



May 19, 2021

Dear Chair Gensler,

On behalf of the Sustainability Accounting Standards Board (SASB), I welcome the opportunity to respond to the Securities and Exchange Commission's (SEC's) request for public input on climate-related financial disclosure issued by Acting Chair Allison Herren Lee on March 15, 2021.<sup>1</sup> SASB supports the SEC's increased interest and initiative in the area of sustainability-related financial disclosure and believes generally accepted sustainability disclosure standards can play a key role in addressing this emerging priority.

As we will discuss in more detail below, broad and rapidly growing investor demand for consistent, comparable, reliable disclosure of financially material sustainability information demonstrates that investors consider this information to be decision-useful in making investment and voting decisions. As examples of environmentally or socially related risks eroding enterprise value have accumulated, investors' need for comparable and consistent sustainability disclosure has correspondingly grown. The protection of investors exposed to company-specific sustainability risks and/or systematic sustainability risks such as climate change therefore requires more effective, standardized disclosure than existing Commission guidance has thus far elicited from registrants.<sup>2</sup> In addition, as asset managers respond to client demand and increase the number—and variety—of sustainability-related financial products for retail and institutional clients,<sup>3</sup> investors need efficient price discovery in markets, which in turn requires decision-useful and widely available information regarding financially material sustainability risks and opportunities.

## About SASB

SASB is an independent, nonprofit organization established in 2011 to set standards for companies to use when disclosing “sustainability” or “ESG”<sup>4</sup> (environmental, social, and governance) information to investors and other providers of financial capital. SASB Standards have been developed for 77 industries, each of which includes disclosure topics and performance metrics for the sustainability risks and opportunities “reasonably likely to materially affect the financial condition, operating performance, or risk profile of a typical company within an industry”<sup>5</sup> (i.e., material impacts on a company's enterprise value).<sup>6</sup>

<sup>1</sup> US Securities and Exchange Commission (SEC), “Public Input Welcomed on Climate Change Disclosures,” Public Statement (March 15, 2021).

<sup>2</sup> US Commodity Futures Trading Commission, *Managing Climate Risk in the U.S. Financial System*, Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee (September 9, 2020).

<sup>3</sup> SEC, “Risk Alert: The Division of Examinations' Review of ESG Investing” (April 9, 2021).

<sup>4</sup> Throughout this letter, “sustainability” and “ESG” are used interchangeably to mean the range of environmental, social, and governance risks and opportunities that investors integrate into their investment and proxy voting decisions.

<sup>5</sup> Sustainability Accounting Standards Board (SASB), “Proposed Changes to the SASB Conceptual Framework & Rules of Procedure – Bases for Conclusions & Invitation to Comment on Exposure Drafts” (August 28, 2020), p. 30.

<sup>6</sup> Enterprise value is defined as market capitalization plus net debt, where market capitalization is determined by the market via the company's share price, which is in turn informed by its financial and/or operational performance as well as by market expectations of the company's ability to generate cash flows over the short, medium, and long term. Enterprise value is therefore influenced by factors such as revenue, costs, assets, liabilities, cost of capital, and risk profile.

SASB Standards include disclosure topics and metrics across five dimensions of sustainability: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance.<sup>7</sup> By providing transparency into how companies are managing the sustainability risks and opportunities most closely tied to the creation of enterprise value, SASB Standards help companies provide the ESG information investors require to effectively meet their risk and return objectives. The provision of material ESG information to investors is critical to ensuring that capital markets can efficiently price securities that derive an increasing portion of their value from intangibles not captured by traditional financial disclosure.<sup>8</sup>

SASB Standards are created through evidence-based research, broad and balanced market input, public transparency, and independent oversight.<sup>9</sup> Developed over eight years and counting, the Standards are driven by input from thousands of market participants, including corporate professionals, investors and other providers of financial capital, and other subject matter experts. This work is carried out by an independent standard-setting board, guided by a robust Conceptual Framework and a due process outlined in a formal Rules of Procedure.<sup>10</sup> It is overseen by the SASB Foundation Board of Directors in a governance structure similar to that adopted by other internationally recognized bodies that set standards for disclosure to investors, including the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB).<sup>11</sup>

In response to global market demand for convergence among sustainability standard setters and framework providers, SASB and the International Integrated Reporting Council (IIRC) recently announced their intention to merge into a unified organization, the Value Reporting Foundation.<sup>12</sup> By integrating two entities that are focused on the creation of enterprise value and communications to providers of financial capital, this merger represents significant progress toward simplifying the corporate reporting landscape. SASB and the IIRC—along with the Climate Disclosure Standards Board (CDSB), Task Force on Climate-related Financial Disclosures (TCFD), and World Economic Forum—have recently joined a collaborative working group formed by the International Financial Reporting Standards (IFRS) Foundation to provide technical recommendations with a view to facilitating consolidation and reducing fragmentation in sustainability disclosure standards.<sup>13</sup>

It is encouraging that the SEC’s request for public input acknowledges the significant efforts that have been made through private ordering and specifically cites the work of SASB, TCFD, and others. Despite this important progress, we believe regulators have a crucial role to play in advancing corporate disclosure on financially material sustainability-related risks and opportunities. With this in mind, we welcome the SEC’s consultation questions. Please note that although the following responses do not directly address every question posed by the SEC, we believe each question includes important considerations and we commend the SEC for seeking public input on such a broad and detailed range of concerns. Additionally, although we have not responded to each question in the precise order in which it was posed, we have signposted our feedback to facilitate a structured review.

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<sup>7</sup> SASB, Materiality Map, available at <https://materiality.sasb.org> (accessed May 14, 2021).

<sup>8</sup> Ocean Tomo, “Intangible Asset Market Value Study” (March 2021).

<sup>9</sup> SASB, “Standard-Setting Process,” SASB website, available at <https://www.sasb.org/standards/process/> (accessed May 14, 2021).

<sup>10</sup> Supra note 5, p. 36.

<sup>11</sup> SASB, “Governance,” SASB website, available at <https://www.sasb.org/about/governance/> (accessed May 14, 2021).

<sup>12</sup> International Integrated Reporting Council (IIRC) and SASB, “IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system,” press release (November 25, 2020).

<sup>13</sup> IFRS Foundation, “IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value” (March 22, 2021).

## Climate Change Poses Significant Risks to the Economy, Companies, and Investors

SASB strongly supports the SEC’s efforts to evaluate its rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information on climate change. Data and science point to the urgency of reducing and removing carbon emissions and other greenhouse gases (GHGs) from the atmosphere to lower the probability of destabilizing climate change, including impacts that will put at risk the economy’s ability to generate wealth and rising living standards. As Mark Carney, the former Governor of the Bank of England, highlighted in a 2015 speech, “Once climate change becomes a defining issue for financial stability, it may already be too late.”<sup>14</sup>

Climate risk is nearly ubiquitous throughout the economy, and it can be broken down into three broad categories: physical (e.g., extreme weather), transition (e.g., technological and market shifts), and regulatory (e.g., government imposition of carbon price or other regulation). Owing to these different types of risks and the variability among industrial sectors, climate risk is highly differentiated across industries.

