Received: 6 March 2023 | Revised: 2 November 2023 | Accepted: 5 November 2023

DOI: 10.1111/beer.12630

Business Ethics, the Environment & Responsibility

WILEY

ORIGINAL ARTICLE

What you see is what you get? Building confidence in ESG disclosures for sustainable finance through external assurance

Olivier Boiral[1] | Marie-Christine Brotherton[1] | David Talbot[2]

[1]Département de management, Faculté des sciences de l'administration, Université Laval, Quebec City, Quebec, Canada

[2]Centre de recherche sur la gouvernance, École nationale d'administration publique, Quebec City, Quebec, Canada

Correspondence

Marie-Christine Brotherton, Département de management, Faculté des sciences de l'administration, Université Laval, Pavillon Palasis-Prince, 2325, rue de la Terrasse, Quebec City, QC G1V 0A6, Canada.

Email: marie-christine.brotherton.1@ulaval.ca

Abstract

The main objective of this study is to understand the value of environmental, social, and governance (ESG) disclosure assurance in the context of the development of sustainable finance standards and laws. This study is based on an analysis of 188 comment letters submitted by such actors in the context of public consultations on the development of three new sustainable finance initiatives (the CFA Institute, the Financial Conduct Authority in the UK, and the New Zealand parliament). The study shows these actors' nuanced and often quite critical perceptions of the effectiveness of external assurance in preventing greenwashing and their reservations about its mandatory nature. These actors have raised various criticisms, including concerns about the vagueness surrounding verification practices; the lack of expertise available to conduct assurance in a new, specialized, and complex field; the costs of the assurance process, particularly for small players; and the lack of control over the reliability of the ESG data used. This article contributes to several emerging trends in the literature—in particular, research on governance practices to prevent greenwashing, on the institutionalization of sustainable finance standards and laws, and on the role of rational myths in the assurance process for ESG disclosures.

KEYWORDS

assurance process, audit practices, ESG investments, neo-institutional theory, rational myths, sustainable finance

1 | INTRODUCTION

Sustainable finance, which is based on the integration of ESG issues into investment decisions, has experienced unprecedented growth in recent years (Migliorelli, 2021; Popescu et al., 2021). In 2020, ESG assets were estimated to exceed $35 trillion worldwide and are expected to represent nearly a third of all financial assets by 2025 (Bloomberg, 2021). The development of sustainable finance responds to the need to reduce ESG risks—including those related to climate change and the reputational impacts of lack of commitment in this area—and to support the financing of economic activities that take these issues into account in a meaningful way (CFA Institute, 2022; Chiu, 2022; Cunha et al., 2021; Myers & Czarnezki, 2021). However, greenwashing trends are increasingly criticized and raise fundamental questions about the transparency of ESG investment products (Baldi & Pandimiglio, 2022; CFA Institute, 2022; Hetzner, 2022; Popescu et al., 2021). These criticisms are reinforced by the proliferation of these products and the virtual absence of regulation for practitioners in the field, who are raising increasing amounts of capital to finance supposedly sustainable activities (Chiu, 2022; Krasodomska et al., 2021; Migliorelli, 2021; Myers & Czarnezki, 2021).

In response to the need to regulate players in the field, various standard-setting agencies, governments, and professional associations have begun to develop and adopt standards and laws on ESG disclosure for investment products, especially since 2019. These sustainable finance initiatives are very recent and, in some cases, still in draft form; in addition, the willingness and ability of practitioners in the field to adopt them seems, at best, uncertain. To reassure stakeholders on this issue, several initiatives have planned assurance processes that aim to use external audits to verify that sustainable investment products are in compliance with the ESG requirements they are supposed to meet. However, stakeholders' perceptions of this verification process remain unclear, as does the manner in which the processes will be concretely applied to the specific context of ESG disclosure for investment products.

The main objective of this paper is to understand the value and identify the challenges of ESG disclosure assurance in the process of institutionalizing sustainable finance standards and laws. More specifically, this paper addresses the following research question: Among people who have submitted contributions to consultations for the development of sustainable finance standards and laws, what is the perception about the assurance of ESG disclosures used for investment products? To explore this question, we used QDA Miner software to conduct a qualitative content analysis of 188 comment letters received during the consultation processes for three distinct sustainable finance initiatives, namely from the CFA Institute (an international group), the Financial Conduct Authority (FCA) in the UK, and the New Zealand parliament.

The research objective is important for at least four reasons. First, initiatives that aim to improve the quality of ESG disclosures for responsible investments address critical needs. Indeed, the lack of reliable information in this area and the risk of greenwashing are considered to be the main obstacles to the promotion and sound use of this type of investment (Benson, 2021; La Torre & Chiappini, 2021; Myers & Czarnezki, 2021; Popescu et al., 2021). Although sustainable finance standards and laws should in principle improve the confidence of investors and other stakeholders, it remains unclear how these instruments will be applied in practical terms. In the absence of an independent verification mechanism, it is reasonable to assume that the adoption of a self-proclaimed sustainable finance standard will have little credibility and may add little value in the eyes of investors. This article therefore contributes to the literature on how to limit greenwashing in a new and still under-researched area.

Second, the article contributes to the literature on the institutionalization process of sustainable finance, which currently includes very few studies on voluntary standards as regulation mechanisms (Chiu, 2022; Myers & Czarnezki, 2021; Popescu et al., 2021). Moreover, the focus on the assurance process makes it possible to highlight the challenges related to implementing and monitoring standards rather than examining their general objectives or particular design. The results of the study thus allow us to anticipate problems that have not necessarily manifested yet but that are likely to appear in the short or medium term.

Third, the article explores the possible rational myth surrounding, on the one hand, sustainable finance standards' appearance of being rigorous, rational, and legitimate and, on the other hand, the reality of practices related to ESG investment products. It provides a better understanding of how normative pressures to introduce new standards have led to the emergence of a counter-discourse on the effectiveness and relevance of assurance processes. Rational myths are often observed in sustainability management, due in particular to practices that, on the surface, aim to respond to institutional pressures in this area (Boiral, 2007; Gibassier et al., 2018; Perego & Kolk, 2012). The article thus contributes to the literature on rational myths and how they arise around activities that are central to the promotion of sustainability but that have not yet been the subject of extensive empirical investigation. In addition, this article demonstrates the relevance of neo-institutional theory for studying the implementation of new standards in auditing and assurance (Haapamäki, 2022).

Fourth, the article contributes to the literature on the external assurance of ESG disclosures. Stakeholders' views on the value and effectiveness of such assurance are largely neglected in the research on this issue (Krasodomska et al., 2021; Manetti & Toccafondi, 2012; Wong & Millington, 2014). Therefore, analyzing the submissions to the public consultations set up by the developers of sustainable finance standards to understand the contributors' perceptions sheds new light on the effectiveness of and problems with the assurance process.

The remainder of the paper is structured as follows. Section 2 provides a literature review about the public's confidence in ESG disclosures for sustainable finance, notably by highlighting the rational myths surrounding the assurance of ESG disclosures in the context of sustainable finance. Section 3 presents the qualitative content analysis approach used in this research. Section 4 describes the results obtained from the content analysis. Section 5 includes the discussion of these results, their contributions to the literature, their managerial implications, and the limitations of the study as well as avenues for future research.

2 | SUSTAINABLE FINANCE AND THE INSTITUTIONALIZATION OF ASSURANCE PRACTICES

2.1 | Building confidence in ESG disclosures for sustainable finance

Although the proliferation of sustainable investments (e.g., ESG portfolios, green climate funds, socially responsible products and services, green bonds) seems at first sight to be an encouraging trend when it comes to the integration of sustainability into the financial sector, it raises increasing questions about the foundations of sustainable investments and the transparency of investment products' ESG disclosure (Baldi & Pandimiglio, 2022; Chiu, 2022; Migliorelli, 2021; Popescu et al., 2021).

These questions are fueled by suspicions that some of the sector's big players may have engaged in misconduct. For example, in 2022, Deutsche Bank was raided by the German securities regulator and the federal criminal police office following allegations that it had misled stakeholders and engaged in greenwashing-like practices regarding so-called ESG investments (Bloomberg, 2022; Hetzner, 2022). Because of instances like this one, ESG investors are concerned about greenwashing issues. According to a study conducted by Quilter Investors in 2021, ESG investors' main concern is not their financial performance but that these investments may not be what they claim (Benson, 2021). This concern can be partly explained by the financial sector's lack of control over the quality and reliability of the data used in most ESG investments. These data are largely based on voluntary ESG disclosures made by companies (Cunha et al., 2021; Diouf & Boiral, 2017; Liang & Renneboog, 2020). The lack of transparency of these data, in particular the tendency to disclose positive information on sustainability achievements and to hide information that may damage an organization's image, has been widely highlighted in the literature (Boiral, Heras-Saizarbitoria, & Brotherton, 2019; Haffar & Searcy, 2020; Hahn & Lülfs, 2014; Higgins et al., 2020).

