IEC 17029 General principles and requirements for validation and verification bodies

ISO/IEC 17029 specifies the requirements relating to the process of confirming a claim and the characteristics of the bodies that must carry out such verification.

First, ISO/IEC 17029 distinguishes two approaches to evaluation:

- Verification
- Validation

The distinction between the two terms assumes a fundamental relevance in the field of ethical assertions because it distinguishes the approach to evaluation between assertions relating to events that have already occurred (such as a sustainability reporting) from assertions concerning a future use whose focus is the confirmation of plausibility of assumptions (such as an ESG rating)

Since ethical statements can relate to different objects (a product/service, a process or an organization) and can be of different types, ISO/IEC 17029 introduces a fundamental principle: "**a statement can be verified/validated only and exclusively within the program**" defined as a system of "rules, procedures and management to carry out a validation/verification of ethical assertion in a specific sector".

As a corollary of this principle, an innovative fact is derived from these new generation ISO standards: unlike all other accreditation standards (for example the ISO 17021-1 standard containing the requirements for bodies providing audit and certification of management systems, used with respect to the accreditation of management system certification bodies) ISO/IEC 17029 requires that a validation/verification body can be accredited against the requirements of ISO/IEC 17029 and a validation/verification program.

With regard to the process of validation/verification of a claim, the requirements of ISO/IEC 17029 establish a general framework of reference but leave it to the programs to define more precisely the details of the process according to the scope and purpose of the claim.

Therefore, a programme with the scope of sustainability reporting external assurance and/or ESG rating and other additional requirements positively assessed for accreditation purposes according to ISO/IEC 17029 is strictly required.

With regard to the confirmation of plausibility of assumptions, the validation process can provide accurate and reliable information on the level of exposure to risks if and only it is hinged on robust assessment carried out by competent assessors and in accordance with rigorous evidence-gathering activities and reporting methodology. Only in this way is it possible to give counterparties an assurance level on the level of exposure to ESG risks and adequately support the certification of Corporate Sustainability Reporting (required by the EU Directive 2022/2464)

For this reason, the ISO/IEC 17029 standard is not limited to defining requirements related to the verification/validation process of ethical assertion but the requirements of:

- a validation/verification programme
- a body or validation/verification of a claim

The verification of the compliance of a validation/verification program with the requirements defined by ISO/IEC 17029 can only be carried out by accreditation bodies that have signed a regional or international mutual recognition agreement.

1.6.2 ISO/IEC 17029 and other standards

ISO/IEC 17029 specifies that "The results of other conformity assessment activities can be used as an input when performing validation/verification activities" and "Statements of conformity themselves, issued as a result of another conformity assessment activity, are not considered to be objects of validation/verification according to this document. This includes for example a supplier's declaration of conformity regarding product specifications according to other conformity assessment activities can be used as an input where performing validation/verification activities".

Therefore:

- ISO/IEC 17029 is the accreditation standard that provides requirements on the structure and activities of CABs in general for validation/verification.
- ISO 14065 provides additional elements to ISO/IEC 17029 for CABs for the validation/verification of environmental statements.

For example, European Directive 2022/2464, Article 19a, paragraph 2 b) requires "a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made toward achieving those targets, and a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence;" validation/verification of this information must necessarily be done according to the requirements of ISO 14064-1.

Therefore:

- the corporate sustainability reporting external assurance and/or an ESG rating shall cover all relevant aspects (governance, social, safety, environment and business ethics)
- the wider the number of other certifications (referring to specific standards), the higher the accuracy and reliability of an ESG rating and a corporate sustainability reporting certification
- where specific verification and validation standards are available, a programme shall refer to these requirements for validation/verification of specific parts of the claim
- a programme with the scope of corporate ESG rating and/or sustainability reporting conformity assessment should incorporate, wherever applicable, the reference to verified/validated specific information meeting the following requirements:
    a) reference standard issued by a recognized standardization body
    b) program positively assessed for accreditation purposes by a national accreditation body in accordance with internationally recognized processes
    c) conformity assessment performed by an accredited CAB

For example, in the category of GHG emissions, the programme should address, as input, the validation/verification performed by a CAB (accredited under ISO/IEC 17029, ISO 14064-3 and ISO 14065) in accordance with ISO 14064-1.

2 10 IAF principles for corporate sustainability information - details

2.1 Sustainability reporting & ESG ratings are claims (according to ISO 17029)

Principle 1

A sustainability reporting and an ESG rating are claims according to the international standard ISO/IEC 17029.

Relevance	**Accuracy** **Reliability** **Credibility**	

According to the emerging regulatory framework and the increasing demand from stakeholders interested in taking informed decisions when establishisng a relationship with an organization, the main features to be fulfilled by information as regards to sustainability are:

Object: organization and its ethical and/or sustainability characteristics

Contents: all sustainability aspects (governance, social, safety, environmental and business ethics)

Focus: performance (e.g. exposure level to risks of adverse impacts) rather than management systems requirements

Prioritization: materiality and/or double materiality

Types: qualitative and quantitative

Time horizon: retrospective and prospective (looking forward)

A claim is defined (ISO/IEC 17029 Clause 3.1) as "*information declared by the client"*

Note 1: the claims is the object of conformity assessment by validation/verification

Note 2: the claim can represent a situation at a point of time or could cover a period of time

Note 3: the claim should be clearly identifiable and capable of consistent evaluation or measurement against specified requirements by a validation body/verification body

Note 4: the claim can be provided in the form of a report, a statement, a declaration, a project plan, or consolidated data"

*"**For programmes requirements shall be expressed in terms of performance** rather than design or descriptive characteristics*." (ISO/TS 17033 – Clause 11)

As a result of the above, the following are ethical claims relating to organizations:

- An ESG rating (prediction)
- A sustainability reporting (report)

Benefits

The reference to this standard provides organizations and stakeholders with:

- common terminology
- standardized requirements for preparing an ethical claim (such as an ESG rating and a sustainability report)
- clear explanation of a means to verify the claims (ESG rating and sustainability reporting)

2.2 ISO/IEC 17029 is the standard for validation/verification of claims

Principle 2 ISO/IEC 17029 is the international standard for accreditation of conformity assessment bodies that applies to validation/verification of claims (such as ESG ratings and/or sustainability reporting).		
Relevance	**Accuracy** **Reliability** **Credibility**	

Accuracy, reliability, credibility and mutual recognition of information related to claims (such as a sustainability report and an ESG rating) can be provided by means of standardized validation/verification processes.

