June 15, 2022

The Honorable Gary Gensler, Chair
U.S. Securities and Exchange Commission

Re: Request for Comment on Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* [Release Nos. 33-11042; 34-94478; File No. S7-10-22]

Dear Chair Gensler:

The American Institute of CPAs (AICPA) is pleased to respond to the US Securities and Exchange Commission's (SEC) request for comment on Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (Proposed Rule). The AICPA appreciates the SEC's significant efforts in putting forth a comprehensive proposed rule and the opportunity to help inform the SEC's rule-making process.

Over the last several years companies have begun to think more widely about a company's purpose[1], and about how a company defines, captures or creates and delivers value[1a]. Correspondingly, shareholders and other stakeholders have been demanding[2] a broader base of information about a company's business model, strategy, and governance. As highlighted throughout the Proposed Rule, investors have asked for relevant disclosures about the collective drivers of short, medium, and long-term value, including information related to climate-related risks that may have a financial impact.

Integrated thinking and related disclosures about the range of financial and non-financial factors that affect a company's ability to create value is required in our complex, interdependent world. There is a clear and present need to enhance accountability and stewardship of the tangible capitals deployed by a company as well as the intangible capitals and resources consumed (such as the human, social and relationship, and natural capitals), to understand their interdependencies and to transparently disclose and report on those factors.

As a profession, we are prepared to help meet market, business and investor needs for more reliable, consistent, comparable and integrated climate-related information, and we offer additional high-level views below. We have grouped our responses thematically.

Standards and Frameworks – Should the SEC mandate climate-related disclosures, we would support the SEC's continued efforts to align its climate-related disclosures with existing frameworks and standards,

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[1] *Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'.*

[1a] *Rethinking the Business Model CGMA Whitepaper*

[2] See letters from Larry Fink, Blackrock and Cyrus Taraporevala, State Street Global Advisors to corporate CEOs demanding that companies align reporting with the climate-related disclosures recommended by the Taskforce for Climate-related Financial Disclosure.

such as the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the Greenhouse Gas Protocol[3]. TCFD recommendations have become the leading framework for climate change disclosures, garnering notable endorsements from the G7 and G20[4], increasingly required by regulators around the world[5]. We believe that modeling the required disclosures after existing standards and frameworks should help to increase consistency and comparability of information, as these frameworks are leveraged by companies globally.

Further, we welcome alignment with existing standards and frameworks as this Proposed Rule is issued contemporaneously with the current drive to mandate sustainability reporting around the world. Ultimately, we strongly support the premise that global standards should be used for measuring and disclosing climate-related information and that any regulatory requirements introduced now should allow for subsequent alignment with global standards in order to achieve consistent and reliable reporting that is more efficient and cost effective for preparers and to enable benchmarking and comparisons of performance globally.

As such, SEC disclosure requirements should be complementary to emerging international developments, in particular the formation of the IFRS Foundation's International Sustainability Standards Board (ISSB) whose proposed objective is to set global sustainability standards[6] under the Foundation's governance structure. For instance, we note that the ISSB proposes to require reporting using the organizational boundary approaches provided in the GHG Protocol, supplemented by certain disclosures.[7] Certain reporting challenges or inconsistencies may arise if organizational boundaries are instead aligned with financial reporting boundaries as described in the Proposed Rule, in turn increasing the reporting burden for companies and impacting the comparability of information for users. Therefore, as the SEC contemplates a final rule, we strongly recommend that the SEC continue its engagement in the efforts of the IFRS Foundation to ensure international coherence. Also, as we previously stated[8] in our letter in response to the SEC's March 2021 Climate Change Disclosures Request for Input, we also support the use of industry-based standards that are comprehensive in nature, address environmental, social and

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[3] In a press release dated March 31, 2022, the GHG Protocol announced that it has begun a process to assess the need for additional guidance building on existing corporate accounting and reporting standards for scopes 1, 2 and 3 emissions. As such, the AICPA recommends that the SEC monitor the GHG Protocol's work on GHG emissions accounting and reporting guidelines.