SASB research demonstrates that companies in 68 out of 77 Sustainable Industry Classification System (SICS™) industries are likely to be significantly affected in some way by climate risk. This equates to 89 percent of the market capitalization of the S&P Global 1200 or roughly \$45.2 trillion.<sup>15</sup>

- 36 out of 77 SICS industries (55 percent of market cap) are affected by **physical risks**
- 57 out of 77 SICS industries (85 percent) are affected by **transition risks**
- 40 out of 77 SICS industries (29 percent) are affected by **regulatory risks**

For investors, this represents a systematic risk that cannot be diversified away. As a result, investors must employ other strategies to address climate risk, such as managing exposures through sector allocation, focusing exposures on best-in-class securities, and actively engaging with portfolio companies to encourage improved performance. These approaches to risk management can only be implemented effectively if investors have access to consistent, comparable, reliable information on the climate-related risks and opportunities embedded in their portfolios.

Such information must also account for a key characteristic of climate risk: although it is virtually omnipresent, cutting across every sector, climate risk manifests itself differently from one industry to the next. For example, agricultural concerns must manage water as an increasingly stressed resource;<sup>16</sup> oil and gas companies need to properly value reserves in a carbon-constrained world and be prudent about capital expenditures;<sup>17</sup> and commercial banks must effectively manage the carbon embedded in their loan portfolios.<sup>18</sup> Due to the industry-specific nature of climate risk, climate-related disclosures must include information on the actionable, industry-specific “levers” that a company is using to directly manage its contributions to mitigating Scope 1, 2, and 3 emissions.<sup>19</sup>

For investors to effectively understand climate-related risks and opportunities—as well as management’s responses and the board’s oversight—company disclosure must shed light on the implications for financial performance and enterprise value. Such disclosure can be achieved through industry-specific standards

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<sup>14</sup> Mark Carney, Former Governor, Bank of England, “Breaking the tragedy of the horizon – climate change and financial stability,” speech (September 29, 2015).

<sup>15</sup> SASB, *Climate Risk Technical Bulletin* (April 13, 2021).

<sup>16</sup> SASB, *Agricultural Products Industry Standard* (October 2018).

<sup>17</sup> SASB, *Oil & Gas – Exploration & Production Industry Standard* (October 2018).

<sup>18</sup> SASB, *Commercial Banks Industry Standard* (October 2018).

<sup>19</sup> SASB, “Implementation Supplement – Greenhouse Gas Emissions and SASB Standards” (October 11, 2020).

that connect how climate risks and opportunities relate to a company's balance sheet, income statement, and/or market valuation.<sup>20</sup>

As a result, SASB urges the SEC to create the market infrastructure necessary to establish a baseline of consistent, comparable, and reliable climate disclosure by requiring companies to make qualitative and quantitative climate risk disclosures in a manner that leverages existing voluntary disclosure frameworks and standards. The remainder of this letter discusses the structure and scope of such disclosures and approaches the SEC could use to leverage the substantial body of work already developed by the private sector.

#### Question 1

### Market Developments Require Improved Market Infrastructure

The growing body of research that links sustainability performance to financial risk and return has driven a significant increase in the number of investors who integrate sustainability factors into investment and voting decisions, in many cases across their entire investment platforms.<sup>21</sup> Simultaneously, there has been a significant and rapid increase in the number and size of ESG-related financial products marketed to institutional and retail investors.<sup>22, 23</sup> Together, these developments have significantly transformed the universe of information institutional investors require to construct portfolios, manage their risk exposures, vote their proxies, and report to their clients. Similar to the forces that compelled the SEC to propose modernization of “market infrastructure” in the trading of equities,<sup>24</sup> the increasing use of ESG-related information by investors requires regulatory action to ensure sustainability data infrastructure that supports the production of consistent, comparable, reliable disclosure by companies for use by investors. The federal securities laws set forth the Commission's broad authority and responsibility to ensure that investors are furnished with information necessary for investment decisions.

Despite the growth of ESG-related financial products, the ESG information disclosure environment has not kept pace. Characterized by multiple voluntary disclosure frameworks (i.e., the “alphabet soup” decried by companies), a range of poorly understood ESG ratings and scores<sup>25</sup> with concrete impact on capital allocation, and numerous direct requests to companies for information through surveys, the current private ordering-led system has increased the burden on companies—and investors—while still leaving many companies uncertain as to whether they are, in practice, providing the decision-useful information required by investors. Given the current, extensive use of sustainability information to inform investment and voting decisions, SASB believes that mandatory climate-related and broader sustainability disclosure is in the public interest and necessary for the protection of investors, the maintenance of fair and orderly markets, and the promotion of capital formation. Although investors have increasingly coalesced around

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<sup>20</sup> SASB recently published the 2021 edition of its *Climate Risk Technical Bulletin* (see supra note 15), which includes a detailed mapping of the types of climate risk likely to have material financial impacts on companies in each SIC industry, along with a summary of the climate-related disclosure topics and metrics across all 77 industry-specific SASB Standards. We believe this document can be a useful resource for the SEC and its registrants (available at <https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/>).

<sup>21</sup> More than 3,000 organizations managing more than \$100 trillion in assets were signatories to the Principles for Responsible Investment as of 2020, including more than 500 asset owners with more than \$23 trillion in assets.

<sup>22</sup> Morningstar, “The Number of Funds Considering ESG Explodes in 2019” (March 30, 2020)

<sup>23</sup> Morningstar, “A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights” (January 28, 2021).

<sup>24</sup> SEC, “SEC Adopts Rules to Modernize Key Market Infrastructure Responsible for Collecting, Consolidating, and Disseminating Equity Market Data,” press release (December 9, 2020).

<sup>25</sup> See, for example, Sakis Kotsantonis and George Serafeim, “Four Things No One Will Tell You About ESG Data,” *Journal of Applied Corporate Finance* (Spring 2019), which notes that investor reliance on ESG ratings is challenged by a lack of methodological transparency and thus “the differences in the imputation methods used by ESG researchers and analysts to deal with vast ‘data gaps’ that span ranges of companies and time periods for different ESG metrics can cause large ‘disagreements’ among providers, with different gap-filling approaches leading to big discrepancies.”

the use of SASB Standards and the recommendations of the TCFD and, accordingly, company use of SASB and TCFD has rapidly increased (as explained below), only SEC action can elicit from all public companies the disclosure required to provide investors with consistent, comparable reliable and decision-useful sustainability information.