ISO/IEC 17029 contains general principles and requirements for the competence, consistent operation and impartiality of bodies performing validation/verification as conformity assessment activities.

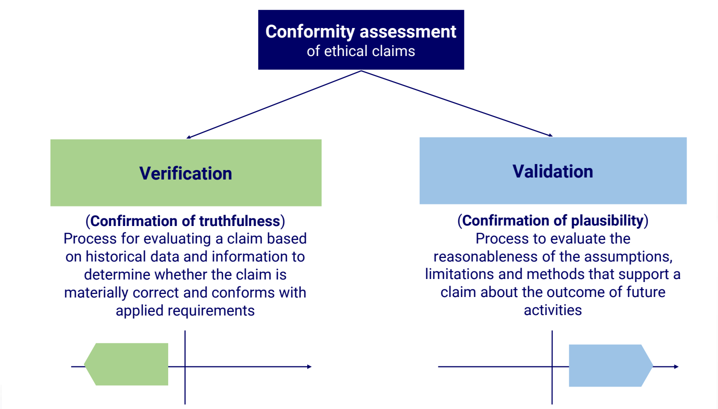
The standard is applicable:

- To CABs in any sector.
- In conjunction with sector-specific programmes that contain requirements for validation/verification processes and procedures (such as an ESG rating and/or a sustainability reporting assurance program).

The standard distinguishes two types of conformity assessment activities:

Validation is applied to claims regarding an intended future use or projected outcome such as an ESG rating (confirmation of plausibility of assumptions).

Verification is applied to claims regarding events that have already occurred or results that have already been obtained (confirmation of truthfulness) such as a sustainability reporting.



ISO/IEC 17029 contains:

- General principles and requirements for the competence, consistent operation and impartiality of bodies performing validation/verification as conformity assessment activities.
- Generic and specific requirements regarding a validation/verification programme in operation.

Considering that the contents of sustainability information provided by an ESG rating or disclosed by an organization in a sustainability report include both past results, the current situation and assumptions to estimate the future performance (e.g. exposure level to risks of adverse impacts) the conformity assessment activities of these claims include both verification and validation.

ISO/IEC 17029's most important feature is that it "*can be used for accreditation purposes by Accreditation Bodies, peer assessment within peer assessment groups, or other forms of recognition of validation/verification bodies by international or regional organizations, governments, regulatory authorities, programme owners, industry bodies, companies, clients or consumers*" (ISO/IEC 17029 – Clause 1).

As far as the environmental claim validation/verification is concerned, additional requirements can be considered according to ISO 14065.

The validation/verification of claims related to sustainability performance of an organization (e.g. an ESG rating, the sustainability reporting external assurance) can only refer to ISO/IEC 17029. Other accreditation standards such as ISO 17020, ISO 17021, ISO 17024 and ISO 17065 cannot be referred to for sustainability reporting external assurance or ESG rating validation/verification.

Benefits

The reference to ISO/IEC 17029 provides organizations and stakeholders with confidence regarding:

a) international recognition
b) standardized principles and requirements for consistent validation/verification activities
c) competence and impartiality of validation/verification bodies
d) applicability in any sector
e) the definition of the assurance level (limited or reasonable) of claims
f) possibility of using results of other conformity assessment activities (e.g. management system certification, product certification, etc.) as input when performing validation/verification activities

2.3 Reliable validation/verification of claims requires standardized processes

Principle 3
ISO/IEC 17029 specifies requirements for the conformity assessment process to provide confidence to stakeholders and other parties of the claim in accordance with the functional approach (selection, determination, review, and attestation).

Relevance	**Accuracy** **Reliability** **Credibility**	

The overall aim of validation/verification is to give confidence to all parties that a claim fulfils the specified requirements. The value of validation/verification is the confidence that is established by an impartial evaluation by a competent validation/verification body.

The principles for the validation/verification process are:

1) **Evidence-based approach to decision making**. The validation/verification process must be designed and deployed to provide adequate confidence of reliability and repdroducibility of assessment conclusions. The validation/verification decision must be taken on the basis of accurate and consistent evidence with the programme scope.
2) **Documentation**. The validation/verification process (pre-engagement, assessment, review) must be documented to enable the conclusion regarding the claim of conformity (sustainability reporting assurance or ESG rating) with the specified requirements.
3) **Fair representation**. The final assessment report shall specify the activities, findings, conclusions and statements, including significant obstacles encountered during the validation/verification process. Unresolved, diverging views between the validation/verification body and the client are truthfully and accurately reflected.

Sustainability reporting, ESG ratings, claims and certification that do not provide stakeholders with evidence of applying these principles cannot be considered reliable and credible.

When determining whether a claim can be confirmed, validation/verification bodies need to manage a standardized process from application to decision which includes an appropriate evaluation of data and plans, reviewing documentation, performing alternative calculations, visiting sites or interviewing people.