The non-financial rating agencies that establish the sustainability performance rankings of companies, which are in turn used by ESG investors, also depend heavily on the information disclosed by companies (Boiral, Heras-Saizarbitoria, & Brotherton, & Bernard, 2020; Boiral et al., 2021; Drempetic et al., 2020). In this context, the risk of greenwashing in sustainable finance seems to be closely linked to the much more documented risk of companies disclosing unreliable information in order to improve their image with stakeholders, including financial market actors (Boiral et al., 2021; Drempetic et al., 2020; Parfitt, 2022; Testa et al., 2018). This risk is exacerbated by the lack of regulation surrounding sustainable finance; the field has been increasingly denounced for its opacity, lack of rigor, and exaggerations (Ahlström & Monciardini, 2022; Chiu, 2022; Chiu et al., 2022; Migliorelli, 2021).

In response to this shortcoming, numerous sustainable finance standards have been developed, particularly starting in 2019 (Chiu, 2022; Migliorelli, 2021; Myers & Czarnezki, 2021). In most cases—including the Financial Sector Amendment Bill (FSAB), which is now law in New Zealand—verification of such standards is based on external assurance that is supposed to give stakeholders confidence in the reliability of sustainable finance activities. The standards' emphasis on this assurance process reflects the existence of an "audit society" characterized in particular by the commodification of audits and the proliferation of audits in different sectors of activity (Boiral & Heras-Saizarbitoria, 2020; Power, 1997, 2021). It also reflects the normative isomorphism (DiMaggio & Powell, 1983) of audit practices and the "cut and paste" logic underlying them, as they rely on the transfer of professional rules, procedures, and institutional arrangements across different organizations and sectors (Boiral, Heras-Saizarbitoria, et al., 2020; Holder-Webb & Cohen, 2012). In this context, although sustainable finance standards are recent and their implementation has not been extensively studied, the literature on the assurance of corporate sustainability disclosures can help shed light on the issues underlying the external audit practices for these standards and the most likely implications of these practices.

2.2 | Institutionalizing the assurance of ESG disclosures for sustainable finance

The assurance of corporate sustainability disclosure has developed rapidly in recent years, particularly in large organizations (Al-Shaer & Zaman, 2018; Martínez-Ferrero & García-Sánchez, 2017; Park & Brorson, 2005; Perego & Kolk, 2012). More than 60% of the sustainability reports of the 250 largest companies in the world were assured by supposedly independent auditors in 2022, compared to approximately 30% in 2005 (KPMG, 2022). This trend is explained by the need to improve the credibility and legitimacy of the information disclosed (Al-Shaer & Zaman, 2018; Boiral & Gendron, 2011; Martínez-Ferrero & García-Sánchez, 2017). Indeed, stakeholders are increasingly denouncing the lack of reliability of this data, and pressure in this area can considerably damage corporate image (Boiral, Heras-Saizarbitoria, Brotherton, & Bernard, 2019; Higgins et al., 2020; Perego & Kolk, 2012; Ruiz-Blanco et al., 2022). In recent years, a growing number of organizations, such as Volkswagen, BMW, Mercedes-Benz, Shell, ExxonMobil, and Walmart, have been subject to accusations and lawsuits due to their misleading claims about their sustainability commitments (O'Kane, 2021; Robinson, 2022; Truth in Advertising, 2022). These accusations have reinforced public skepticism about alleged corporate sustainability performance, including on the part of socially responsible investment (SRI) practitioners (Arvidsson & Johansson, 2019; Diouf & Boiral, 2017; Reimsbach et al., 2018).

Several studies have shown that fund managers, financial analysts, and institutional investors consider ESG disclosures to be unreliable and inadequate to support responsible investment (Arvidsson & Johansson, 2019; Diouf & Boiral, 2017; Krasodomska & Cho, 2017; Solomon & Solomon, 2006). However, although the assurance process may reduce stakeholder skepticism, its actual effects on the quality and transparency of ESG disclosures remain the subject of controversy (Boiral, Heras-Saizarbitoria, & Brotherton, 2020; O'Dwyer, 2003; Perego & Kolk, 2012). According to the mainstream literature, verification by external auditors tends to improve the rigor and reliability of sustainability disclosures (Al-Shaer & Zaman, 2018; Cuadrado-Ballesteros et al., 2017; Fuhrmann et al., 2017; Manetti & Toccafondi, 2012; Moroney et al., 2012). It also reduces the information asymmetry with stakeholders and strengthens corporate accountability for sustainability (Cuadrado-Ballesteros et al., 2017; Fuhrmann et al., 2017). Various studies have shown that the existence of an assurance process improves confidence in the information disclosed, including among investors and ESG fund managers (Cuadrado-Ballesteros et al., 2017; Fuhrmann et al., 2017; Manetti & Toccafondi, 2012; Moroney et al., 2012; Reimsbach et al., 2018; Stuart et al., 2021). For example, in a study with SRI practitioners, nearly 90% of respondents emphasized that the assurance process was important for improving confidence, reducing prevailing skepticism about the quality of ESG information, and better justifying investment decisions (Diouf & Boiral, 2017).

However, this optimism about the benefits of external audits is being challenged by a growing number of studies (Farooq & de Villiers, 2020; Hickman & Cote, 2019; Michelon et al., 2015; Michelon et al., 2019). The main criticisms concern the opacity of audit practices, the questionable professionalism of auditors, the underlying economic issues, and the dubious quality of data from audited disclosures. First, the superficiality of audits and the vagueness of audit methods, scope, and materiality have been highlighted (Boiral & Heras-Saizarbitoria, 2020; Farooq & de Villiers, 2020; Jamali, 2010; Perego & Kolk, 2012). The audits' lack of depth and the uncertainties about the quality of the data verified are reflected in the predominance of audit results that provide only a limited level of assurance, which seems out of step with the importance of ESG issues and with stakeholders' expectations in this area (Boiral, Heras-Saizarbitoria, Brotherton, & Bernard, 2019; Gürtürk & Hahn, 2016; Mock et al., 2013).

Second, several studies have criticized the professionalism of auditors, in particular their lack of training and their tendency to transpose accounting procedures onto very different ESG issues (Boiral, Heras-Saizarbitoria, et al., 2020; Krasodomska et al., 2021; Martínez-Ferrero et al., 2018; Ruiz-Barbadillo & Martínez-Ferrero, 2022). Differences in auditor expertise and professionalism partly explain the discrepancies observed in audit quality and scope (Larrinaga et al., 2020; Perego, 2009).

Third, studies have highlighted the managerial capture of audits, the business issues underlying the assurance process, and potential auditor conflicts of interest (Farooq & de Villiers, 2020; Michelon et al., 2019; Smith et al., 2011). In general, extensive research on ESG disclosure assurance practices shows the tendency to instrumentalize it to serve companies' interests rather than those of stakeholders (Boiral, Heras-Saizarbitoria, Brotherton, & Bernard, 2019; Jamali, 2010; Perego & Kolk, 2012).

Fourth, while the assurance process sends a positive signal to investors about the ethical culture of organizations (Stuart et al., 2021), studies show that it actually has little or no substantial benefit with regard to the quality of ESG disclosures or corporate misconduct (Christensen, 2016; Du & Wu, 2019; Michelon et al., 2015, 2019). Other studies have shown that ESG disclosure assurance had no impact on reducing the very high proportion (often more than 80%) of observed noncompliance with the reporting standards used by companies, including the Global Reporting Initiative (GRI) (Boiral et al., 2022; Boiral & Henri, 2017; Talbot & Boiral, 2018).

2.3 | Responding to institutional pressures through rational myths

Most studies that have analyzed the effects of assurance processes on the quality of the data disclosed show a gap between the reassuring image they project to stakeholders and what they actually deliver (Boiral et al., 2022; Boiral & Heras-Saizarbitoria, 2020; Michelon et al., 2015, 2019; Stuart et al., 2021). This gap is evidence of what is known as a rational myth. Institutional theory offers a sociological perspective for understanding the emergence of rational myths and, more generally, how organizations integrate norms, rules, and beliefs into their practices (Alvesson & Spicer, 2019; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). According to this theoretical approach, organizations adopt new structures and practices in response to institutional pressures from various stakeholders, including governments and professional associations (Boxenbaum & Jonsson, 2017; DiMaggio & Powell, 1983), as is the case for several sustainable finance standards. These pressures are not necessarily coercive or prescriptive. They can be normative, meaning linked to ethical considerations or professional requirements.

Many organizations tend to conform with these standards in appearance, to maintain their reputation and social legitimacy, while their internal practices remain relatively inefficient and unchanged. The rational myths resulting from this superficial conformity can respond to various social pressures, including in the area of standardization and verification mechanisms. For example, the dissociation between, on the one hand, the institutional legitimacy of audits and their appearance of rigor, rationality, and ethics in the eyes of stakeholders and, on the other hand, their lack of transparency, professionalism, and effectiveness in improving the quality of ESG disclosure reflects the rational myths underlying the assurance process (Boiral, Heras-Saizarbitoria, & Brotherton, 2019; Perego & Kolk, 2012). Various studies based on the neo-institutional approach have shown the prevalence of rational myths in sustainability practices, notably because of the unreliability of the performance indicators used and the disconnect between organizations' concern for their image and the efforts they are really willing to make to reduce the impact of their activities (Boiral, 2007; Boiral, Heras-Saizarbitoria, & Brotherton, 2019; Gibassier et al., 2018; Jamali, 2010; Perego & Kolk, 2012).