Question 5

Question 15

## **SASB Standards are Widely Used and Supported**

SASB Standards are used by investors and companies in the US and around the world.<sup>26</sup> More than 225 asset owners and asset managers, representing approximately \$72 trillion in assets under management across Asia, Europe, the Middle East, North America, and South America participate in the SASB Alliance, or have licensed SASB Standards for use in investment tools and processes. This includes the 58 members of SASB’s Investor Advisory Group (\$48 trillion), who recognize the need for consistent, comparable, and reliable disclosure of financially material, decision-useful sustainability information to investors.<sup>27</sup>

Although providers of financial capital have diverse information needs based on their investment strategy, type of organization (e.g., asset owner, asset manager, bank), and the fiduciary and regulatory environment in which they operate, they are, as noted above, increasingly coalescing around the recommendations of the TCFD and SASB Standards as foundational tools for investor-focused sustainability disclosure. In recent months, a large and growing segment of the investment community has publicly encouraged the use of SASB Standards, including the following:

- SASB’s Investor Advisory Group (IAG) updated its public statement to explicitly ask issuers globally to include SASB-based disclosures in their environmental, social, and governance (ESG) communication to investors.<sup>28</sup> The IAG stated that while other reporting frameworks may complement SASB Standards, they are not replacements for them. As noted above, the IAG includes 58 institutional investors with \$48 trillion in both public and private assets under management.<sup>29</sup>
- The Investment Company Institute (ICI), a leading global association of regulated funds, including mutual funds, exchange-traded funds, closed end-funds, and unit investment trusts whose membership manages \$34.5 trillion,<sup>30</sup> has encouraged US public companies to provide enhanced reporting on ESG factors “consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB)”<sup>31</sup> and has encouraged the SEC to “lead work on a global disclosure reporting standard using TCFD and SASB Standards as a starting point for international deliberations.”<sup>32</sup>
- Specific institutional investors—including BlackRock<sup>33, 34</sup> and State Street Global Advisors,<sup>35</sup> two of the world’s largest asset managers—have made public calls for companies to use SASB Standards

<sup>26</sup> SASB, “Global Use of SASB Standards,” SASB website, available at <https://www.sasb.org/global-use/> (accessed May 14, 2021).

<sup>27</sup> SASB, “Support from Investors,” SASB website, available at <https://www.sasb.org/investor-use/supporters/> (accessed May 14, 2021).

<sup>28</sup> SASB, “55 Leading International Asset Owners and Asset Managers Ask Companies to Use SASB Standards,” press release (November 17, 2020).

<sup>29</sup> Supra note 28.

<sup>30</sup> Investment Company Institute (ICI), 2020 Annual Report to Members (January 2021).

<sup>31</sup> ICI, “ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers,” press release (December 7, 2020).

<sup>32</sup> ICI, “ICI Supports Biden Administration’s Approach Toward Fostering Better Climate Risk Disclosure from Companies” (April 22, 2021).

<sup>33</sup> Larry Fink, CEO, BlackRock, “A Fundamental Reshaping of Finance,” open letter (January 14, 2020).

<sup>34</sup> Larry Fink, CEO, BlackRock, “Larry Fink’s 2021 letter to CEOs,” open letter (January 26, 2021).

<sup>35</sup> Cyrus Taraporevala, CEO, State Street Global Advisors, “CEO’s Letter on Our 2021 Proxy Voting Agenda,” open letter (January 11, 2021).

and the TCFD recommendations. While these open letters to corporate directors and/or CEOs are among the most visible statements of investor support for SASB, similar statements are included in the stewardship, proxy voting, and/or ESG integration policies of dozens of other institutional investors, including Goldman Sachs Asset Management,<sup>36</sup> Morgan Stanley Investment Management,<sup>37</sup> and many others.<sup>38</sup> Many of these investors call for both SASB and TCFD disclosure.

- In announcing its support for the IFRS Foundation proposal to establish a Sustainability Standards Board, the Asset Management Group (AMG) of the Securities Industry and Financial Markets Association (SIFMA) conditioned its support on the IFRS Foundation “committing to build upon the established work and accumulated knowledge and expertise of the Sustainability Accounting Standards Board (‘SASB’). SIFMA AMG strongly believes that the approach taken by SASB to sustainability reporting, as well as SASB’s focus on enterprise value creation, should be followed. SASB has developed a complete set of 77 industry standards across 11 sectors, from financials and healthcare to infrastructure and renewable resources. These standards provide a complete set of globally applicable and industry-specific standards, which identify the minimum range of financially material sustainability topics and their associated metrics for a typical company in a particular industry.”<sup>39</sup>
- Meanwhile, investor surveys continue to demonstrate broad support for SASB Standards and the TCFD recommendations. For example, a survey of global institutional investors with \$29 trillion in assets under management found that “TCFD was overwhelmingly the most popular ESG reporting framework, followed by SASB” to better communicate ESG information to investors (77 and 53 percent, respectively), noting that SASB “is fast becoming the go-to framework for many companies and investors mainly for its straightforward application and investor focus.”<sup>40</sup>

Investors employ the SASB Standards for a range of practical applications including:<sup>41</sup>

- **ESG integration:** using SASB Standards to identify sustainability topics that could positively or negatively affect an investment thesis for a company;
- **Stewardship:** using SASB Standards to identify and prioritize the industry-specific topics relevant to company engagement; and
- **Separating signal from noise:** using SASB Standards to differentiate the financially material elements of third-party ESG ratings from the non-financially material factors.

On the issuer side, corporate use of SASB Standards has increased rapidly since the Standards were issued in late 2018. The number of companies reporting SASB metrics increased by 359 percent in 2020 and today has grown to more than 928 companies, including more than half of the S&P 500. Thus far in 2021, the number of companies reporting SASB metrics has increased 289 percent year-over-year.<sup>42</sup>

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<sup>36</sup> Goldman Sachs Asset Management, “Policy, Procedures and Guidelines for GSAM Global Proxy Voting 2020 Edition” (March 2020).

<sup>37</sup> Morgan Stanley Investment Management, “Proxy Voting Policy and Procedures” (September 2020).

<sup>38</sup> SASB, “How Investors Use SASB Standards,” SASB website, available at <https://www.sasb.org/investor-use/esg-integration/> (accessed May 14, 2021).

<sup>39</sup> Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA), “SIFMA AMG Response to the IFRS Foundation Consultation Paper on Sustainability Reporting” (December 2020).

<sup>40</sup> Morrow Sodali, Institutional Investor Survey 2020 (May 11, 2021).

<sup>41</sup> For additional examples of investor use of SASB Standards by such organizations as Calvert Research & Management, Neuberger Berman, Nordea Asset Management, PIMCO, State Street Global Advisors, UBS, and more, see *SASB ESG Integration Insights*. Editions from 2016, 2017, 2019, and 2020 available at <https://www.sasb.org/investor-use/case-studies/>.