ISO/IEC 17029 specifies the process, steps and considerations for validation/verification of claims:

- (application and) pre-engagement, engagement
- planning
- validation/verification execution
- review
- decision and issue of verification/validation statement
- facts discovered after the issue of the verification/validation statement
- handling of appeals and complaints
- records

Benefits

The validation/verification process of an ESG rating and sustainability reporting external assurance referring to ISO/IEC 17029 provides stakeholders with confidence regarding:

- a standardized and verifiable process
- comparability of information
- transparency

2.4 Specific programmes in combination with ISO/IEC 17029 must be operated

Principle 4

The validation/verification of a claim such as a sustainability report and/or an ESG rating must be carried out within a validation/verification programme according to ISO/IEC 17029 requirements and specific requirements according to a list included in its Annex A.

Relevance	**Accuracy** **Reliability** **Credibility**	

A conformity assessment scheme (hereinafter "Programme") is defined as "Documented and publicly available set of requirements which establishes: the object of conformity assessment (product, process, service, system, person), the requirements against which conformity is to be assessed, the mechanism by which conformity is to be assessed and any specific requirements, application or authoritative interpretation of ISO/IEC 17011" (ISO/IEC 17000).

A document that exclusively details one of the above-mentioned aspects, such as a standard document or interpretation document, is not considered to constitute a Programme.

The requirements specified in ISO/IEC 17029 are generic in nature and apply to any type of claim, object (product, service, process, organization), or level of assurance (limited, reasonable, absolute).

For this reason ISO/IEC 17029 requires that a programme for the particular validation/verification must be operated and its Annex A specifies the list of elements of a validation/verification programme which include, among others, the following:

- **Object**: organization
- **Scope**: ESG rating and/or sustainability reporting conformity assessment
- **Requirements**: exposure level to actual or potential risks of adverse impacts
- **Rules**: rules governing the responsibility for acceptance of inputs taken into account as part of validation/verification activities, e.g. conformity assessment results which are generated prior to the engagement or are provided by the client
- **Requirements for validation/verification process steps**: (based on sufficient and appropriate objective evidence)
- **Level of assurance**: limited, reasonable (absolute does not apply)
- **Competence of validators/verifiers**: to be verified against competence profiles
- **Evidence gathering activities** of validation/verification
- Reporting on validation/verification
- The review activities including the confirmation that all activities have been completed in accordance with the programme requirements
- The way in which the results of the validation/verification are to be interpreted and the consequences of the results
- The wording used for validation/verification statements
- Requirements regarding what records should be retained as evidence of conducting validation/verification
- The validation/verification statement issued on the basis of the evaluation of the claim

Benefits

An ESG rating scheme and/or a sustainability reporting conformity assessment programme in compliance with ISO/IEC 17029 provides organizations and stakeholders with:

- compliance with internationally recognized standards
- transparency of evaluation criteria and processes
- reliability of the conformity assessment procedure

2.5 Programs to be evaluated for accreditation purposes by independent bodies

Principle 5

The conformity assessment program evaluation for accreditation purposes conducted by an accreditation body in accordance with internationally recognized procedures assures the program compliance with ISO/IEC 17029 (and its annex A), the program consistency to achieve the intended purposes, and mutual recognition of conformity assessment results at international level.

Relevance	**Accuracy** **Reliability** **Credibility**	

A Programme is developed and maintained by a legal entity, or a defined part of a legal entity, that is legally responsible for its activities (scheme owner).

The evaluation of a Programme is carried out by an AB in accordance with internationally recognized procedures such as:

- IAF MD 25 *Criteria for the Evaluation of Conformity Assessment Schemes*

These documents, used by ABs, aim to harmonize the criteria and processes implemented by national ABs to assure the comparability of such evaluations.

The evaluation of a programme (such as an ESG rating or a sustainability reporting external assurance scheme) includes the verification of the following elements:

- scope
- conformity assessment standards under which the programme operates
- competence of persons involved in designing and developing the programme
- existence of market demand for the program
- programme ability to add value for stakeholders
- suitability of the validation/verification process to achieve the intended scope and goals
- validation and testing of the program to demonstrate that it is practicable and in line with the declared value proposition, intention and stakeholders' expectations
- impartiality and transparency of the Programme rules and specified requirements.

Schemes and programs for claims (e.g. sustainability marks, sustainability reporting assurance, ESG ratings) that are not evaluated for accreditation purposes against ISO/IEC 17029, its informative Annex A and additional requirements (if required) do not provide stakeholders with confidence that there is an effective, accurate, reliable, transparent and robust procedure to verify/validate a claim and to control CABs.

Benefits

The third-party evaluation for accreditation purposes of a conformity assessment programme according to ISO/IEC 17029 provides stakeholders with confidence that a verification/validation process for a claim such as sustainability reporting external assurance and/or an ESG rating:

- complies with the ISO/IEC 17029 requirements
- ensures mutual recognition at the international level
- can be used for accreditation purposes of validation/verification bodies

2.6 Robust assessment to provide accurate and reliable sustainability information

Principle 6

Accuracy and reliability of sustainability information regarding the plausibility of assumptions to estimate the exposure level to actual or potential risks of events that can result in a future adverse impact on the organization and its stakeholders can be confirmed by a robust assessment (combining remote and on-site audits) and collection of sufficient and appropriate evidence (in accordance with the program's procedure).

Relevance	**Accuracy** **Reliability** **Credibility**	

ISO/IEC 17029 (clause 4.2.1) specifies the principle "evidence-based approach to decision making". A method for reaching reliable and reproducible validation/verification conclusions must be based on sufficient and appropriate objective evidence.

While there are several approaches for collecting information regarding sustainability aspects of an organization, the following table compares the assessment approaches.