Several works on institutional theory have focused on the relationship between institutional pressures and the dissemination of new practices and norms (e.g., Frumkin & Galaskiewicz, 2004; Slack & Hinings, 1994; Tetteh et al., 2023). Boxenbaum and Jonsson (2017) point out that this attention is disproportionate. They also stress the importance of studying new relationships, particularly to better understand organizations' disconnects and isomorphism. This study focuses on an emerging field of research in institutional theory concerning the dynamics of contesting new norms and practices (Boxenbaum & Jonsson, 2017; Hoffmann & Zuelch, 2014). It contributes to a better understanding of rational myths concerning the assurance of ESG disclosures for sustainable finance standards by identifying criticisms that question the taken-for-granted utility of such assurance. It thus allows us to examine the role of normative pressures in developing a counter-discourse on the relevance and usefulness of assurance processes. To our knowledge, this relationship has not been studied yet. This study also provides a better understanding of the institutionalization process. The latter is characterized by various actors' political efforts to influence the development and social acceptance of new norms (Dillard et al., 2004; Kaplan, 2018; Schneiberg & Soule, 2005). Finally, this study responds to Haapamäki's (2022) call for more research using concepts from neo-institutional theory to study the implementation of standards in auditing and accounting.

3 | METHOD

The objective of this study is to better understand the submission contributors' views on the value of ESG disclosure assurance in the institutionalization process of sustainable finance standards when it comes to improving the quality of disclosures. Given the novelty of the subject and the exploratory nature of the research, a qualitative study based on content analysis was deemed relevant. This method is indeed particularly useful for better understanding new and emerging phenomena (Gephart, 2004; Hsieh & Shannon, 2005).

3.1 | Data collection

A preliminary search was performed to identify all the drafts of standards and laws on sustainable finance around the world ($n=13$). This search was performed in English, as most of these initiatives are global and therefore available in this language. Many general keywords were used to search for these initiatives online, notably "sustainable finance" and "ESG." Gray literature (e.g., professional journals, reports, news articles) was also consulted to refine the search and discover relevant initiatives. To be included in this research, the draft standard or law had to be linked to sustainable finance and have been subjected to public consultations for which the comment letters were publicly available. The latter inclusion criterion was verified by consulting each initiative's website. Moreover, in the particular case of this research project, the comment letters for the draft standard or law had to cover the subject of assurance. Some draft standards were therefore excluded because they were not specific to sustainable finance ($n=4$), the comment letters were not publicly available ($n=5$), or the comment letters did not discuss assurance issues ($n=1$) (see Appendix 1).

Following the inclusion process, three draft standards and laws were included in the study. The first is the Global ESG Disclosure Standards for Investment Products from the CFA Institute, which covers ESG issues more broadly on a global level. The CFA Institute initiated three rounds of public consultation for this draft standard between August 2020 and July 2021, which allowed the research team to gather 117 comment letters. The final standard was published at the end of 2021. The second draft standard included in the study is the Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations from the Financial Conduct Authority (FCA). This standard is specifically designed to help align disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) for businesses listed in the United Kingdom. It was subjected to public consultations starting in March 2020, for which 14 comment letters were collected by the research team. The standard was approved in December 2020. The third initiative included in this study is a draft law called the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (FSAB) proposed by the New Zealand parliament. This draft bill, focused on climate-related disclosures, was subject to public consultations starting in April 2021, and the research team collected 57 comment letters. The bill was adopted by the New Zealand parliament and received royal assent in October 2021. To date, the assurance process is still voluntary for all the standards and laws included in the study.

Overall, the research team collected 188 comment letters totaling 2526 pages of .pdf documents. These comment letters came from 164 individual submission contributors, as some contributors sent comment letters for more than one public consultation. Among these submission contributors, 101 were included in the study, as they commented directly on the assurance process. These submission contributors mainly self-reported as being asset managers ($n=45$), consultants ($n=19$), service providers ($n=11$), and representatives of professional associations ($n=11$) and non-profits ($n=8$).

3.2 | Data analysis

An inductive qualitative content analysis was performed for this study (Thomas, 2006). This approach consists of classifying and condensing the raw data using recurring themes and codes to understand the emerging patterns (Thomas, 2006; Varpio et al., 2020). This study used the theory-informing inductive data analysis approach. This approach emphasizes the central role of data analysis in choosing a theory (Varpio et al., 2020). Researchers may have several theoretical perspectives in mind when designing the study, but theory choice occurs during data analysis. In this case, the coding process influenced the choice of rational myth as the theoretical lens.

The coding tree was developed in several stages. First, all the included comment letters were transferred into the QDA Miner software, which is designed to help with categorizing, sorting, and analyzing qualitative data. A preliminary categorization grid was used to begin the categorization process. Next, two coders worked separately on the categorization. Discussions ($n=3$) between the members of the research team helped to further refine the grid by creating, deleting, merging, and splitting codes. The categories used in the grid were also carefully defined to help ensure the consistency of the process. When both coders agreed on the categories involved and adopted a similar categorization pattern, the categorization process was resumed by one of the coders. At the end of the categorization process, 478 passages related to the assurance process were coded into 17 categories (see Appendix 2). Other main themes included in the broader research project on public consultations for sustainable finance standards, such as the general characteristics of disclosures and the format of the standards, were also used to put our data on the assurance process into context. Quotes from submission contributors were identified to illustrate the main results. Relevant percentages were also calculated, even though this type of quantification is generally not suitable for qualitative study (Gephart, 2004; Pratt, 2009).

4 | RESULTS

4.1 | Mandatory assurance as a rational myth

Most submission contributors recognized the tendency toward greenwashing in sustainable finance products and the need to put into place an effective regulatory system to prevent abuses. Despite the rapid development of these products, their credibility and even their future may be seriously compromised by the lack of clear, recognized, and correctly applied rules on the foundations and criteria of sustainable finance. In general, it is not so much the existence of a standard on the issue that raises debates, but rather the way it is implemented by the organizations concerned. In this context, the assurance process is seen as necessary to improve both the image of sustainable finance actors and the credibility of the ESG products they offer. In addition, most of the submission contributors were familiar with external auditing practices, which are commonly used in the finance sector. The promotion of external audits also encourages a logic of self-regulation and thus helps to justify avoiding "command and control" regulations. In some submission contributors' view, auditors also contribute to organizations' learning process with regard to sustainable finance by providing recognized external expertise on ESG issues that are often poorly understood and by exposing misleading information on alleged corporate sustainability performance, as exemplified in the following quotes:

> We have been concerned with the risk of organizations taking advantage of investors misunderstanding of ESG labeled investment products.
>
> (CIBC Asset Management; CFA Institute)

> One of the most criticized aspects of current ESG disclosure is that it does not provide any assurance on the products' actual impact on the ground—whether the investments are actually contributing to environmental, social and governance outcomes.
>
> (Jungmin Joanne Lee, CFA; CFA Institute)

Despite the general support for the usefulness of external verification, positions were more divided on whether it should be voluntary or mandatory. Most submission contributors expressed concern about finding the right balance between the need for more control to prevent abuses in sustainable finance and the need not to overly constrain practices in this area. Approximately 26% of the submission contributors who discussed this were nevertheless in favor of the introduction of mandatory assurance. Proponents of mandatory assurance pointed out that the rigor and success of a standard depends on its external verification. Without it, there is a strong risk that the standard will not be applied rigorously and therefore will not have a real impact on the greenwashing tendency of financial products. Some submission contributors also believed that mandatory assurance is part of the normal evolution of sustainability disclosure, which should be subject to the same rules as in the financial field, where external audits are often mandatory. More generally, mandatory assurance would also play a disciplinary role in the market by strengthening the professional integrity of practitioners and reducing uncertainty. For example:

> We support independent assurance by qualified assurance practitioners to validate GHG emissions. We also support independent assurers being regulated, being required to have the appropriate technical expertise and having to abide by an ethical Code.
>
> (Insurance Council of New Zealand; FSAB)

> To elevate information on environmental, social and economic outcomes to the same relevance and quality as financial information, key elements should be subject to equivalent rigorous internal and external controls, including assurance.
>
> (Impact Investing Institute; CFA Institute)

However, 47% of submission contributors were against mandatory assurance despite their support for assurance in general. Most of them stated that assurance should be voluntary and recommended as best practice. An analysis of the reasons for this opposition highlights important shortcomings in assurance practices.

4.2 | Challenges to rational discourse on the assurance process

Submission contributors' opposition to making sustainability disclosure assurance mandatory in the context of sustainable finance reflects, to a large extent, why none of the three standards or laws studied impose such a practice. The numerous comments on this subject illustrate some of the inherent limitations of assurance and revolve around four interrelated issues: the vagueness of the methods used in the assurance process, auditors' lack of legitimacy, the underlying economic issues, and uncertainty about the effectiveness of assurance.