<sup>42</sup> Supra note 27.

Company use of SASB Standards and integration of SASB Standards into investment strategies, platforms, and processes have required meaningful financial and resource investment by companies and investors,<sup>43</sup> which should be acknowledged by the SEC in any consideration of the regulatory cost-effectiveness of reliance on existing standards and frameworks. Similarly, the SEC should consider the significant investment of resources by both investors and companies that have participated in SASB's standards-development process over the past eight years.<sup>44</sup>

#### Question 15

### The Scope of Sustainability Disclosure

While acknowledging the urgency of addressing climate change, SASB believes it is important that the SEC ultimately consider sustainability disclosure across the full range of issues through which investors analyze financial performance and the creation of enterprise value. We recognize discussions of sustainability often focus on climate change and that broad consensus has developed around the need to rapidly improve disclosure of climate-related information. However, we also note that there is strong investor interest in enhanced disclosure on a range of other sustainability factors, most notably human capital management.<sup>45</sup> Investor-focused standards for the disclosure of decision-useful sustainability information should reflect the important interrelationships among the full range of sustainability factors that influence investment decision making and proxy voting.<sup>46</sup>

For example, strong performance on climate issues does not necessarily correlate to strong performance on other sustainability issues that are material to enterprise value—and vice versa. A company may achieve strong performance on environmental factors while continuing to face challenges in addressing other sustainability risks, such as those related to human capital, supply chain management, product quality and safety, and more. Therefore, to make effective investment and proxy voting decisions, investors must have consistent and comparable information that allows them to evaluate performance on the full range of sustainability issues linked to financial performance and the creation of enterprise value.

Should the Commission elect to prioritize climate-related disclosure, we believe that the SEC can develop an approach to climate-related financial disclosure that can subsequently be applied to a broader range of financially material sustainability information. Therefore, we encourage the Commission to consider the implications its approach to climate will have for future rulemaking—as well as for company disclosure—on other sustainability issues.

As we discuss below, we believe that SASB's standard-setting approach, which is grounded in industry-specificity and guided by financial materiality, can provide a foundation for effective sustainability disclosure that provides decision-useful information to investors in a manner that is cost-effective for companies and responsive to changing circumstances.

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<sup>43</sup> See, for example, Northern Trust Asset Management, "The Northern Trust ESG Vector Score™," available at <https://landing.northerntrust.com/esg-vector-score/p/1>, and State Street Global Advisors, "R-Factor™ – A Roadmap to Build Sustainable Companies," available at <https://www.ssga.com/us/en/institutional/ic/capabilities/esg/data-scoring/r-factor-transparent-esg-scoring> (both accessed May 18, 2021).

<sup>44</sup> SASB, "Standard-Setting Archive," SASB website, available at <https://www.sasb.org/standards/archive/> (accessed May 18, 2021).

<sup>45</sup> Human Capital Management Coalition, Petition for Rulemaking (July 6, 2017).

<sup>46</sup> SASB, "SASB's Response to the IFRS Foundation's Consultation Paper on Sustainability Reporting" (December 11, 2020), available at <https://bit.ly/3sjmjC7>.

## Sustainability Standards Must Support Industry-Specific, Financially Material Disclosure

The differentiated impacts of climate risk, detailed above, highlight the importance of an industry-specific approach. To properly understand climate risk, their exposures, and how well companies are positioned to manage different types of climate-related risk (i.e., physical, transition, and regulatory), investors need industry-specific standards that identify the material drivers of enterprise value. SASB's standard-setting process is designed to identify the subset of sustainability issues "reasonably likely to have material impacts on the financial condition, operating performance, or risk profile of the typical company in a given industry"<sup>47</sup> by identifying evidence of both (1) financial impact, and (2) investor interest. SASB's approach thus winnows down the broader universe of potential stakeholder impacts to those most relevant to financial performance and enterprise value for the typical company in an industry.<sup>48</sup>

Focusing on industry-specific topics that have evidence of financial impact and investor interest allows SASB Standards to facilitate the disclosure of decision-useful information to investors. For example, in health care, investors need to understand how extreme weather events may affect both business continuity and demand for services.<sup>49</sup> In real estate, they need information on the energy efficiency of buildings and the vulnerability of building stock due to geographic location.<sup>50</sup> In automobiles, they need to be able to track progress on developing alternative-fuel vehicles that curb use-phase emissions and capitalize on changing consumer preferences.<sup>51</sup> These and other "leading indicators" that focus on the direct levers available to a company in managing climate risk—and measure how the company is using them—provide actionable data to management and decision-useful information to investors.<sup>52</sup>

Standards informed by the operational experience of companies and the financial analysis expertise of investors have an established track record of effectively capturing material risks to enterprise value and

<sup>47</sup> Supra note 5.

<sup>48</sup> SASB identifies sustainability disclosure topics that are reasonably likely to have material impacts on the financial condition, operating performance, or risk profile of the typical company in each of 77 industries. Therefore, SASB Standards are a useful tool to guide disclosure of sustainability information that a company has determined to be material to its business. Although different disclosure frameworks and standards have adopted a range of definitions of "materiality" focused on different users and objectives, SASB Standards are designed to facilitate disclosure to investors of the subset of sustainability information most likely to impact financial performance and enterprise value. SASB believes sustainability disclosure to investors is complementary to sustainability reporting aimed at a broader set of stakeholders. (See, for example, SASB and GRI, *A Practical Guide to Sustainability Reporting Using GRI and SASB Standards*, April 2021.) For instance, the Global Reporting Initiative (GRI) Standards focus on the economic, environmental and social impacts of a company, and hence its contributions—positive or negative—toward sustainable development, which may be of interest to employees, customers, suppliers, civil society, and others, in addition to investors.

<sup>49</sup> SASB, *Health Care Delivery Industry Standard* (October 2018).

<sup>50</sup> SASB, *Real Estate Industry Standard* (October 2018).

<sup>51</sup> SASB, *Automobiles Industry Standard* (October 2018).