Type/ Features	Self Declaration	Second Party	Third party	Third party audit within a program
Completeness	Non verifiable	Medium		
Accuracy	Non verifiable	Medium	High	Very high
Reliability	Low	Low	High	Very high
Credibility	Low	Low	High	Very high

Evaluation based on self-declaration, questionnaire and information publicly available with regard to sustainability aspects and/or ESG risks exposure does not provide stakeholders with sufficient confidence of accuracy and reliability.

With regard to sustainability reporting external assurance and ESG rating, both the regulatory framework and different stakeholders need accurate, reliable, comparable and credible information:

- covering a wide range of aspects (governance, social, safety, environmental and ethics)
- focused on risks, impacts and opportunities
- qualitative and quantitive
- retrospective and perspective (looking forward)

This is achievable by means of robust verification/validation activities carried out in accordance with the process steps outlined by ISO/IEC 17029:

1) pre-engagement
2) planning
3) validation/verification execution
4) review

These requirements must be defined in a Programme and applied by validation/verification bodies.

1) Pre-engagement

Before the engagement, ISO/IEC 17029 requires validation/verification bodies to collect information and conduct a review to ensure, among other things, that the scope and objectives of the conformity assessment activity are agreed, the specified requirements have been identified, the materiality and the level of assurance have been agreed (where applicable), the process for verification/validation activities can be achieved, and the verification/validation duration can be estimated.

The overall purpose of this phase is to evaluate the achievability of the expected results: the verification/validation body shall decide whether to accept or decline to perform validation/verification.

2) Planning

This step is crucial to conduct an effective validation/verification activity.

Firstly, ISO/IEC 17029 requires validation bodies to assign competent resources to undertake the activities, determine the validation/verification activities and confirm the timing and arrangements with the organization.

Secondly, ISO/IEC 17029 requires validation/verification bodies to assess the risks of a material misstatement regarding the claim. This activity is crucial to understand the inherent risk first (e.g. performing a contribution analysis and a materiality analysis (both quantitative and qualitative) and how such risks may influence the nature, timing, and extent of substantive procedures to be performed to reduce detection risk, and therefore, audit risk to an acceptably low level.

Eventually, ISO/IEC 17029 requires determining evidence-gathering activities needed to complete the validation/verification process in accordance with the specified requirements and consistent with the expected results and to prepare an evidence-gathering plan.

The verification/validation planning activity is crucial to identify, evaluate and mitigate risks of potential errors, omissions and misrepresentation.

3) Execution

In the field of sustainability issues (e.g. governance, human rights, safety, pollution, and corruption) the collection of sufficient and appropriate evidence supporting the evaluation of the exposure level to actual or potential risk of events that could result in future adverse impacts is very difficult without including, in the audit process, a physical verification on site.

For example, accurate information on the actual and potential exposure level to environmental risks is not easy to evaluate without auditing the actual status of processes and equipment and collecting evidence by observation. Accurate information on the actual or potential exposure level to social-related risks (e.g. discrimination, forced labour) is difficult to achieve without conducting appropriate interviews with a sample of individuals chosen by the auditor (not by the undertaking). Accurate information on the actual and potential exposure level to risks related to health and safety (such as fire and explosion, stability of a building, safe use of dangerous substances, use of DPI) requires evidence collected in the workplace by observation and interviews.

Audits will be necessary to ensure integrity of the various claims.

For those audits, the most advanced hybrid auditing approaches could be adopted, complementing in-person on-site audits with remote connections and digital data gathering to enhance the effectiveness and thoroughness of the verification required, even adjusting the frequency of those audits depending on the nature of claims and data to be verified, but also depending on the level of risk and performance of the organization being audited.

However, it is important to take into consideration that not all the verification/validation programs include evaluation of the risks.

The audit approach to determine the exposure level to risks in programmes with the scope of ESG ratings and assurance of sustainability reporting is dependent on:

a. The reporting framework and the conformity level declared by the organization (e.g. the conformity level of sustainability reporting prepared referring to the GRI standard level can be “with reference to” or “in accordance with”.
b. The scope of the verification/validation. For example, under CSRD, a verification/validation of the ESG risks would need to be included. The same is applicable to ESG ratings. However, other verification activities of selected ESG performance indicators may not require an on-site audit and can be conducted remotely.
c. The level of assurance (limited or reasonable) declared by the undertaking: if the level of assurance is reasonable the on-site activity is strictly required. If the level of assurance is limited, a remote audit could be considered.

4) Review

ISO/IEC 17029 requires verification/validation bodies to undertake review activities carried out by competent persons who have not been involved in the validation/verification activity.

The review shall confirm that all verification/validation activities have been completed in accordance with the agreement and the programme, with sufficient and appropriate evidence supporting the decision.

Every phase of this process must be supported by sufficient and documented evidence to ensure that each step has been carried out.

This systematic and integrated approach referring to an international standard enables:

a) verification/validation bodies to provide stakeholders with accurate, reliable and comparable sustainability information either in the form of sustainability reporting or ESG rating or both
b) accreditation bodies to periodically verify whether verification/validation bodies manage robust audit in accordance with ISO/IEC 17029 and programme requirements

Schemes and programs for claims (e.g. sustainability certification marks, sustainability reporting assurance, ESG ratings) not based on robust site audit activity cannot provide stakeholders with confidence of accurate and reliable information on sustainability aspects and related risks in a predictive perspective.