[4] *TCFD September 2021 Status Report*.

[5] According the *TCFD September 2021 Status Report*, "12 governments and dozens of central banks, supervisors, and regulators have formally expressed support for the TCFD recommendations and over 2,600 organizations have endorsed them.

[6] The ISSB launched a consultation on its first two proposed standards on March 31, 2022. One sets out general sustainability-related disclosure requirements, and the other specifies climate-related disclosure requirements. The ISSB plans to build on the Sustainability Accounting Standards Board (SASB) industry-based standards and leverage SASB's approach for development.

[7] Exposure Draft - IFRS Sustainability Disclosure Standard: [Draft] IFRS S2 Climate-related Disclosures – p21

[8] AICPA letter to SEC in response to SEC Request for comment on climate change disclosures (June 2021)

governance (ESG) issues beyond climate change, enable companies to disclose sustainability information to investors, and may be used as a basis for suitable criteria[9] in an attestation engagement.

We expect, eventually, that, similar to how the majority of companies around the world look to the Committee of Sponsoring Organizations' (COSO) Internal Control - Integrated Framework (ICIF) for an effective approach to design and implement internal controls, companies across the globe will look to the ISSB as the body to set international standards for sustainability reporting. As such, SEC requirements should be sufficiently flexible to accommodate evolving technical best practices, standards, and investor expectations. Use of a third-party standard setter that satisfies independence and other essential criteria for standard-setting, as expected by the market, would provide for responsive and responsible decisions on evolving best practices while still allowing the SEC to require specific disclosures, where appropriate.

Financial Statement Metrics – We appreciate the SEC's efforts to promote consistency and comparability among climate-related information in the proposed rule. Because climate-related matters could certainly have material financial statement impacts which influence decision making, we understand the need to link those impacts to financial performance. Prescribing accounting principles for preparing climate-related financial statement metrics disclosures, and provisions that specify the basis of calculation for such metrics and their presentation, requires a robust and transparent standard-setting process. Such a process should include: 1) outreach to all stakeholders through the entirety of a project, 2) public discourse allowing stakeholders to monitor and digest conclusions from the earliest stages, and 3) commitment to providing the most meaningful financial information to users. In consideration of the need for a comprehensive and independent process for the development of financial reporting principles that provide decision-useful information to investors, we recommend that the SEC consider whether it is ideally positioned to establish new accounting rules on this topic. And if so, we suggest that the SEC applies a more deliberate approach that involves an increasingly robust consultation with affected parties.

Assurance – The proposed rule calls for standardized, consistent, reliable, and comparable disclosures. Independent assurance over such disclosures promotes increased stakeholder trust and confidence in the information[10]. Companies that seek assurance often do so to enhance the quality and reliability of disclosures, identify areas for improvement related to controls and processes surrounding the collection and reporting of data, and support more informed and better decision-making[11].

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[9] Under AICPA Statements on Standards for Attestation Engagements, suitable criteria provide the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are required for reasonably consistent measurement or evaluation.

[10] Ryan J. Casey and Jonathan H. Grenier, "Understanding and Contributing to the Enigma of Corporate Social Responsibility (CSR) Assurance in the United States," *Auditing: A Journal of Practice & Theory 34, no. 1* (February 2015): 97-130

[11] For example, see Deloitte ESG Executive Survey Preparing for High Quality Disclosures, March 2022, which in surveying 300 executives, three out of four plan to obtain assurance over ESG disclosures in the next reporting cycle.

To understand company sustainability reporting and assurance practices globally, in 2021 the AICPA collaborated with the International Federation of Accountants on a global benchmarking study[12], in partnership with Audit Analytics. The study provides insights across jurisdictions regarding the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service. The significant differences identified in practices across jurisdictions revealed a situation that is still evolving. A similar analysis of ESG reporting and assurance for S&P 500 companies conducted by the Center for Audit Quality[13] in 2021 yielded similar results.