<sup>52</sup> The role of financial materiality in SASB Standards is subject to some confusion among market participants. In SASB's standard-setting process, "financial materiality" serves as a guiding principle to identify the sustainability topics pertinent to a particular industry. For a topic to be included in a particular industry Standard, there must be evidence of financial impact and investor interest. If so, the topic is considered reasonably likely to have material financial impacts on a typical company in the industry and is therefore included in the industry standard. The sustainability accounting metrics applicable to any particular industry Standard are selected to provide investors with evidence of how effectively a company is managing its exposure to a particular sustainability topic. To be included, a metric must be representationally faithful and sufficiently complete to allow an investor to interpret performance on the topic. In other words, SASB's disclosure topics are reasonably likely to have material financial implications for companies; the metrics are intended to provide insight into performance on the disclosure topics. In addition, SASB's definition of financial materiality is intended to guide SASB's standard-setting process and not to supplant the legal concept of materiality used by a company to guide its disclosure processes. For more information, see Janine Guillot and Jeffrey Hales, "Materiality: The Word that Launched a Thousand Debates," Harvard Law School Forum on Corporate Governance (May 14, 2021), available at <https://corpgov.law.harvard.edu/2021/05/14/materiality-the-word-that-launched-a-thousand-debates/>.



evolving appropriately in response to market events. For example, during development of its mining industry standard in 2013 and 2014, SASB engaged with mining companies and investors and identified disclosures to capture risks related to waste management at tailings impoundments.<sup>53</sup> Since then, a series of catastrophic failures—resulting in significant costs in terms of lives lost, environmental degradation, and shareholder value—have brought tailings facility management to the forefront of investor attention. For example, in 2019, a tailings impoundment failure killed 270 people and resulted in at least \$7 billion in liability to its owner—resulting in a significant impact on its share price and operating performance.<sup>54</sup> Due in part to pressure from the Investor Mining and Tailings Safety Initiative, formed in 2019 and representing more than \$13 trillion in assets under management,<sup>55</sup> the industry-supported International Council on Mining and Metals (ICMM), the United Nations Environment Programme (UNEP), and the Principles for Responsible Investment (PRI) co-convened a Global Tailings Review (GTR) group to establish a global standard for responsible practices in managing such facilities.<sup>56</sup> As a result, SASB has initiated a standard-setting project to ensure SASB’s mining industry standards fully reflect these developments and to enhance the metrics regarding tailings impoundments. The project recently concluded a public comment period and staff is reviewing feedback in preparation for next steps.<sup>57</sup>

Although this represents just one example among many of the efficacy of a market-led standard-setting process in identifying financially material, sustainability-related risks and opportunities, academic research has established that such results can be—and, indeed, have been—broadly achieved. For example, the effectiveness of SASB’s process has been validated by independent research from Harvard Business School,<sup>58</sup> where researchers used SASB Standards to produce the first significant study that differentiated between those sustainability factors that are likely to have material financial impacts and those that are not. Using historical data, the study tracked the performance of 2,307 unique firms over 13,397 unique firm-years across 6 sectors and 45 industries and found that firms enjoyed significantly higher accounting and market returns when they exhibit “good performance on material sustainability issues” that are identified in SASB Standards.<sup>59</sup> These findings have since been replicated in a variety of contexts.<sup>60</sup> Similarly, recent research has found that “stock prices only react to the news on ESG issues that

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<sup>53</sup> See, for example, SASB’s Provisional Standards for the Metals & Mining and Coal Operations industries, available at <https://www.sasb.org/standards/archive/>.

<sup>54</sup> Neil Hume and Michael Pooler, “Vale agrees to \$7bn settlement over Brazil dam disaster,” *Financial Times* (February 4, 2021).

<sup>55</sup> Investor Mining and Tailings Safety Initiative website, available at <https://www.churchofengland.org/about/leadership-and-governance/church-england-pensions-board/old-pensions-board-investments-0> (accessed April 28, 2021).

<sup>56</sup> Global Tailings Review, *Global Industry Standard on Tailings Management* (August 2020).

<sup>57</sup> SASB, “Tailings Management In Extractives,” SASB website, available at <https://www.sasb.org/standards/process/active-projects/tailings-management-in-extractives/> (accessed April 28, 2021).

<sup>58</sup> Mozaffar Khan, George Serafeim, and Aaron Yoon, “Corporate Sustainability: First Evidence on Materiality,” *The Accounting Review* (November 2016).

<sup>59</sup> *Ibid.*, p. 1.

<sup>60</sup> See, for example, Russell Investments, *Materiality matters: Targeting the ESG issues that can impact performance* (May 2018); and Global Alliance on Banking for Values, European Investment Bank, and Deloitte, *Do sustainable banks outperform?* (December 2019).

is classified as financially material for a given industry by the SASB, suggesting that investors respond selectively to news” (i.e., whether the news is financially material or not).<sup>61</sup>

Question 1

Question 3

Question 5

Question 6

## **Sustainability Standard Setting Requires Strong Governance, Robust Due Process, and Transparency**

Scientific knowledge, market understanding, and policy responses to climate change (and other sustainability risks) are evolving and, therefore, require any standard setter to be capable of responding deliberately and promptly while taking due account of the perspectives of issuers, investors, and subject matter experts. As markets seek to coalesce around common metrics and methodologies, the credibility of any approach will largely be a function of the extent to which investors and companies participate in and accept the outcomes of the standards-development process. Thus, integrity of due process and governance are critical factors for success in simplifying the disclosure landscape for both companies and investors.

SASB’s standards-development process is designed with characteristics similar to financial accounting standard setters, including decision making by an independent Standards Board guided by a *Conceptual Framework* and *Rules of Procedure*; robust input from investors, companies, and subject matter experts; and transparency including public meetings of the SASB Standards Board. SASB’s process—including the feedback mechanisms of SASB’s Standards Advisory Group (composed of companies, investors, and subject matter experts), extensive information on our website regarding active projects, and formal public consultations<sup>62</sup>—is designed to elicit, analyze, and integrate substantive input and criticism from market participants. Based on the methodological rigor, market inclusiveness, and public transparency incorporated in SASB’s existing standard-setting process,<sup>63</sup> SASB believes it would be appropriate for the SEC to encourage registrants to use SASB Standards to guide industry-specific disclosure on climate risk and/or broader sustainability topics.

Fortunately, there is meaningful precedent for reliance on a third-party standard setter to provide decision-useful information to investors. For example, the Securities Act of 1933 and the Securities Exchange Act of 1934 gave the SEC statutory authority to establish financial accounting principles for its registrants. However, the Commission decided against developing its own standards, instead relying on existing principles for which there was “substantial authoritative support.”<sup>64</sup> As the SEC explained in 1973, when upholding this longstanding policy by recognizing the Financial Accounting Standards Board (FASB), such an arrangement would:

... provide an institutional framework which will permit prompt and responsible actions flowing from research and consideration of varying viewpoints. The collective experience and expertise of the members of the FASB and the individuals and professional organizations supporting it are substantial. Equally important, the commitment of resources to the FASB is impressive evidence of the willingness and intention of the private sector to support the FASB in accomplishing its task. In view of these considerations, the Commission intends to continue its policy of looking to the private sector for leadership in establishing and improving accounting principles and standards

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<sup>61</sup> George Serafeim and Aaron Yoon, “Which Corporate ESG News does the Market React to?” (April 22, 2021).