Benefits

Considering the emerging need for accurate and reliable assurance of sustainability reporting and/or ESG rating, an integrated and systematic verification/validation process referring to ISO/IEC 17029 and based on a combination of remote activity and on-site visits enables:

- evaluation and mitigation of risks of potential errors, omissions and misrepresentation
- enhancement of opportunities for cross-checking different type of evidence (documents, records, interviews, observations, claims, etc.) to better support the reporting
- providing more accurate and reliable information (e.g. materiality assessment verification)
- increasing the quality of information regarding the assumptions (rational, allocation of resources, etc.) used to set ESG objectives and define plans aiming to mitigate the exposure level to actual or potential ESG risks and impacts and to improve performance
- increasing the effectiveness of the decision process based on objective evidence gathered in every step of the entire process

2.7 Assessment to be conducted by auditors with appropriate and confirmed competence

Principle 7		
Only professionals with appropriate and confirmed competence (knowledge and skills) provide stakeholders with confidence that verification/validation is consistently accurate and reliable.		
Relevance	**Accuracy** **Reliability** **Credibility**	

A conformity assessment regarding non-financial issues and risks (such as sustainability reporting external assurance and ESG rating) based on robust audit must be conducted by competent persons with appropriate and confirmed knowledge and skills.

ISO/IEC 17029 requires validation/verification bodies to establish, implement and maintain an approach for managing competence of their personnel involved in the validation/verification activities. The validation/verification body shall:

a) establish the competence (education, knowledge and skills) criteria required for persons involved in the validation/verification process (auditors, reviewers, decision makers)

b) identify training needs and provide training on validation/verification processes, requirements, methodologies, activities and the validation/verification programme requirements (this activity can be carried out by the programme operator whenever existing)

c) demonstrate the competence of personnel for the duties they undertake

d) assign persons for carrying out specific activities in the validation/verification process

e) monitor the performance of every person involved in the validation/verification activity

Teams of competent professionals need to be deployed to cover:

a) the range of information related to sustainability (social, safety, environmental and ethics)

b) the competence in the field of financial auditing

c) the ability and experience to evaluate information disclosed in a sustainability reporting and the exposure level to non-financial risks within an ESG rating system

In Europe the Directive 2022/2464 (CSRD)[14] specifies minimum requirements for educational qualification, examination of professional competence and combination of practical training and theoretical instruction for statutory auditors. Examination of professional competence shall include a test of theoretical knowledge that shall cover at least the following subjects:

a) Legal requirements relating to preparation of annual and consolidated sustainability reporting

b) Sustainability analysis

c) Due diligence process as regards sustainability matters

d) Legal requirements and assurance standards for the sustainability reporting

In addition to these competences, both sustainability reporting external assurance and ESG ratings also require the ability to confirm the plausibility of assumptions regarding ESG risk management, objectives, strategic plans, and resources. Therefore, there is a need to define additional competence requirements.

[14] Directive 2022/2464 Article 3 - Amendements to Directive 2006/43/EC

Two relevant European frameworks provide an important tool to improve transparency, comparability and portability of individuals' qualifications and make it possible to compare qualifications from different countries and institutions: EQF and Greencomp.

EQF[15] (European Qualification Framework) is an 8 level, learning outcomes-based framework for all types of qualifications that serves as a translation tool between different national qualifications frameworks. Each of the 8 levels of the EQF is defined by a set of descriptors indicating the learning outcomes (knowledge, skills, responsibility and autonomy) relevant to qualifications at that level. According to this framework, verifiers/validators should be able to ensure the level 6.

Greencomp[16] is a reference framework providing a common ground to professionals advancing a consensual definition of what sustainability as a competence entails.

Greencomp responds to the growing need for people to improve and develop the knowledge, skills and attitudes to live, work and act in a sustainable manner. It is designed to support education and training programmes for lifelong learning. It is written for all learners, irrespective of their age and their education level and in any learning setting – formal, non-formal and informal.

Sustainability competences help people become systemic and critical thinkers, as well as develop agency, and form a knowledge basis for everyone who cares about sustainability.

There are several approaches to define and verify the competences of personnel involved in sustainability reporting external assurance and an ESG rating.

Therefore, there is a need for ensuring the standardization and harmonization of competence criteria and evaluation processes among CABs to prevent the risk that every CAB refers to a different competence map and evaluation methods.

According to ISO 17024, "*Certification for persons is one means of providing assurance that the certified person meets the requirements of the certification scheme. Confidence in the respective certification schemes for persons is achieved by means of a globally accepted process of assessment and periodic re-assessments of the competence of certified persons. The development of certification schemes for persons, in response to the increasing velocity of technological innovation and growing specialization of personnel, can compensate for variations in education and training and thus facilitate the global job market. Alternatives to certification can still be necessary in positions where public services, official or governmental operations are concerned*."

In several countries (such as Italy) regulations are increasingly mentioning the need of competence verified by accredited CABs for specialized personnel (in Italy, project manager in construction projects, BIM specialists and managers, energy efficiency auditors).

Credentialing systems referring to ISO/IEC 17024 General requirements for bodies operating certification of persons, and taking into account frameworks such as EQF and Greencomp, assessed by ABs for accreditation purposes ensure superior reliability and credibility of validators/verifiers' competence.

[15] EQF (European Qualification Framework) https://europa.eu/europass/en/europass-tools/european-qualifications-framework

[16] Greencomp https://joint-research-centre.ec.europa.eu/greencomp-european-sustainability-competence-framework_en

Therefore, programmes for sustainability reporting external assurance and/or ESG rating introducing additional requirements of requiring competence to be verified in accordance with credentialing systems referring to ISO/IEC 17024 provide superior confidence that validation/verification bodies assign the task of conducting a sustainability reporting external assurance or due diligence for an ESG rating only to professionals with verified and harmonized competence (according to stringent procedures including written and oral examination).