First, the vagueness of assurance methodologies was highlighted by 38% of submission contributors who commented on assurance issues. This vagueness is not only related to uncertainties about the new standards and how they will be applied but it also relates to the assurance process itself, in particular its scope, methods, and timing. What information is assured and what is not needs to be clarified. Among other things, assurance could cover the design of ESG products, the organizations in charge of their implementation, or various ESG disclosure procedures (e.g., policies, performance monitoring mechanisms, and screening methods). The verification procedures, their frequency, and the periods covered by the assurance also remain to be determined. The composition of investment products is often variable and diversified. In this context, assurance could project an overall impression of confidence and reliability when the verification is actually focused on a limited portion of ESG products or a limited time period. Furthermore, the level of assurance applied to sustainability disclosures is rarely high. Some submission contributors feared that the same will be true for the assurance of sustainable investment products; ideally, this should be based on extensive verification, but in practice, the industry is not necessarily inclined to do this, partly because of the costs involved. In this context, the audits are likely to be rather superficial and focus on the design of investment products rather than their actual implementation. The subjectivity of certain analyses and the differences in the rigor of the verifications or in the interpretation of the standards by different assurance providers may also encourage misleading statements about the real meaning and scope of the assurance, as exemplified in certain comments:

> While in theory independent examination is ideal, for other ESG-related standards, not all reviews are equally stringent or cover the same matters. Care should be taken in the design of a verification process for the Standard to not introduce this lack of comparability, and to design a uniform verification process/standard.
>
> (CFA Societies Canada ESG Working Group; CFA Institute)

> Consideration should be given to making sure that the examination is robust, and does not degenerate into a tick-the-box process.
>
> (Hymans Robertson; CFA Institute)

Second, concerns about the legitimacy, professionalism, and independence of auditors were highlighted by 35% of submission contributors who addressed assurance issues. The main criticisms in this regard concern the lack of expertise available to conduct rigorous and recognized assurance on ESG disclosures for sustainable finance. The standards are new, and few players have developed sufficient knowledge to carry out the assurance process, which is generally seen as technical, sophisticated, and complex. In the absence of training and professionalization through recognized professional organizations, finding this expertise may represent a major challenge for investors. Several respondents expressed concern that it will simply not be possible to find assurance providers capable of verifying the ESG disclosures covered by the standard. Moreover, it takes time to develop the skills and professional bodies needed to institutionalize sustainable finance best practices and the verification of such practices by qualified auditors, and clearly, the players in the field have not sufficiently anticipated the needs in this regard. The mismatch between needs and available expertise also risks reinforcing unscrupulous and unprofessional behavior on the part of some auditors. Various respondents raised concern about auditors' lack of independence and the high risk of conflicts of interest. In this context, it may be premature to impose binding measures on assurance practices whose procedures and professionalism remain, at best, uncertain. The submission contributors expressed this point as follows:

> Assurance standards are by their very nature highly technical and a high level of expertise will be needed to ensure that the assurance is conducted to the appropriate standards. It will take time to build assurance capability and competency following the development of reporting systems, controls and capability.
>
> (Institute of Directors (NZ) Inc; FSAB)

> Close personal relationships (e.g., dating, vacationing together) between members of the verifier's team and individuals at the investment manager who are able to significantly influence the verification or matters relating to the investment manager's compliance with the Standards would also pose independence issues.
>
> (Ernst & Young LLP (UK); CFA Institute)

Third, approximately 21% of the submission contributors mentioning assurance issues highlighted the economic and institutional issues underlying the assurance process. The main concern is the cost of verification, particularly for small asset managers. According to some respondents, the pressure to mandate the assurance of ESG investment products, as in the case of financial data, may favor large asset managers such as banks and institutional investors that can afford this type of practice. These large players may therefore reinforce their dominance in the market. The same applies to assurance providers. The assurance market—including corporate sustainability disclosure assurance—is to a large extent dominated by the "Big Four" accounting firms, namely Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC), as well as a few large consulting firms. Some submission contributors are concerned that the pressure and requirements for assurance would mainly benefit these large firms, which have diversified their activities considerably and have the resources to create audit teams relatively quickly. Smaller accounting and consulting firms would therefore be penalized. These concerns were expressed especially during the consultations on FSAB, which initially included specific measures on the qualification and accreditation of assurance practitioners. This measure was withdrawn from the draft law following stakeholder consultations because of the underlying commercial issues and pressure, particularly from non-accountant professionals, as explained in the following comments:

> Some submitters were concerned that the requirements to become an approved assurance body could exclude non-accountants from carrying out GHG assurance engagements. They noted that there are other professionals, including carbon and energy professionals, who have the skills and experience needed to carry out GHG assurance work.
>
> (Economic Development Science and Innovation Committee, 2021, p. 5)

In general, assurance practices in sustainable finance were seen as a potentially very lucrative new market, but one that risks benefiting too few players. Some submission contributors also felt that the industry is sufficiently regulated and that adding new rules for assurance would add to the constraints already placed on investors and thus discourage the adoption of sustainable finance standards, especially by smaller players. For example:

> Introducing third-party compliance around these kinds of disclosures bring an additional layer of expense to this process which will undoubtedly hamper smaller asset managers—you also end up developing a subset industry of auditors who themselves have to be policed.
>
> (CFA Society South Africa; CFA Institute)

> An assurance standard which is instead linked to the accountancy profession who are relatively new to the carbon management field is likely to disadvantage smaller, more cost-effective, local assurance providers in favor of the big four global accounting firms.
>
> (Lin Roberts, Senior Lecturer in Sustainability and Environmental Management at Lincoln University; FSAB)

Fourth, although the assurance process is intended to ensure the quality and reliability of the data, approximately 19% of submission contributors who commented on this process expressed skepticism about it. This is mainly because the reliability of sustainability disclosure depends primarily on the quality of corporate sustainability performance data or the rankings by the non-financial rating agencies that rely on this data. If these data are not reliable at the source, it is difficult for investors to make informed decisions on ESG investments that risk being misleading due to the "garbage in, garbage out" principle. Submission contributors highlighted the lack of rigor and reliability of information and analysis on companies' sustainability performance. In this context, the assurance process does not address a deeper and more fundamental problem over which investors and auditors do not have control. Moreover, sustainable finance standards do not directly address the quality of corporate sustainability disclosures but rather the principles and best practices for investment products' ESG disclosures (e.g., SRI policy and objectives, mechanisms for monitoring and addressing applicable regulations, disclosure of sustainability materials, sources of information used, procedures for addressing climate change issues, consideration of ESG risks, and screening methods in place). Regardless of these good practices, auditors tend to take for granted the quality of the information on which disclosures are based, in particular the rankings used. In this context, the application of standards and their verification may have little impact on the reliability of information that, upstream of investment products, may be based on greenwashing rather than on evidence. Several respondents also highlighted the lack of measurability and comparability of ESG data, which does not allow for a rigorous assurance process. The complexity and often highly diversified nature of investment funds makes it even more difficult for external auditors to verify the information. More generally, sustainable finance standards and associated verification seem, to a large extent, dissociated from real ESG impacts and, according to some respondents, could even reinforce greenwashing rather than reduce it, as mentioned by some submission contributors:

> Without naming and categorization standards and established minimum standards for ESG product features, investors could confuse a "compliant presentation" with one that achieves a standard of ESG investment practice. In other words, the Standards could facilitate rather than mitigate "greenwashing."
>
> (Investment Funds Institute of Canada; CFA Institute)

> We think any independent examinations at this stage would be premature and ineffective. ESG ratings services provide inconsistent results and there is nothing to suggest auditors will be able to make any better assessment.
>
> (The Asset Management Group of the Securities Industries and Financial Markets Association (SIFMA AMG); CFA Institute)

4.3 | The way ahead

While criticisms of the assurance process make it unrealistic to require it systematically for sustainable investment products, the consultations highlighted some of the solutions suggested by submission contributors. These solutions revolve around measures that allow for a gradual and circumstantial strengthening of the constraints associated with the external verification of ESG disclosures.