<sup>62</sup> SASB’s Standards Advisory Group (SAG) is a standing committee of volunteer industry experts from corporations, financial institutions, and third parties that provide ongoing feedback on the content, implementation, and use of SASB Standards, as well as on emerging sustainability issues to be considered in SASB’s standard-setting process. The SAG is currently made up of 190 members, 62.5 percent of which are corporate professionals, representing all 11 Sustainable Industry Classification System® (SICS®) sectors.

<sup>63</sup> Supra note 9.

<sup>64</sup> SEC, Accounting Series Release No. 4 (April 1938).

through the FASB with the expectation that the body's conclusions will promote the interests of investors.

Indeed, the independence, openness and due process of the FASB have long been recognized as, “important to ensure the legitimacy of the standards-setting process, and to protect the goals of transparency, relevance, and usefulness in financial reporting that have been hallmarks of decades of standards-setting efforts in the United States.”<sup>65</sup>

As the Commission’s statement suggests, the benefits of this public-private model are manifold. The establishment of the FASB and its oversight body, the Financial Accounting Foundation (FAF), enable U.S. Generally Accepted Accounting Principles (US GAAP) to be maintained in a way that is more efficient and responsive to market conditions than an approach in which the SEC promulgates an ongoing list of disclosure rules and detailed line items. As the Commission concluded, “the expertise and resources that the private sector could offer to the process of setting accounting standards would be beneficial to investors.”<sup>66</sup>

The SEC has also employed a third-party standard setter in implementing the internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act of 2002. Rules 13a-15(c) and 15d-15(c) under the Securities Exchange Act of 1934 (the Exchange Act) require a reporting company to evaluate the effectiveness of its internal control over financial reporting (ICFR) under “... a suitable, recognized control framework that is established by a body or group that has followed due-process procedures, including the broad distribution of the framework for public comment.”<sup>67</sup>

In its release adopting the rules, the SEC elaborated on the qualities of a suitable framework, stating, “Specifically, a suitable framework must: be free from bias; permit reasonably consistent qualitative and quantitative measurements of a company's internal control; be sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of a company's internal controls are not omitted; and be relevant to an evaluation of internal control over financial reporting.”<sup>68</sup> The SEC identified the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a suitable evaluation framework for this purpose, while also allowing companies to use another framework if suitable.

This regulatory approach and similar approaches are not only well established in past practices of the SEC, but also more broadly throughout the federal government. Reliance on third-party standards is a common practice across federal agencies and departments.<sup>69</sup> It is consistent with a Congressional directive under the National Technology Transfer and Advancement Act of 1995 (NTTAA), which directs all federal agencies

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<sup>65</sup> Cynthia Fornelli, Executive Director, Center for Audit Quality, Testimony Before the United States House of Representatives Committee on Financial Services Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises (March 12, 2009).

<sup>66</sup> SEC, Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter, Securities Act Release No. 33-8221, Exchange Act Release No. 34-47743, Investment Company Act Release No. IC-26028 (April 25, 2003).

<sup>67</sup> Rule 13a-15(c) under the Exchange Act, 17 C.F.R. § 240.13a-15(c) (2007); Rule 15d-15(c) under the Exchange Act, 17 C.F.R. § 240.15d-15(c) (2007).

<sup>68</sup> SEC, “Final Rule: Management’s Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports,” Securities Act Release No. 33-8238, Exchange Act Release No. 34-47986 (June 5, 2003).

<sup>69</sup> According to a 2010 report on federal agency use of voluntary consensus standards published by the U.S. Department of Commerce and National Institute of Standards and Technology, there were over 8,400 citations of standards incorporated by reference into regulatory documents, more than 80% of which were developed by the private sector, see Mary F. Donaldson, Thirteenth Annual Report on Federal Agency Use of Voluntary Consensus Standards and Conformity Assessment, National Institute of Standards & Technology, US Department of Commerce (August 2010), available at [https://standards.gov/nttaa/resources/nttaa\\_ar\\_2009.pdf](https://standards.gov/nttaa/resources/nttaa_ar_2009.pdf). The Department of Commerce and National Institute of Standards and Technology continue to publish annual reports providing information on department and agency activities related to the use of voluntary consensus standards. See NTTAA - Reports: Annual Reports, available at <https://standards.gov/NTTAA/Report/viewNTTAAReport.aspx> (accessed January 31, 2021).

and departments to “use technical standards that are developed or adopted by voluntary consensus standards bodies, using such technical standards as a means to carry out policy objectives or activities determined by the agencies and departments,”<sup>70</sup> and with a circular of the Office of Management and Budget under which “all Federal agencies must use voluntary consensus standards in lieu of government-unique standards in their procurement and regulatory activities, except where inconsistent with law or otherwise impractical.”<sup>71</sup> In the rare instances (none involving the SEC) where a regulated entity has challenged agency reliance on independent standards, courts have sided with the agency.<sup>72</sup>

While the COSO and FASB precedents make clear that the SEC has the authority to refer to third-party standards for certain purposes, we believe that the SEC should consider assuming an oversight role relative to any third-party standard setter for sustainability disclosure. There are several oversight models the SEC could consider, including its current role relative to the FAF or its role on the Monitoring Board of the IFRS Foundation. Oversight by the SEC could provide the needed institutional ballast and heft necessary to sustain the confidence of issuers and investors in a third-party standard setter.

Question 1

Question 3

Question 4

Question 5

Question 6

### Benefits of a Third-Party Standard Setter

Similar to the recognition that a third-party standard setter in the financial accounting context can provide “an institutional framework which will permit prompt and responsible actions flowing from research and consideration of varying viewpoints,”<sup>73</sup> a sustainability standard setter that is appropriately resourced and governed, with SEC oversight, would have the following benefits:

- Permitting an efficient rule-making process, which balances the need for rigorous due process with the need for timely action;
- Allowing the SEC to focus its resources and expertise on implementation, evaluation (e.g., through the Division of Corporation Finance review program), and enforcement activities;
- Accelerating adoption of existing “best practices” that have emerged through private ordering and have broad investor and market support;
- Facilitating the ability of private-sector frameworks and disclosure practices to evolve with agility alongside evolving risks and in response to growing market sophistication without the need for additional SEC rulemaking; and
- Allowing the SEC to require additional, more specific disclosures as necessary or appropriate.

A third-party standard setter has several advantages to the SEC using an ongoing line-item approach to rulemaking on sustainability disclosure. Many sustainability issues are not relevant for all companies, and when they are relevant, they often manifest in unique ways that require industry-specific disclosures. For the SEC to develop industry-specific disclosure requirements on an ongoing basis would require a significant and ongoing commitment of resources. And regardless of whether the SEC decides to act now on climate or on another sustainability topic such as human capital, the SEC is likely to receive an ongoing series of requests to address disclosure on a wide variety of sustainability topics. If the SEC were to respond to each of these requests by prescribing specific disclosures applicable to all registrants, the result

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<sup>70</sup> National Technology Transfer and Advancement Act of 1995 § 12(d), Pub. L. No. 104-113, 110 Stat. 775 (1996) (codified at 15 U.S.C. § 272 note).