Schemes and programmes for claims (e.g. sustainability certification marks, sustainability reporting assurance, ESG ratings) that do not establish transparent competence criteria of auditors and verifiers as well as reliable procedures for evaluation, maintenance and monitoring of such competence cannot provide stakeholders with confidence in the accuracy and reliability of the assessment.

Benefits

Verifiers/validators with confirmed competence in the field of sustainability reporting external assurance and/or an ESG rating ensure:

- transparency of competence criteria
- transparency and reliability of evaluation criteria and processes
- compliance with recognized frameworks (such as EQF and Greencomp)
- continuous monitoring on maintenance of an individual's competence

In addition, credentialing systems based on third-party certification of personnel ensure mutual recognition of credentials.

2.8 Programmes' governance based on segregation of duties enhances credibility

Principle 8

Only governance systems based on clear distinction of roles among the scheme owner, the accreditation body, the programme operator and the CABs provide stakeholders with confidence of credibility, robustness, transparency and impartiality of programmes.

Relevance	**Accuracy** **Reliability** **Credibility**

The governance system of a validation/verification program is crucial to provide stakeholders with confidence in transparency and absence of conflicts of interest that could jeopardize the reliability of claims.

The governance structure of robust and credible validation/verification programs is based on the following principles:

Scheme owner	Independent organization responsible for developing and maintaining a specific validation/verification programme
Accreditation body	Independent body signatory of a multilateral agreement (MLA) which: a) Evaluates a validation/verification programme against ISO/IEC 17029 requirements b) Accredits third-party validation/verification bodies against ISO/IEC 17029 and a program c) Periodically monitors validation/verification bodies
Program Operator	Independent body (preferably not for profit) in charge of: a) Promoting the programme b) Promoting the verified/validated organizations' claims c) Providing training for assessors and technical experts
Conformity Assessment Bodies	Legal entities that perform either verification or validation activities or both under accreditation granted by an accreditation body

Considering the relevance of specialized competence of auditors/assessors involved in conformity assessment activities in the field of sustainability reporting external assurance and/or ESG rating, programmes are recommended to introduce additional requirements (to ISO/IEC 17029) and refer to:

Programmes for certification of persons	Independent programmes referring to ISO 17024 establishing competence criteria and processes for their evaluation
Certification bodies of persons	Independent bodies operating certification of persons accredited according to ISO/IEC and specific people certification schemes

> Validation/verification programmes that do not clearly distinguish roles and responsibilities among different players (program owner, accreditation body, CABs, programme operator) do not provide stakeholders with confidence in the transparency and integrity of the programmes, and the absence of any conflict of interest.

Benefits

Clear segregation of responsibilities and duties among scheme owner, accreditation body, CABs and programme operator provide stakeholders with superior credibility and confidence in:

- compliance with standards
- avoidance of conflicts of interest
- improved transparency
- credibility of verification/validation statements
- periodic monitoring of CABs
- confirmed competence of auditors/assessors

2.9 Accreditation enhances credibility and reliability of Programmes and Conformity Assessment Bodies

Principle 9

Accreditation provides stakeholders with confidence of conformity assessment bodies' compliance with international standards and programs and ensures mutual recognitions of ESG ratings and/or sustainability reporting external assurance.

Relevance	**Accuracy** **Reliability** **Credibility**

'Accreditation' means third-party attestation (by a national accreditation body) related to a conformity assessment body, conveying formal demonstration of its competence, impartiality and consistent operation in performing specific conformity assessment activities (ISO/IEC 17000 - § 7.7). Accreditation is issued with reference to international standards and, where applicable, any additional requirements, including those set out in relevant sector programs.[17]

Accreditation operates in the public interest across all market sectors. It provides an attestation that accredited bodies offering verification/validation services have the technical competence and impartiality to check the conformity claims with the relevant regulations, standards and programs.

Accreditation of bodies performing verification/validation of claims (such as sustainability reporting external assurance and ESG risks evaluation and rating) meet all regulatory requirements, as well as stakeholders' (investor banks, public authorities, buyers) needs in terms of:

- technical competence
- independence, impartiality, and integrity
- risk management
- adequate use of human and equipment resources
- mechanism for continuous improvement of product and service quality
- complaint and appeal system

The accreditation process provides a means of delivering verification/validation interest services which:

- are reliable and of higher quality
- support compliance with regulations
- imply lower administrative burdens and bureaucracy

> Verification/validation of claims carried out by CABs without any accreditation does not provide stakeholders with confidence in their credibility.

Benefits

Accreditation and the services provided by accredited verification/validation bodies demonstrate effectiveness in:

- supporting implementation of regulations (e.g. Directive 2022/2464)

[17] In Europe the Regulation N° 765/2008 defines 'Accreditation' as an attestation by a National Accreditation Body that a Conformity Assessment Body meets the requirements set by harmonized standards and, where applicable, any additional requirements including those set out in relevant sectoral schemes, to carry out a specific conformity assessment activity.

- verifying/validating claims (e.g. ESG risks evaluation and rating) in the financial market
- supporting cost efficiency, by avoiding duplication of audits (and related costs)
- simplifying the verification/validation of claims based on demonstrated competence and impartiality as decision-making criteria

2.10 Accredited validation/verification bodies ensure reliability and credibility of claims

Principle 10

Conformity assessment bodies accredited according to ISO/IEC 17029 and a programme with the scope of verifying/validating either a sustainability report or an ESG rating provide stakeholders with higher confidence in the competence, impartiality, confidentiality, and above all, credibility of conformity assessment activities.

Relevance **Accuracy** **Reliability** **Credibility**

Credibility of claims (such as ESG rating and sustainability reporting external assurance) is provided by accreditation of validation/verification bodies.