The public accounting profession has the expertise, professional standards[14], systems of quality management, objectivity and independence to provide assurance on sustainability information. The established set of professional standards requires CPAs and CPA firms to be independent, have the appropriate competence and capabilities including sufficient knowledge of the subject matter, follow supervision and review requirements, and incorporate the work of specialists, when necessary, among other requirements. In addition, work performed by CPA firms is subject to quality monitoring programs (including reviews of engagements and quality management reviews) intended to enhance the quality of the work performed. As the SEC evaluates assurance over climate-related financial disclosures in its final rule, it should be confident that the profession is well prepared to perform such assurance engagements on sustainability information.

Safe Harbor for Disclosures related to Scope 3 Emissions – The proposed rule states that investors want to understand both the current and longer-term risks to the investments they hold or intend to make. As part of this, they seek Greenhouse Gas emissions information from a company's direct and indirect emissions. However, reporting indirect emissions from a company's value chain is challenging because they are outside the direct control of the company, making it difficult to collect quality data. Further, many registrants' value chains are comprised of nonpublic companies, many of which are not required to report Greenhouse Gas emissions data. Therefore, companies will need to rely on estimates and projections in order to calculate and report on their Scope 3 emissions. We support the SEC's consideration of providing safe harbor from liability for disclosures related to Scope 3 emissions in addition to forward-looking disclosures. We support the protection conveyed by good faith efforts to comply with the reporting requirements with the objective to empower companies to innovate with the objective of providing these useful disclosures to investors.

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[12] *Global benchmarking study – State of Play in Sustainability Assurance* assessed largest companies across 22 countries. 91% of the companies disclosed some ESG data and approximately 51% of the companies that reported obtained some level of assurance. We are currently working on an updated review (based on 2020 and 2021 reporting years) to be published later in 2022.

[13] The Center for Audit Quality is an affiliate of the AICPA, exclusively focused on U.S. public company audit matters.

[14] AICPA's Statements on Standards for Attestation Engagements (SSAEs), AICPA's Code of Professional Conduct and Statements on Quality Control Standards

Phase in periods - As reporting climate-related information will be new for many companies, (e.g., as in GHG emissions for many companies), we also see the need for a degree of flexibility with respect to any disclosure requirements. As noted in the previous paragraph, companies required to report Scope 3 Greenhouse Gas emissions will need to obtain this information from entities that may not currently be collecting this data. As such companies may need more time to report complete and accurate Scope 3 emissions.

Additionally, should disclosure of the financial statement metrics be required for corresponding historical fiscal years, it may be necessary to provide a longer phase-in period for issuers to prepare to report complete, accurate, and reliable information for all periods presented in the filing. Further, we would recommend that the SEC allow for the proposed climate-related financial impact disclosures to be adopted prospectively. In addition, we recommend that the SEC consider providing for a transition period for Newly Public Companies (similar to the transition periods that were permitted for the requirements of the SEC's rules regarding internal control over financial reporting in periodic reports).

Other Disclosures – We appreciate that the SEC recognizes the complexity of accumulating and reporting climate-related information. Specifically, the SEC acknowledges within its Proposed Rule that it may be costly or difficult for some companies to conduct scenario analysis to assess the impact of climate-related risks. We support the provision in the Proposed Rule that disclosures related to targets and goals, transition plans, scenario analysis, and internal carbon prices are only required if they are already being used by the company in an effort to not impose additional costs and reporting burden on companies that do not already use such tools or metrics. However, there may be variability in interpretation of "if used" terminology such that it would be beneficial for the SEC to provide clarity for situations in which a company would meet these requirements.

Concluding Remarks

We encourage the SEC to collaborate with others to help the US achieve alignment with a comprehensive global reporting solution that provides transparency into how a company uses its tangible and intangible capitals to create value over the long term. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter.

Respectfully,

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Chief Executive Officer – Public Accounting

cc:

SEC

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