Third-party assurance of ESG set to grow, says E&Y

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Ernst & Young released a YE 2020 U.S. oil and gas benchmarking study on Aug 30, and part of its focus was on ESG disclosures. The report analyzed the industry's 50 largest publicly traded E&P companies.

"ESG and sustainability have become essential to attracting capital and creating long-term value for all stakeholders. Interestingly, very few companies in our study — only 16 percent — are providing third-party assurance over ESG metrics. Due to a lack of standardization and companies following various frameworks, the importance of third-party assurance to investors is going to grow," the report stated.

The U.S. SEC is starting to consider disclosure requirements and standards in ESG reporting by public companies.

"ESG independent certification is becoming more important now that the SEC has also questioned the reliability of the ESG reports," said **Herman Acuña**, executive vice president at Ryder Scott, who heads up the firm's third-party ESG validation and verification services.

At YE 2020, more than three-quarters of the companies published an ESG or sustainability report. Of the studied companies, ESG goals were most often identified for environmental topics (53 percent), rather than goals for social (33 percent) or governance (10 percent).

"Some have advocated that the (SEC) commission rely on the work of one or more external third parties to devise and maintain updated ESG disclosure standards and then incorpo-

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rate those standards into our regulatory regime," said Commissioner **Elad L. Roisman** at the SEC last June. "While this approach seems expedient and responsive to concerns about expertise, we have to acknowledge that this is not a 'plug and play' solution."

He compared a standard-setter in ESG to FASB which sets accounting guidelines for the SEC, and cited "a fear about the (FASB) standard-setter's independence and credibility being compromised by its funding sources and proximity to the industry it regulates."

Roisman acknowledged that the Sarbanes-Oxley Act mostly resolved those funding issues when it required companies to pay accounting support fees.

"Questions persist about FASB's independence from market participants," he said.