ISO/IEC 17029 specifies the general principles to be applied by validation/verification bodies, which include the following:

Impartiality	Decisions are based on objective evidence obtained through the validation/verification process and are not influenced
Competence	Personnel have the necessary knowledge, skills, experience, training, supporting infrastructure and capacity to effectively perform verification/ validation activities
Confidentiality	Confidential information obtained or created during validation/verification activities is safeguarded and not inappropriately disclosed
Openness	A validation/verification body needs to provide public access to, or disclosure of, appropriate information about its validation/verification process
Responsibility	The client of the validation/verification body, and not the validation/ verification body, has the responsibility for the claim and its conformity with applicable specified requirements
Responsiveness to complaints	Parties that have an interest in validation/verification have the opportunity to make complaints and these complaints are appropriately managed and resolved
Risk-based approach	Validation/verification bodies need to take into account the risks associated with providing competent, consistent and impartial validation/verification.

Accreditation in compliance with ISO/IEC 17029 and the requirements specified in an applicable programme provides interested parties with evidence that validation/verification bodies are:

a) Assessed against the applicable requirements

b) Periodically monitored

Conformity assessment bodies not verified according to ISO/IEC 17029 and its Annex A by an independent and recognized accreditation body cannot provide stakeholders with confidence that claims are accurate, reliable and credible (e.g. ESG rating, sustainability reporting external assurance, certifications and marks in the field of sustainability and social responsibility).

Benefits

A validation/verification body accredited against ISO/IEC 17029 and a programme with the scope of evaluating a claim (such as an ESG rating and/or the sustainability reporting external assurance or both) ensures:

- **Credibility**: validation/verifications are carried out by CABs accredited by an AB to ensure competence, integrity, impartiality and confidentiality
- **Competence**: the documented information demonstrating competence of personnel involved in the validation/verification activities including relevant education, training, experience, performance monitoring, affiliations and professional status must be assessed and monitored by an AB
- **Impartiality**: decisions are based on objective evidence obtained through the validation/verification process and are not influenced by other interests or parties
- **Mutual recognitions of claims at international level**: accreditation of CABs against ISO/IEC 17029 and a Programme by an AB signatory of an MLA ensures the mutual recognition of validations/verifications

3 Accreditation system benefits for Stakeholders

Sustainability reporting and/or ESG rating verified/validated by third-party CABs accredited according to ISO/IEC 17029 and a program positively assessed for accreditation purposes by an independent accreditation body signatory of an MLA provide users with accurate, reliable, impartial and credible information regarding sustainability issues and related risks.

3.1.1 Banks

The following standard:

- ISO/IEC 17029:2019 General Principles and requirements for verification and validation bodies

meets the requirements addressed by EBA (European Banking Authority).

Validation programs referring to ISO/IEC 17029 meet the EBF concerns and support credit institutions in implementing the EBA guidelines and recommendations set out in the "Report on Operations and higher vision of ESG risks for credit institutions" and in the "Guidelines on the loan origination and monitoring".

An ESG rating granted at the counterparty level (*exposure method*) by an independent third-party body accredited in accordance with ISO/IEC 17029 provides an institution with more accurate, reliable and credible information in comparison with other methods (e.g. questionnaire, second-party audits) and permits better application of the three pillars of the EBA Framework (business strategies and processes, governance and risk management) in the different phases of the credit origination and monitoring processes.

Internal governance for credit management and monitoring

An ESG rating granted by a third-party body accredited in accordance with ISO/IEC 17029 and a validation program according to ISO/IEC 17029 is most likely to enable credit institutions to:

- facilitate and support the development of a credit risk culture that also considers ESG factors
- improve the integration of ESG factors and the risks associated with them (with particular attention to the potential impact of physical and transition risks) in determining risk appetite, risk management policies and credit risk policies and procedures
- promote the integration of metrics and limits on ESG factors and risks consisting of a combination of retrospective and prospective indicators (verification and validation of ethical assertion) in the determination of credit risk appetite appropriate to the business model and complexity of the institution
- facilitate the development of "sustainable" credit products based on independent third-party assessments of ESG risks and improve the transparency of information on such products
- ensure that credit decisions are impartial and objective and are not adversely affected by any conflicts of interest (in line with the EBA guidelines on internal governance)
- facilitate the performance of *quality assurance* of ESG risk assessments of counterparties contributing to the determination of creditworthiness

Loan granting procedure

An ESG rating granted by a third-party body accredited in accordance with ISO/IEC 17029 and a programme helps credit institutions to:

- improve the accuracy of assessments of the level of exposure of the counterparty to ESG factors, taking into account their materiality (with particular attention to the impact on climate change) and the adequacy of risk mitigation and treatment strategies
- improve the reliability and credibility of information on the level of exposure to counterparty risks thanks to independent third-party due diligence carried out by an accredited body
- improve the reliability and credibility of the documentation produced by the counterparty and used to make the credit decision on risks associated with ESG factors

Pricing Setup

An ESG rating granted by a third-party body accredited in accordance with ISO/IEC 17029 and a programme based on a quantitative or semi-quantitative scoring system allows credit institutions to:

- improve the reliability of incorporation into the pricing of loans, the costs of credit risk related to the level of exposure to ESG risks and possible expected losses
- provide the state banking authority with evidence of the decision taken in determining the loan pricing and enhance the credibility of the decision taken

Monitoring

A validation scheme based on an ESG rating program according to ISO/IEC 17029 requires third-party bodies to conduct periodical verification on the counterpart that allows credit institutions to:

- receive periodical and updated information as regards the exposure level to the ESG of a counterpart
- receive yearly warnings relating to material facts that may arise during the credit granting period by virtue of the follow-up obligations that the body must carry out in accordance with the requirements of ISO/IEC 17029

3.1.2 Investors

An ESG rating determined upon completion of a due diligence process and validated by a third-party body accredited by an internationally recognized accreditation body according to ISO/IEC 17029 and a programme positively assessed (according to the same ISO/IEC 17029 standard Annex A) by an internationally recognized accreditation body enables financial market participants to increase the market value of their investment portfolio and increase the trust of investors.