<sup>71</sup> Office of Management & Budget, Executive Office of the President, OMB Circular No. A-119 Revised, Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities (2016), 2016 WL 7664625, available at [https://www.nist.gov/system/files/revised\\_circular\\_a-119\\_as\\_of\\_01-22-2016.pdf](https://www.nist.gov/system/files/revised_circular_a-119_as_of_01-22-2016.pdf), at § 5.

<sup>72</sup> See *POET Biorefining, LLC v. Env’t Prot. Agency*, 970 F.3d 392 (D.C. Cir. 2020); *Pinnacle Armor, Inc. v. U.S.*, 923 F.Supp.2d 1226 (E.D. Cal. 2013).

<sup>73</sup> SEC, Accounting Series Release No. 150, “Statement of Policy on the Establishment and Improvement of Accounting Principles and Standards” (December 20, 1973).

would likely be additional corporate reporting burden and a large volume of information that is immaterial to many investors. In addition, sustainability issues can evolve rapidly and measurement for many topics is less mature than financial accounting. A third-party standard-setter can act deliberately but quickly to leverage the expertise of companies, investors and subject matter experts to gain consensus about the financial materiality and measurement of evolving issues.

It is important to note that encouraging use of a third-party standard-setter does not prevent the SEC from promulgating rules that require specific disclosures on specific topics, especially for topics where there is strong investor demand for cross-industry information.

We believe the criteria for an acceptable third-party standard setter should include process considerations and substantive qualities, including the following:

- an independent, evidence-based process grounded in financial materiality for developing standards;
- a conceptual framework to guide development of standards focused on financially material topics;
- due process in standard-setting, including public exposure and comment;
- a standard-setting body comprised of knowledgeable individuals with a diverse mix of expertise, including representation from investors, companies, and other experts;
- a standard-setting body that is funded by diverse sources and acts independently of its funding sources;
- an oversight body or other mechanism that oversees the governance, funding, and independence of the standard-setting body
- standards that permit reasonably consistent, comparable, and specific qualitative and quantitative measurements of performance on material sustainability matters;
- standards that are reasonably complete in addressing factors relevant to an assessment of the company by investors;
- standards developed with due regard to cost effectiveness; and
- evidence of acceptance by the investor community and other market participants.

We believe that SASB meets these criteria, as may other existing organizations. The criteria would also leave open the possibility that other standard setters may meet them in the future, such as the initiative of the IFRS Foundation that is currently under consideration. Further, as noted above, the criteria would also leave open the possibility that the SEC could assume an oversight role for any third-party standard setter. The SEC could also, as necessary or appropriate, promulgate rules requiring universal, cross-industry disclosures on specific sustainability topics and metrics (e.g., those related to climate change and/or human capital).

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Question 8

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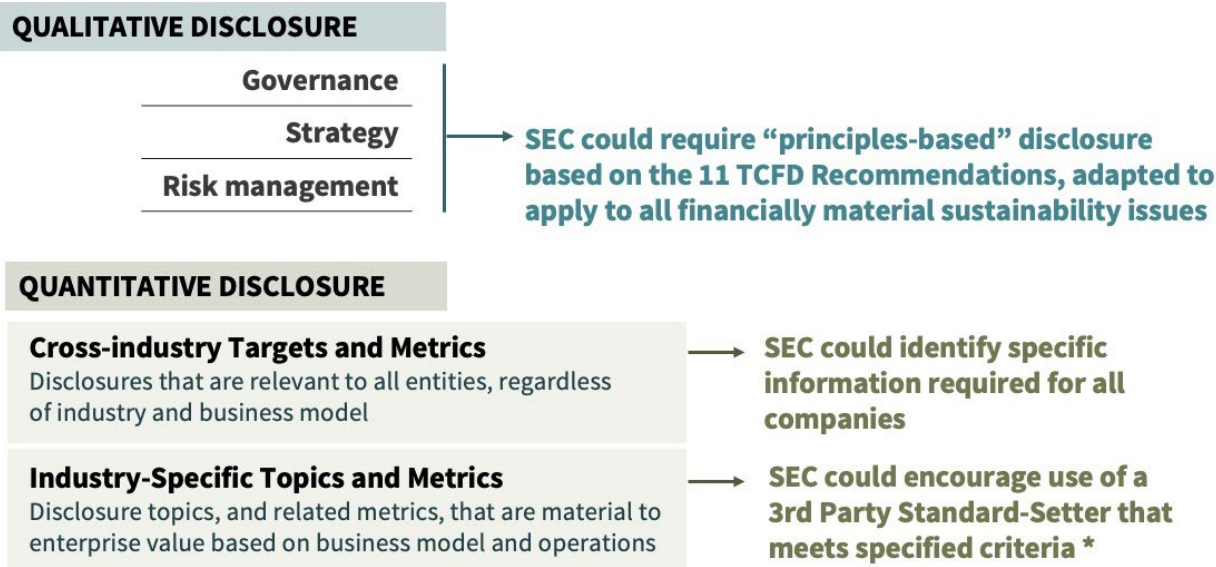
Question 15

## **Simplifying the Landscape: A Common Structure for Sustainability Disclosure Leveraging Existing Frameworks and Standards**

As previously noted, should the Commission elect to prioritize climate-related disclosure, we believe that the SEC can develop an approach to such disclosure that can be applied to a broader range of financially material sustainability information. Our suggested approach leverages the work of existing, voluntary framework providers and standard setters and would significantly reduce the implementation complexity for companies that results from the existence of multiple similar, yet disparate, approaches.

In collaboration with other leading standard-setters and framework providers, SASB recently co-developed a prototype climate disclosure standard<sup>74</sup> that employs a mix of qualitative and quantitative disclosures, and cross-industry and industry-specific metrics. The prototype climate disclosure standard has been taken up as a starting point for the efforts of an IFRS Foundation working group<sup>75</sup> and is being evaluated by a technical expert group of the International Organization of Securities Commissions being co-chaired by the SEC.<sup>76</sup> This prototype incorporates the TCFD recommendations<sup>77</sup> and similarly recognizes that qualitative information provides essential context to investors, helping them more fully understand the company’s current position, future prospects, and the relevant circumstances under which performance has been achieved. Meanwhile, quantitative metrics introduce comparability to climate-related financial disclosure, shedding important light on the effectiveness of a company’s governance practices and strategy, its approach to risk management, and its progress toward key performance targets. Quantitative metrics also facilitate comparison to peers or industry benchmarks. We suggest that any climate disclosure rulemaking initiated by the SEC leverage the structure of this prototype, as illustrated in Figure 1.