First, about 16% of the submission contributors who commented on the appropriateness of the assurance process felt that it should be voluntary at first and only become mandatory after an adaptation period of a few years (two or three years was the most frequently mentioned period). This adaptation period could give practitioners sufficient time to become familiar with the standards and develop appropriate skills. Several respondents also argue that during the discretionary adoption phase of sustainable finance standards and verification by external audits, assurance practices could quickly become de facto mandatory due to market pressures. Investment managers who voluntarily adopt these practices will indeed have a comparative advantage over those who do not, especially in a context marked by skepticism about the reliability of sustainable finance products and by greenwashing trends. The voluntary adoption phase of assurance could thus serve as a test for this practice and eventually make its institutionalization through binding regulations more legitimate. This gradual approach would also reduce the costs and resistance associated with the assurance process and would eliminate the risk of sanctions against organizations that do not comply with the obligation to use external assurance. The flexible and progressive approach advocated should therefore facilitate the spread of sustainable finance standards and make assurance a best practice rather than a formal requirement. For instance:

> There is no need to make it mandatory, at least at outset. Recommended as best practice, it should become a de facto standard over time. Asset managers who do not provide it will, in time, be trusted less.
>
> (Ario Advisory; CFA Institute)

> A fairer and more reasonable approach would be to grant entities a transitional, probation reporting period of up to two years during which penalties would not be applied. This would enable best practise reporting to develop. It would also ensure sufficient expertise is built up to support independent, audited, verification of disclosures.
>
> (Insurance Council of New Zealand; FSAB)

Second, approximately 13% of submission contributors who commented on assurance suggested making it mandatory under certain conditions only or limiting assurance to specific issues. In particular, contributors suggested that the size of the organizations should be considered and that assurance obligations should be proportionate to the organizations' means and the volume of assets concerned. According to some submission contributors, the materiality of ESG issues should also be taken into account. For example, the assurance requirement could only cover certain issues deemed critical, such as climate change, and exclude others that may be seen as less material. However, the practices for assessing materiality remain unclear and were not specified in the comment letters reviewed. Other submission contributors emphasized the need to modulate the assurance requirement according to the controls that already exist. For instance, external audits could be required only in regions or for activities that are not already subject to regulations related to sustainable finance. According to some submission contributors, the use or lack of internal audits of ESG assets should also be taken into account. Lastly, submission contributors suggested that explanations could be required on the reasons for not using external assurance or on activities that are outside the scope of the assurance engagement. These various proposals ultimately aim to reduce the costs and constraints associated with a monolithic approach to external assurance, without calling into question the legitimacy of such an approach. These aspects were mentioned by submission contributors as follows:

> We strongly urge the CFA Institute to revise the recommendation for an independent examination to exclude circumstances when an investment product is regulated and already subject to extensive legal requirements and regulatory review and examination.
>
> (Investment Company Institute (ICI); CFA Institute)

> Introducing [third-party assurance] for the largest and most climate-material companies but phasing for others would allow (a) for companies to learn from larger (presumably better resourced companies) and (b) those providing the service to build skills and capacity.
>
> (Brunel Pension Partnership; FCA)

5 | DISCUSSION

The objective of this study was to understand the value and identify the challenges of the assurance process for ESG disclosures on investment products by examining the perspectives of actors who commented on this issue in public consultations on sustainable finance standards. The focus on external assurance issues in the consultations was driven primarily by criticism of greenwashing trends and the need to regulate practices to ensure that "what you see is what you get" in supposed ESG investments. It is also explained by the economic and commercial stakes of the assurance process, in particular for the large accounting firms for which the verification of sustainable finance standards appears as a promising market within the framework of a broader diversification of their activities (Boiral, Heras-Saizarbitoria, et al., 2020; Perego & Kolk, 2012; Ruiz-Barbadillo & Martínez-Ferrero, 2022).

Voluntary assurance of ESG disclosures by external auditors may be the most appropriate tool for reassuring stakeholders about the quality and transparency of information without subjecting practitioners to overly restrictive measures. However, the implementation of assurance faces major challenges, in particular lack of control over the reliability of ESG data concerning economic activities upstream of the financial markets, lack of available expertise, and vagueness surrounding the process and costs of assurance. Because of these challenges, it is currently difficult to impose requirements for external assurance on ESG disclosures for sustainable finance products in order to prevent misconduct and greenwashing. Still, despite the reservations expressed by actors in the field, market pressures, and stakeholder expectations for greater transparency could soon make this practice de facto mandatory. However, its effectiveness is likely to be limited or even symbolic, especially in the early years of the adoption of these standards, during which it is unlikely that assurance providers will have had sufficient time to acquire the necessary experience and skills. More fundamentally, external verification of the ESG disclosure standards for investment products is unlikely to have a significant impact on the underlying causes of the uncertainties and greenwashing tendencies currently observed in sustainable finance.

5.1 | Contributions to the literature

The article makes four main contributions to the literature. First, it contributes to the literature on greenwashing in ESG disclosure and the effectiveness of tools to prevent it, specifically external assurance. Critical research on the issue often stresses the importance of strengthening controls and regulatory pressures due to the trend toward the commoditization and managerial capture of audits (Boiral & Gendron, 2011; Farooq & de Villiers, 2020; Krasodomska et al., 2021; Myers & Czarnezki, 2021; Smith et al., 2011). However, the application conditions of this coercive mode of regulation are rarely explained in the literature, and neither are the challenges linked to its implementation or the perceptions of stakeholders on this subject. The article shows the difficulties inherent in the implementation of mandatory assurance in the field of sustainable finance according to the main actors concerned and explains their resistance to this direction. These difficulties are not only linked to the intrinsic limitations of assurance but also to auditors' lack of control over the more fundamental causes of greenwashing. The article highlights the ways in which the main actors in sustainable finance perceive the implementation of auditing practices that, in principle, aim to prevent a problem over which these practices actually have little or no real control. It also describes the way that sustainable finance depends on corporate disclosure practices and performance evaluations by rating agencies that establish rankings used by would-be responsible investors. Upstream of the financial markets, the uncertainties surrounding the measurement of the sustainability impacts of economic activities, and companies' greenwashing tendencies have repercussions, further downstream, on the disclosures concerning ESG investment products. In this context, the imposition of assurance standards and procedures is likely to reinforce greenwashing by giving a "green," rational, and reassuring appearance to investment products that lack real sustainability in the first place or whose real impacts cannot easily be measured appropriately. It is therefore reasonable to assume that assurance practices will make greenwashing problems more invisible and abstract. Practitioners are also likely to perceive these problems as being outside the formal responsibilities of ESG fund managers, who will have done their part by using auditing services.

Second, the article contributes to the emerging literature on the institutionalization of sustainable finance practices and the establishment of regulatory mechanisms for these activities (Chiu, 2022; Krasodomska et al., 2021; Migliorelli, 2021; Myers & Czarnezki, 2021). To our knowledge, this is the first empirical study to analyze new standards in this area along with stakeholders' perceptions of their implications. This study responds to the call of Zaman et al. (2021) for more papers at the intersection of corporate governance and ESG. It also responds to Haapamäki's (2022) call for more studies from a neo-institutional perspective on the implementation of new standards in accounting. It is part of an emerging trend in institutional theory concerning the dynamics of contestation of new standards and practices (Boxenbaum & Jonsson, 2017; Hoffmann & Zuelch, 2014). In particular, it provides a better understanding of the rationale as to why some actors question the taken-for-granted utility of the assurance process. By focusing on the process rather than the outcomes of institutionalization, a less developed field in institutional theory (e.g., Dillard et al., 2004; Kaplan, 2018; Lawrence et al., 2001), it is possible to understand better the creation of rational myths concerning the assurance process of ESG disclosures (Dillard et al., 2004; Kaplan, 2018; Schneiberg & Soule, 2005).

The development of new standards to regulate so-called responsible or green investment practices clearly reflects a need for regulation, which was indeed widely expressed during the public consultations. The institutional arrangements to meet this need revolve around two main points. The first is based on a legislative approach, which seems to be favored in some regions—notably in Europe and New Zealand—and by some practitioners. This approach tends to mandate the adoption of sustainable finance standards and binding verification mechanisms to ensure their effective implementation. The second is a voluntary approach in which standards and verification mechanisms represent best practices left to the discretion of practitioners. While the voluntary approach is predominant in the consultations analyzed, the opinions on the issue and the proposed solutions reflect a wide range of perceptions. Moreover, the predominance of a voluntary approach to implementing standards and verifying them through assurance is not only explained by the constraints and costs of coercive measures. It also reflects the financial sector's lack of maturity and readiness for new sustainable finance standards, which may prove difficult to implement and verify in a rigorous way.

Third, the article contributes to the literature on the development of rational myths in the consideration of sustainability issues (Boiral, Heras-Saizarbitoria, & Brotherton, 2019; Gibassier et al., 2018; Jamali, 2010; Perego & Kolk, 2012). These myths have mainly been observed in the implementation of standards concerning management practices, such as ISO 14001, and the disclosure of corporate performance, such as the GRI. To our knowledge, they have not been used in the context of sustainable finance standards or external assurance in this area. Haapamäki (2022) stresses the importance of mobilizing concepts linked to neo-institutional theory to study audit and assurance issues. This study provides a better understanding of how normative pressures can help us understand competing discourses concerning the efficiency and relevance of assurance processes. The obstacles mentioned in the consultations (e.g., lack of expertise, opacity in measuring corporate sustainability performance, vagueness surrounding verification methods, commoditization of audits) show that the rigorous and rational appearance of external verification for ESG disclosures in the context of sustainable finance is largely exaggerated. This appearance is mainly the result of the analogy with traditional finance standards and practices (Boiral & Heras-Saizarbitoria, 2020; Etzion & Ferraro, 2010), a point that was often put forward during the consultations. The normative isomorphism underlying the transfer of the auditing vocabulary and practices that have proven successful in finance to the much less structured field of ESG disclosures projects an artificial image of rationality and rigor. This image is thus to a large extent dissociated from what external assurance actually offers in practice. This rational myth tends to be reinforced by the large accounting firms that already offer a multitude of audit services and that wish to quickly establish their legitimacy in the field of sustainable finance.