This is possible because the accreditation and third-party conformity assessment of bodies and programmes in accordance with an international standard (ISO/IEC 17029) provides stakeholders with more accurate, reliable, impartial and credible evaluation of the exposure level to ESG risks of undertakings.

Market participants are allowed to provide other stakeholders with higher confidence and trust in their investment because of:

- evidence of policies' implementation aiming to integrate sustainability risks in either investment or insurance products and advice
- higher transparency of adverse sustainability impacts at the entity level

- transparency of the integration of sustainability risks in pre-contractual disclosures
- more transparency of adverse sustainability impacts at the financial product level
- more reliable environmental or social information in pre-contractual disclosures
- increased transparency of sustainable investments in pre-contractual disclosures
- more transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports

In Europe, these requirements are requested by Regulation 2019/2088/EU.

Similar legislations are being increasingly adopted by government bodies interested in avoiding any barrier to the financial markets.

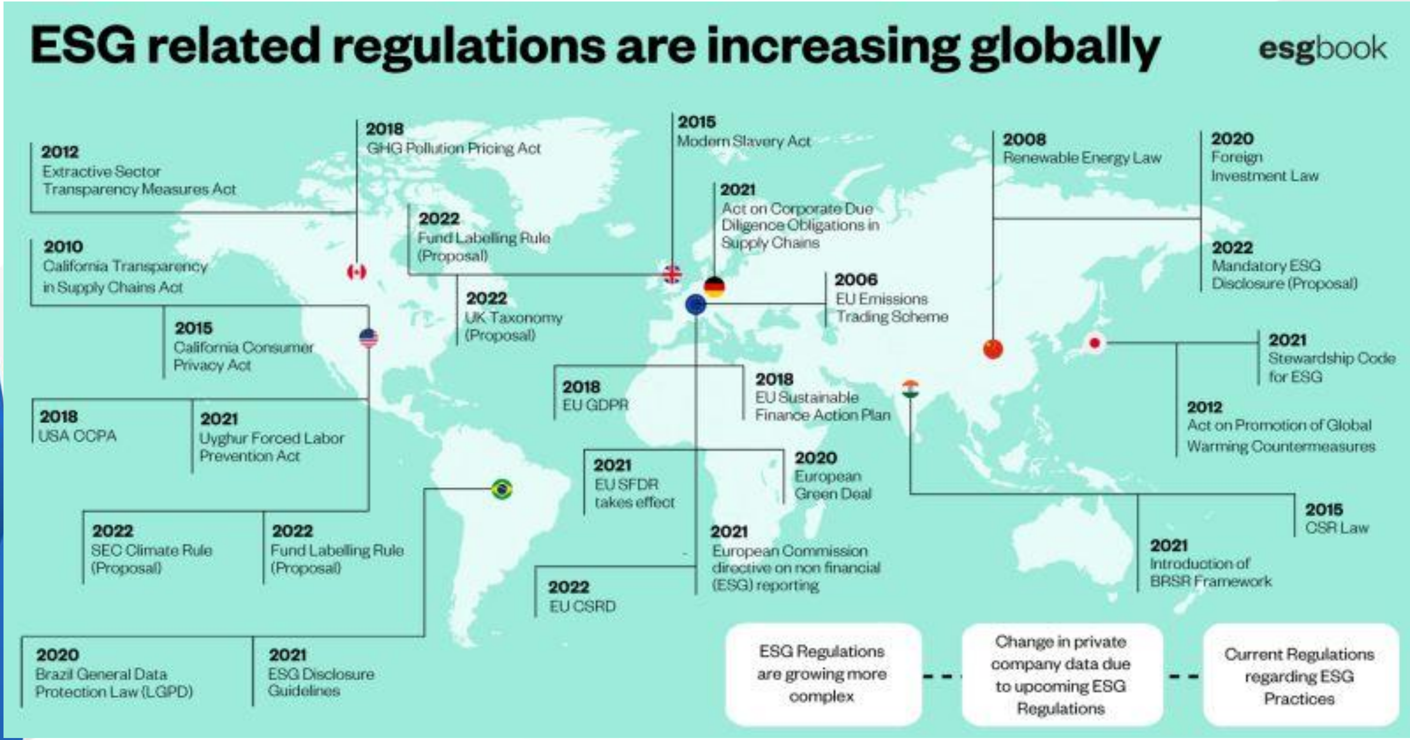
3.1.3 Buyers

The Due Diligence aims to ensure that the operations of enterprises are in harmony with government policies, strengthening the basis of mutual confidence between enterprises and the societies in which they operate and reducing the negative impacts of an enterprise's activities.

The benefits of Due Diligence on governance, social and environmental aspects conducted by third-party accredited bodies according to ISO/IEC 17029 and a program are:

- strengthened business relationships with government, workers and civil society
- increased ability to meet expectations of customers and markets regarding responsible supply chains
- improved reputation of participating enterprises and of the sector
- increased ability to manage global operations consistently across a single set of RBC standards and across offices, sites, countries and regions, thereby supporting greater uniformity of operational outcomes and efficiency and effectiveness of compliance and in some cases leading to cost savings
- decreased disruptions in the enterprise's operations and in its supply chains linked to ESG risks in the long term.

Annex A: ESG and sustainability reporting regulatory frameworks



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