**Figure 1. A consistent Framework for Sustainability Disclosure**



\* Apply industry-specific standards on a “comply or explain” basis

The SEC could consider requiring a reporting company to provide structured narrative on its governance, strategy, and risk management practices, along with quantitative metrics, for all financially material sustainability topics. Although these “four pillars” were established by the TCFD for climate disclosure, they have been embraced more widely by certain investors.<sup>78</sup> SASB’s Standards Application Guidance

<sup>74</sup> CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and SASB, *Reporting on Enterprise Value* (December 2020).

<sup>75</sup> Supra note 13.

<sup>76</sup> International Organization of Securities Commissions (IOSCO), “IOSCO Technical Expert Group to undertake an assessment of the technical recommendations to be developed as part of the IFRS Foundation’s sustainability project,” media release (March 30, 2021).

<sup>77</sup> As of April 2021, more than 2,000 organizations—including 921 financial institutions—with a combined market capitalization of \$22.4 trillion have publicly expressed support for the TCFD.

<sup>78</sup> See, for example, BlackRock, “Sustainability Reporting: Convergence to Accelerate Progress” (October 2020), which states, “TCFD is focused on climate-risk reporting but, in our view, is conceptually as applicable to all corporate reporting relating to environmental and social risks and opportunities.”

suggests that companies apply this approach to all financially material sustainability topics, which enables companies to provide qualitative context for the metrics suggested by the SASB Standards.<sup>79</sup> It is important to note that SASB’s Standards Application Guidance also suggests a company should—using the definition of materiality appropriate in the legal jurisdiction in which it operates—determine for itself which SASB Standard (or Standards) are relevant to its business, which disclosure topics are reasonably likely to have material financial implications, and which associated metrics to report. SASB’s Standards Application Guidance also suggests that companies apply the Standards on a “comply or explain” basis, meaning that the company should explain its rationale for omissions or modifications.

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Question 11

## Disclosure Location and Reliability

SASB believes that ideally, companies would integrate financial information and financially material sustainability information in investor-focused communications, making explicit how performance on one influences performance on the other.<sup>80</sup> In fact, this belief is one of the drivers for our planned merger with the IIRC. However, in a US context, companies have often expressed concerns about legal liability associated with 10-K disclosure. Additionally, they have cited significant logistical challenges to preparing sustainability information in parallel with the traditional financial reporting cycle. Meanwhile, some investors have expressed to SASB that the availability of decision-useful sustainability information, including climate-related information, is more important than its location. Therefore, the SEC may wish to consider permitting companies to satisfy a disclosure requirement by providing information in a widely disseminated, publicly available manner (such as furnished on a Form 8-K, in a separate public report, or on a company website) within a specified period following the filing of the 10-K. Additionally, in order to facilitate the development and dissemination of sustainability disclosures that are more decision-useful than boilerplate disclosures, consideration should be given to providing issuers an appropriate (and limited) safe harbor from private plaintiff liability.

Regardless of its location, SASB believes sustainability disclosure to investors should be reliable. Reporting companies should be encouraged to design, implement and maintain a system of internal controls and procedures around developing and disclosing sustainability information that is comparable to the system used by the entity for financial reporting. Such systems should include management involvement, board oversight, and internal control. The SEC should consider requiring that the reporting company describe the internal controls and procedures that it uses in its sustainability disclosure efforts.

Question 9

## International Considerations

For companies with multinational operations and investors with global portfolios, the sustainability disclosure landscape is extremely complex. Most significantly, the European Commission’s Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), and Sustainable Finance Taxonomy have significant implications for many US-based investors and companies.

Demand is growing for international agreement on a foundational set of sustainability disclosure standards that would enhance global consistency and reduce complexity for both multinational companies and global investors.<sup>81</sup> The burden of regulatory fragmentation falls on the users and providers of financial capital. Thus, SASB believes the SEC should consider how any SEC requirements for

<sup>79</sup> SASB, Standards Application Guidance (October 2018).

<sup>80</sup> IIRC, “Investor statement of support for integrated reporting as a route to better understanding of performance” (February 15, 2021).

<sup>81</sup> International Business Council of the World Economic Forum, public statement (May 12, 2021), available at [http://www3.weforum.org/docs/WEF\\_IBC\\_ExCom\\_Statement\\_to\\_IFRS.pdf](http://www3.weforum.org/docs/WEF_IBC_ExCom_Statement_to_IFRS.pdf)

sustainability disclosure can, at a minimum, provide a basis for mutual recognition with an international solution.

For example, a “building blocks” approach,<sup>82</sup> such as the system advocated by IOSCO<sup>83</sup> and being considered by the IFRS Foundation,<sup>84</sup> can establish a global sustainability disclosure baseline that balances international consistency with jurisdictional specificity. This approach makes an important distinction between standards focused on financial materiality designed to serve capital markets and standards designed to meet the needs of multiple stakeholders. Should a global set of standards targeted at investors and other providers of financial capital be developed by a body that meets the criteria set forth by the SEC, such standards could serve as a baseline for international comparability of financially material sustainability information. Such an arrangement could involve SEC oversight and would help encourage participation from US-based issuers and investors in international standard-setting processes that will affect their allocation of or access to financial capital. In taking such an approach, the SEC would contribute to establishing the coherence that both companies and investors have called for, while also retaining its authority to establish additional or tailored requirements, as necessary. The SEC could use an endorsement process similar to that employed by countries applying IFRS Standards. These countries establish domestic standard-setting and/or endorsement bodies that provide input to the standards-development process and evaluate and adopt international standards for domestic use.

## Conclusion

In conclusion, SASB supports the SEC’s efforts to ensure markets have access to consistent, comparable, reliable information on financially material risks and opportunities related to climate change and other sustainability factors. We believe the questions posed by Acting Chair Lee explore many important issues, and we welcome further engagement on these and other topics. SASB’s work is premised on the idea that when markets have access to financially material, decision-useful sustainability information, investors can effectively evaluate performance, markets can efficiently price risk, and companies can more efficiently focus their resources on managing and disclosing key drivers of enterprise value. We welcome the SEC’s growing interest in the role sustainability standards can play in advancing its tripartite mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Regards,



Janine Guillot,  
Chief Executive Officer,  
Sustainability Accounting Standards Board

CC: Commissioners Crenshaw, Lee, Peirce, and Roisman  
John Coates, Director of Corporation Finance

<sup>82</sup> International Federation of Accountants, “Enhancing Corporate Reporting: Sustainability Building Blocks” (May 6, 2021).

<sup>83</sup> IOSCO, “IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation” (February 24, 2021).

<sup>84</sup> IFRS Foundation, “IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation” (March 8, 2021).



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