Fourth, the article contributes to the literature on assurance practices in sustainability reporting. Although this literature focuses mainly on corporate sustainability disclosure and not on ESG investments (e.g., Al-Shaer & Zaman, 2018; Manetti & Toccafondi, 2012; Michelon et al., 2015; Park & Brorson, 2005), it is relevant for understanding the motivations for and shortcomings of the assurance of ESG disclosures for sustainable finance. In both cases, assurance practices are essentially motivated by a concern for legitimacy and aim to establish trusting relationships with stakeholders (Jamali, 2010; Martínez-Ferrero & García-Sánchez, 2017; Perego & Kolk, 2012). Interestingly, the limitations and challenges mentioned by submission contributors are very similar to those identified in the critical literature—e.g., the superficiality of audits, auditors' lack of qualifications to assess sustainability, and conflicts of interest (Boiral & Heras-Saizarbitoria, 2020; Farooq & de Villiers, 2020; Gürtürk & Hahn, 2016; Perego & Kolk, 2012). The often harsh comments on the audit industry thus show the reflexivity of SRI practitioners. In most cases, these practitioners seem quite aware of the contradictions between, on the one hand, the need to promote the external verification of data to establish the legitimacy of their activities and, on the other hand, the virtual impossibility of setting up audits that are sufficiently rigorous to really assure stakeholders of the information's quality and transparency. More generally, this article responds to the need for further research on stakeholder perceptions of the institutionalization of audit practices and the quality of ESG disclosures (Diouf & Boiral, 2017; Krasodomska et al., 2021; Manetti & Toccafondi, 2012).

5.2 | Managerial implications

The study has practical implications for sustainable finance practitioners, auditing firms, training institutions, organizations developing new standards in this area, and governments. While the widespread use of assurance practices for sustainable finance products is a predictable trend in the medium term given current institutional pressures to ensure data quality, investors and responsible investment practitioners more generally should not take the effectiveness and rigor of audits for granted. The added value of external assurance in improving the transparency and quality of ESG disclosures should be clarified before organizations use assurance services. The same applies to the expertise of auditors, the various assurance methods they plan to use, and the resulting costs.

Given the proliferation of sustainable finance products, the development of standards in this area, and the importance of market opportunities for audit firms, audit firms would benefit from quickly developing their organizational skills through training programs and the establishment of qualified audit teams. In general, the composition of the audit teams and their expertise have a significant influence on the quality of the verification of sustainability disclosures (Boiral, Heras-Saizarbitoria, & Brotherton, 2020; Cuadrado-Ballesteros et al., 2017; Fuhrmann et al., 2017; Zaman et al., 2021). However, due to the lack of expertise available in the market—a problem that was often highlighted in the consultations—the recruitment of specialists in both sustainable finance and external auditing practices currently represents a major challenge that, in some cases, may be insurmountable. In this context, audit firms should instead build diversified teams of distinct specialists from different disciplines to meet the demands and complexity of sustainable finance standard assurance. Training institutions, particularly universities with programs in accounting and finance, should also develop new courses or adjust the content of existing courses to meet the needs expressed by practitioners. Among other things, the various sustainable finance standards, their implications for investor practices, and the tools needed to verify them should be integrated into training programs.

Standard-setting bodies (e.g., CFA Institute, FCA, ISO, IFRS, IIRC, SEC, SASB) should also further coordinate their efforts to harmonize sustainable finance standards and their associated auditing methodologies. In the case of the three standards included in this study, the current lack of clarity on the criteria for external assurance, particularly in terms of background, expertise, and methodology, may undermine the standards' credibility.

Lastly, governments should closely monitor the development, implementation, and verification of this type of standard, including FSAB, which is a new legislation in New Zealand. Governments should consider implementing regulations based on specific standards or based on some of their recommendations. The same applies to the verification of such standards by external assurance. For example, specific regulations could require sustainable finance practitioners to adopt certain standards and have them assured by auditors meeting clearly defined criteria. Such regulations, with penalties for non-compliance, would likely deter misconduct and exaggerations in sustainable finance. However, overly restrictive regulations may hinder the development of sustainable finance, as well as current self-regulatory initiatives in this sector.

5.3 | Limitations and avenues for future research

This study has some limitations that can be used to establish avenues for future research. As the sustainable finance standards and laws included in this study were still in draft form or in their infancy, it is still too early to judge their effectiveness and the rigor of their verification through external assurance. Future research could explore these issues further through case studies or in-depth interviews with practitioners.

The present study is based on a qualitative content analysis that does not allow the results to be generalized. Moreover, the results obtained are directly linked with the three initiatives included in the study and are difficult to generalize to the context of other standards or laws. The content of the comment letters may also have been influenced by the interests of the actors involved, the content of the draft standards, or the political context. Future quantitative studies based on questionnaires covering these issues could be set up to more broadly study the ways that stakeholders (e.g., institutional investors, fund managers, consultants, auditing firms, and investor associations) perceive the various standards, the usefulness of verifying compliance with the standards through external assurance, and the assurance's effects on improving investors' confidence in ESG investment products. These studies would certainly make it possible to measure the differences between stakeholders in terms of their perceptions of assurance practices, particularly regarding these practices' credibility and their effectiveness in preventing misconduct. The political and institutional issues surrounding the development of new standards would also benefit from further investigation, as they were not covered in the present study.

Although this research is limited to the three standards that met the sample selection criteria at the time of the study, others are currently under development or under consideration and would benefit from investigation. This is particularly the case of the ISO 32210 standard on sustainable finance, which could become a reference standard. The International Sustainability Standards Board (ISSB), founded in 2022 by the International Financial Reporting Standards (IFRS) with the aim of launching new sustainable finance standards, also seems destined to play a major role in this rapidly evolving field. The way in which some standards become institutionalized while others remain marginal or do not go beyond the draft stage could be explored further through longitudinal studies.

As the qualitative content analysis used in the present research was not appropriate to study the influence of regional, regulatory, and cultural specificities of perceptions of standards design and implementation, future research could explore these issues. However, given the weight of the underlying economic interests and social desirability biases related to sustainability issues, the actual perceptions and practices of sustainable finance actors remain difficult to clarify.

ACKNOWLEDGEMENTS

This project was supported by the Canada Research Chair in Internalization of Sustainability Practices and Organizational Accountability.

FUNDING INFORMATION

There is no funding to declare for this article.

CONFLICT OF INTEREST STATEMENT

The authors have no potential conflicts of interest to declare.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

ORCID

Olivier Boiral https://orcid.org/0000-0002-9722-7644

Marie-Christine Brotherton https://orcid.org/0000-0002-3439-5800

David Talbot https://orcid.org/0000-0002-9675-2703

REFERENCES

Ahlström, H., & Monciardini, D. (2022). The regulatory dynamics of sustainable finance: Paradoxical success and limitations of EU reforms. *Journal of Business Ethics*, *177*(1), 193–212.

Al-Shaer, H., & Zaman, M. (2018). Credibility of sustainability reports: The contribution of audit committees. *Business Strategy and the Environment*, *27*(7), 973–986.

Alvesson, M., & Spicer, A. (2019). Neo-institutional theory and organization studies: A mid-life crisis? *Organization Studies*, *40*(2), 199–218.

Arvidsson, S., & Johansson, J. (2019). Sense-making and sense-giving: Reaching through the smokescreen of sustainability disclosure in the stock market. In S. Arvidsson (Ed.), *Challenges in managing sustainable business* (pp. 77–109). Palgrave Macmillan.

Baldi, F., & Pandimiglio, A. (2022). The role of ESG scoring and greenwashing risk in explaining the yields of green bonds: A conceptual framework and an econometric analysis. *Global Finance Journal*, *52*, 100711.

Benson, A. (2021, July 19). *How greenwashing may be affecting your investments*. Nasdaq https://www.nasdaq.com/articles/how-greenwashing-may-be-affecting-your-investments-2021-07-19

Bloomberg. (2021, July 20). *ESG assets rising to $50 Trillion will reshape $140.5 Trillion of Global AUM by 2025, finds Bloomberg Intelligence*. https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape-140-5-trillion-of-global-aum-by-2025-finds-bloomberg-intelligence/

Bloomberg. (2022, June 7). Deutsche Bank's DWS to keep ESG focus after greenwashing claims. *The Business Times* https://www.bloomberg.com/news/articles/2022-06-07/deutsche-bank-s-dws-to-keep-esg-focus-after-greenwashing-claims#xj4y7vzkg

Boiral, O. (2007). Corporate greening through ISO 14001: A rational myth? *Organization Science*, *18*(1), 127–146.

Boiral, O., Brotherton, M. C., Rivaud, L., & Talbot, D. (2022). Comparing the uncomparable? An investigation of car manufacturers' climate performance. *Business Strategy and the Environment*, *31*(5), 2213–2229.

Boiral, O., & Gendron, Y. (2011). Sustainable development and certification practices: Lessons learned and prospects. *Business Strategy and the Environment*, *20*(5), 331–347.

Boiral, O., & Henri, J.-F. (2017). Is sustainability performance comparable? A study of GRI reports of mining organizations. *Business & Society*, *56*(2), 283–317.

Boiral, O., & Heras-Saizarbitoria, I. (2020). Sustainability reporting assurance: Creating stakeholder accountability through hyperreality? *Journal of Cleaner Production*, *243*, 118596.

Boiral, O., Heras-Saizarbitoria, I., & Brotherton, M.-C. (2019). Assessing and improving the quality of sustainability reports: The auditors' perspective. *Journal of Business Ethics*, *155*(3), 703–721.

Boiral, O., Heras-Saizarbitoria, I., & Brotherton, M.-C. (2020). Professionalizing the assurance of sustainability reports: The auditors' perspective. *Accounting, Auditing & Accountability Journal*, *33*(2), 309–334.

Boiral, O., Heras-Saizarbitoria, I., Brotherton, M.-C., & Bernard, J. (2019). Ethical issues in the assurance of sustainability reports: Perspectives from assurance providers. *Journal of Business Ethics*, *159*(4), 1111–1125.

Boiral, O., Talbot, D., & Brotherton, M. C. (2020). Measuring sustainability risks: A rational myth? *Business Strategy and the Environment*, *29*(6), 2557–2571.

Boiral, O., Talbot, D., Brotherton, M.-C., & Heras-Saizarbitoria, I. (2021). Sustainability rating and moral fictionalism: Opening the black box of nonfinancial agencies. *Accounting, Auditing & Accountability Journal*, *34*(8), 1740–1768.

Boxenbaum, E., & Jonsson, S. (2017). Isomorphism, diffusion and decoupling: Concept evolution and theoretical challenges. In R. Greenwood, C. Oliver, T. B. Lawrence, & R. E. Meyer (Eds.), *The*

Sage handbook of organizational institutionalism (Vol. 2, pp. 79–104). SAGE Publications Ltd.
CFA Institute. (2022). *Global ESG Disclosure Standards for Investment Products handbook*. CFA Institute.
Chiu, I. H. (2022). The EU sustainable finance agenda: Developing governance for double materiality in sustainability metrics. *European Business Organization Law Review*, *23*(1), 87–123.
Chiu, I. H., Lin, L., & Rouch, D. (2022). Law and regulation for sustainable finance. *European Business Organization Law Review*, *23*, 1–7.
Christensen, D. M. (2016). Corporate accountability reporting and high-profile misconduct. *The Accounting Review*, *91*(2), 377–399.
Cuadrado-Ballesteros, B., Martínez-Ferrero, J., & García-Sánchez, I. M. (2017). Mitigating information asymmetry through sustainability assurance: The role of accountants and levels of assurance. *International Business Review*, *26*(6), 1141–1156.
Cunha, F. A. F. d. S., Meira, E., & Orsato, R. J. (2021). Sustainable finance and investment: Review and research agenda. *Business Strategy and the Environment*, *30*(8), 3821–3838.
Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, *17*(4), 506–542.
DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, *48*(2), 147–160.
Diouf, D., & Boiral, O. (2017). The quality of sustainability reports and impression management: A stakeholder perspective. *Accounting, Auditing & Accountability Journal*, *30*(3), 643–667.
Drempetic, S., Klein, C., & Zwergel, B. (2020). The influence of firm size on the ESG score: Corporate sustainability ratings under review. *Journal of Business Ethics*, *167*(2), 333–360.
Du, K., & Wu, S.-J. (2019). Does external assurance enhance the credibility of CSR reports? Evidence from CSR-related misconduct events in Taiwan. *Auditing: A Journal of Practice & Theory*, *38*(4), 101–130.
Economic Development Science and Innovation Committee. (2021). *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill—Final Report*.
Etzion, D., & Ferraro, F. (2010). The role of analogy in the institutionalization of sustainability reporting. *Organization Science*, *21*(5), 1092–1107.
Farooq, M. B., & de Villiers, C. (2020). How sustainability assurance engagement scopes are determined, and its impact on capture and credibility enhancement. *Accounting, Auditing & Accountability Journal*, *33*(2), 417–445.
Frumkin, P., & Galaskiewicz, J. (2004). Institutional isomorphism and public sector organizations. *Journal of Public Administration Research and Theory*, *14*(3), 283–307.
Fuhrmann, S., Ott, C., Looks, E., & Guenther, T. W. (2017). The contents of assurance statements for sustainability reports and information asymmetry. *Accounting and Business Research*, *47*(4), 369–400.
Gephart, R. P. (2004). Qualitative research and the Academy of Management Journal. *Academy of Management Journal*, *47*(4), 454–462.
Gibassier, D., Rodrigue, M., & Arjaliès, D.-L. (2018). "Integrated reporting is like God: no one has met Him, but everybody talks about Him": The power of myths in the adoption of management innovations. *Accounting, Auditing & Accountability Journal*, *31*(5), 1349–1380.
Gürtürk, A., & Hahn, R. (2016). An empirical assessment of assurance statements in sustainability reports: Smoke screens or enlightening information? *Journal of Cleaner Production*, *136*(A), 30–41.
Haapamäki, E. (2022). Insights into neo-institutional theory in accounting and auditing regulation research. *Managerial Auditing Journal*, *37*(3), 336–357.
Haffar, M., & Searcy, C. (2020). Legitimizing potential "bad news": How companies disclose on their tension experiences in their sustainability reports. *Organization & Environment*, *33*(4), 534–553.
Hahn, R., & Lülfs, R. (2014). Legitimizing negative aspects in GRI-oriented sustainability reporting: A qualitative analysis of corporate disclosure strategies. *Journal of Business Ethics*, *123*(3), 401–420.
Hetzner, C. (2022, May 31). Deutsche Bank raided by authorities over ESG 'greenwashing' claims: 'We've found evidence that that could support allegations of prospectus fraud'. *Fortune* https://fortune.com/2022/05/31/deutsche-bank-dws-esg-greenwashing-raid-evidence-seized-whistleblower-fixler/
Hickman, L. E., & Cote, J. (2019). CSR reporting and assurance legitimacy: A client–assuror dyad investigation. *Journal of Applied Accounting Research*, *20*(4), 372–393.
Higgins, C., Tang, S., & Stubbs, W. (2020). On managing hypocrisy: The transparency of sustainability reports. *Journal of Business Research*, *114*, 395–407.
Hoffmann, S., & Zuelch, H. (2014). Lobbying on accounting standard setting in the parliamentary environment of Germany. *Critical Perspectives on Accounting*, *25*(8), 709–723.
Holder-Webb, L., & Cohen, J. (2012). The cut and paste society: Isomorphism in codes of ethics. *Journal of Business Ethics*, *107*(4), 485–509.
Hsieh, H.-F., & Shannon, S. E. (2005). Three approaches to qualitative content analysis. *Qualitative Health Research*, *15*(9), 1277–1288.
Jamali, D. (2010). MNCs and international accountability standards through an institutional lens: Evidence of symbolic conformity or decoupling. *Journal of Business Ethics*, *95*(4), 617–640.
Kaplan, Y. (2018). Analysing instability as a future for an institutionalization process: The EU, Turkey and the issue of migration. *European Journal of Futures Research*, *6*(1), 16.
KPMG. (2022). Big shifts, small steps: Survey of Sustainability Reporting 2022. https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf
Krasodomska, J., & Cho, C. H. (2017). Corporate social responsibility disclosure: Perspectives from sell-side and buy-side financial analysts. *Sustainability Accounting, Management and Policy Journal*, *8*(1), 2–19.
Krasodomska, J., Simnett, R., & Street, D. L. (2021). Extended external reporting assurance: Current practices and challenges. *Journal of International Financial Management & Accounting*, *32*(1), 104–142.
La Torre, M., & Chiappini, H. (2021). Sustainable finance: Emerging challenges and opportunities. In M. La Torre & H. Chiappini (Eds.), *Contemporary issues in sustainable finance* (pp. 1–4). Palgrave Macmillan.
Larrinaga, C., Rossi, A., Luque-Vilchez, M., & Núñez-Nickel, M. (2020). Institutionalization of the contents of sustainability assurance services: A comparison between Italy and United States. *Journal of Business Ethics*, *163*(1), 67–83.
Lawrence, T. B., Winn, M. I., & Jennings, P. D. (2001). The temporal dynamics of institutionalization. *Academy of Management Review*, *26*(4), 624–644.
Liang, H., & Renneboog, L. (2020). Corporate social responsibility and sustainable finance: A review of the literature. *European Corporate Governance Institute–Finance Working Paper 701/2020*. https://doi.org/10.2139/ssrn.3698631
Manetti, G., & Toccafondi, S. (2012). The role of stakeholders in sustainability reporting assurance. *Journal of Business Ethics*, *107*(3), 363–377.
Martínez-Ferrero, J., & García-Sánchez, I.-M. (2017). Coercive, normative and mimetic isomorphism as determinants of the voluntary assurance of sustainability reports. *International Business Review*, *26*(1), 102–118.
Martínez-Ferrero, J., García-Sánchez, I. M., & Ruiz-Barbadillo, E. (2018). The quality of sustainability assurance reports: The expertise and experience of assurance providers as determinants. *Business Strategy and the Environment*, *27*(8), 1181–1196.
Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, *83*(2), 340–363.

Michelon, G., Patten, D. M., & Romi, A. M. (2019). Creating legitimacy for sustainability assurance practices: Evidence from sustainability restatements. *European Accounting Review*, *28*(2), 395–422.

Michelon, G., Pilonato, S., & Ricceri, F. (2015). CSR reporting practices and the quality of disclosure: An empirical analysis. *Critical Perspectives on Accounting*, *33*, 59–78.

Migliorelli, M. (2021). What do we mean by sustainable finance? Assessing existing frameworks and policy risks. *Sustainability*, *13*(2), 975.

Mock, T. J., Rao, S. S., & Srivastava, R. P. (2013). The development of worldwide sustainability reporting assurance. *Australian Accounting Review*, *23*(4), 280–294.

Moroney, R., Windsor, C., & Aw, Y. T. (2012). Evidence of assurance enhancing the quality of voluntary environmental disclosures: An empirical analysis. *Accounting & Finance*, *52*(3), 903–939.

Myers, C., & Czarnezki, J. J. (2021). Sustainable business law? The key role of corporate governance and finance. *Environmental Law*, *51*(4), 991–1040.

O'Dwyer, B. (2003). Conceptions of corporate social responsibility: The nature of managerial capture. *Accounting, Auditing & Accountability Journal*, *16*(4), 523–557.

O'Kane, S. (2021, July 8). Volkswagen, BMW fined $1 billion for colluding to make dirtier cars. *The Verge* https://www.theverge.com/2021/7/8/22568356/volkswagen-bmw-daimler-emissions-cartel-fine-audi-porsche-eu

Parfitt, C. (2022). A foundation for 'ethical capital': The Social Accountability Standards Board and integrated reporting. *Critical Perspectives on Accounting*, 102477. https://doi.org/10.1016/j.cpa.2022.102477

Park, J., & Brorson, T. (2005). Experiences of and views on third-party assurance of corporate environmental and sustainability reports. *Journal of Cleaner Production*, *13*(10–11), 1095–1106.

Perego, P. (2009). Causes and consequences of choosing different assurance providers: An international study of sustainability reporting. *International Journal of Management*, *26*(3), 412–425.

Perego, P., & Kolk, A. (2012). Multinationals' accountability on sustainability: The evolution of third-party assurance of sustainability reports. *Journal of Business Ethics*, *110*(2), 173–190.

Popescu, I.-S., Hitaj, C., & Benetto, E. (2021). Measuring the sustainability of investment funds: A critical review of methods and frameworks in sustainable finance. *Journal of Cleaner Production*, *314*, 128016.

Power, M. (1997). *The audit society: Rituals of verification*. Oxford University Press.

Power, M. (2021). Modelling the micro-foundations of the audit society: Organizations and the logic of the audit trail. *Academy of Management Review*, *46*(1), 6–32.

Pratt, M. G. (2009). From the editors: For the lack of a boilerplate: Tips on writing up (and reviewing) qualitative research. *Academy of Management Journal*, *52*(5), 856–862.

Reimsbach, D., Hahn, R., & Gürtürk, A. (2018). Integrated reporting and assurance of sustainability information: An experimental study on professional investors' information processing. *European Accounting Review*, *27*(3), 559–581.

Robinson, D. (2022, July 17). 10 companies and corporations called out for greenwashing. Earth.org. https://earth.org/greenwashing-companies-corporations/

Ruiz-Barbadillo, E., & Martínez-Ferrero, J. (2022). The choice of incumbent financial auditors to provide sustainability assurance and audit services from a legitimacy perspective. *Sustainability Accounting, Management and Policy Journal*, *13*(2), 459–493.

Ruiz-Blanco, S., Romero, S., & Fernandez-Feijoo, B. (2022). Green, blue or black, but washing–what company characteristics determine greenwashing? *Environment, Development and Sustainability*, *24*(3), 4024–4045.

Schneiberg, M., & Soule, S. A. (2005). Institutionalization as a contested, multilevel process. In G. F. Davis, D. McAdam, W. R. Scott, & M. N. Zald (Eds.), *Social movements and organization theory* (pp. 122–160). Cambridge University Press.

Slack, T., & Hinings, B. (1994). Institutional pressures and isomorphic change: An empirical test. *Organization Studies*, *15*(6), 803–827.

Smith, J., Haniffa, R., & Fairbrass, J. (2011). A conceptual framework for investigating 'capture' in corporate sustainability reporting assurance. *Journal of Business Ethics*, *99*(3), 425–439.

Solomon, J. F., & Solomon, A. (2006). Private social, ethical and environmental disclosure. *Accounting, Auditing & Accountability Journal*, *19*(4), 564–591.

Stuart, A. C., Bedard, J. C., & Clark, C. E. (2021). Corporate social responsibility disclosures and investor judgments in difficult times: The role of ethical culture and assurance. *Journal of Business Ethics*, *171*(3), 565–582.

Talbot, D., & Boiral, O. (2018). GHG reporting and impression management: An assessment of sustainability reports from the energy sector. *Journal of Business Ethics*, *147*(2), 367–383.

Testa, F., Miroshnychenko, I., Barontini, R., & Frey, M. (2018). Does it pay to be a greenwasher or a brownwasher? *Business Strategy and the Environment*, *27*(7), 1104–1116.

Tetteh, L. A., Agyenim-Boateng, C., & Simpson, S. N. Y. (2023). Institutional pressures and strategic response to auditing implementation of sustainable development goals: The role of public sector auditors. *Journal of Applied Accounting Research*, *24*(2), 403–423.

Thomas, D. R. (2006). A general inductive approach for analyzing qualitative evaluation data. *American Journal of Evaluation*, *27*(2), 237–246.

Truth in Advertising. (2022, June 28). Companies accused of greenwashing. https://truthinadvertising.org/articles/six-companies-accused-greenwashing/

Varpio, L., Paradis, E., Uijtdehaage, S., & Young, M. (2020). The distinctions between theory, theoretical framework, and conceptual framework. *Academic Medicine*, *95*(7), 989–994.

Wong, R., & Millington, A. (2014). Corporate social disclosures: A user perspective on assurance. *Accounting, Auditing & Accountability Journal*, *27*(5), 863–887.

Zaman, R., Farooq, M. B., Khalid, F., & Mahmood, Z. (2021). Examining the extent of and determinants for sustainability assurance quality: The role of audit committees. *Business Strategy and the Environment*, *30*(7), 2887–2906.

How to cite this article: Boiral, O., Brotherton, M.-C., & Talbot, D. (2024). What you see is what you get? Building confidence in ESG disclosures for sustainable finance through external assurance. *Business Ethics, the Environment & Responsibility*, *33*, 617–632. https://doi.org/10.1111/beer.12630

APPENDIX 1

LIST OF THE DRAFT STANDARDS OR LAWS ON SUSTAINABLE FINANCE

Organization	Initiative	Country of origin	Consultation process	Number of comment letters retrieved	Reason for exclusion
British Standards Institution (BSI)	Sustainable finance standards programme	United Kingdom	Yes	n/a	Comment letters not publicly available
CFA Institute	Global ESG Disclosure Standards for Investment Products	Global	Yes	117	Included
Climate Disclosure Standards Board (CDSB)	Financial accounting standards	Global	Yes	n/a	Comment letters not publicly available
European Commission	EU taxonomy for sustainable activities	Europe	Yes	261	Assurance issues not discussed in comment letters
Financial Conduct Authority (FCA)	Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations	United Kingdom	Yes	14	Included
Global Reporting Initiative (GRI)	GRI Standards	Global	Yes	7	Not specific to sustainable finance
International Financial Reporting Standards (IFRS)	Consultation Paper on Sustainability Reporting	Global	Yes	584	Not specific to sustainable finance
International Integrated Reporting Council (IIRC)	International Integrated Reporting (IR) Framework	Global	Yes	n/a	Comment letters not publicly available
International Organization for Standardization (ISO)	ISO 32210: 2022—Sustainable Finance	Global	Yes	n/a	Comment letters not publicly available
New Zealand parliament	Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (FSAB)	New Zealand	Yes	57	Included
Sustainability Accounting Standards Board (SASB)	SASB Standards	Global	Yes	114	Not specific to sustainable finance
Task Force on Climate-related Financial Disclosures (TCFD)	Climate-related financial disclosure recommendations	Global	Yes	n/a	Comment letters not publicly available
U.S. Securities and Exchange Commission (SEC)	Climate Change Guidance	United States	Yes	622	Not specific to sustainable finance

APPENDIX 2

CATEGORIES ON THE ASSURANCE OF ESG DISCLOSURES FOR SUSTAINABLE FINANCE

Assurance process requirement

- External assurance should not be mandatory
- External assurance should be mandatory only on material topics
- External assurance should be mandatory only on a comply-or-explain basis
- External assurance should always be mandatory
- External assurance should be mandatory in the future, but voluntary for the time being

Submission contributors' opinion on external assurance

- Assurance is costly
- Assurance ensures the credibility of disclosure
- Assurance norms should only be developed in the future
- Assurance providers should be involved in the development of the standard or law
- The accountancy profession is not ready to assure these types of issues
- Internal audit should be sufficient
- External assurance should be performed annually
- External assurance requirements should depend on the size of the organization
- External assurance should be independent from the requirements of standards or laws
- A process should be put in place to deal with the reserves expressed by assurance providers
- Issues have been observed in the independence and professionalism of assurance providers
- Other opinions not included above