**ERM Certification and Verification Services, Inc**

The Towers at Wildwood Plaza
[redacted]

11 June 2021

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE Washington, DC 20549-1090

RE: Comment on Climate Change Disclosure

Dear Ms. Countryman,

I am submitting this letter on behalf of the Corporate Assurance team of ERM Certification and Verification Services (ERM CVS) and as the Partner responsible for the assurance of company non-financial disclosures, including climate change and ESG metrics, those in annual/management reports and stand-alone sustainability reports.

**<u>Who we are and what we do</u>**

ERM CVS (the independent arm of ERM Group) has been providing independent assurance (with public statements) on non-financial company disclosures for more than 10 years. We are accredited under the United Kingdom's National Accreditation Body UKAS and carry out our work using internationally recognised standards (ISE3000; ISAE3410) issued by the International Audit and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Our team includes professionals with up to 25 years' experience in the field of non-financial reporting and assurance, combining the essential knowledge and skills in accounting, reporting systems, internal controls and governance with those in climate change, environmental impacts, safety, social and governance issues. We observe high standards of commercial and personal independence and focus strongly on the needs of the users of the assured disclosures.

The work we do varies from the verification of annual GHG emission data and climate change disclosures through to the assurance of whole Corporate Responsibility / ESG reporting, either in stand-alone reports or as defined sections of annual reports / filings.

Our current portfolio of over 70 clients covers a wide range of sectors from oil and gas and chemicals through manufacturing and pharmaceuticals to transport and banking. They include many multinationals such as Chevron, Johnson and Johnson, IFF, Ball Corporation, Caterpillar, State Street, Hess, Biogen, FMC, Alcoa, ConocoPhillips, United Airlines, Pfizer, Livent, Eli Lilly, Mosaic, Reckitt Benckiser, Shell, Petronas, Aston Martin, Mondi, Titan. Many of these have large global GHG footprints as well as climate change risks and opportunities, safety issues and supply chain environmental and social impacts. The reporting of reliable (accurate and complete) data and other

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ERM CVS is an independent member of the worldwide Environmental Resources Management Group of Companies

information is of vital importance to their management shareholders, investors and other stakeholders.

ERM CVS fully supports the SEC proposal to develop a mandatory disclosure framework, initially for GHG emissions and broader climate change disclosures, and then for a wider range of key environmental, social and governance (ESG) disclosures which are applicable across all sectors for all major/listed companies.

According to the CPA Journal - 80% of sustainability-related comment letters submitted to the SEC in **2016**, in response to SEC Concept Release 33-10064 (*Business and Financial Disclosure Required by Regulation S-K*, August 2016), called for improved sustainability-related disclosures in SEC filings and/or market standards for these disclosures. In the face of a climate-related economic crisis we believe action is urgently needed regarding standardized carbon and climate reporting to enable more sustainable long term investor decisions.

We strongly recommend the SEC to consider the **following 4 key issues** relating to **Carbon and Climate reporting** based on our team's 25 years' experience in non-financial reporting and assurance:

a) **Reporting criteria – Guidelines, Standards and company-formulated**
b) **Reporting boundary, consolidation principles and re-statements**
c) **The role and importance of independent assurance**
d) **Global approach: key developments in other reporting jurisdictions**

Finally, in the **Appendix to this letter**, we provide brief feedback on relevant (for ERM CVS) questions in the SEC request for feedback, referenced back to the letter contents.

### a) Reporting Criteria – Guidelines, Standards and company-formulated

The world of carbon and GHG-related disclosure has led to a plethora of standards and guidelines, sometimes stand alone and sometimes as part of wider sustainability or corporate responsibility reporting frameworks and standards. E.g. TCFD, WBCSD/WRI GHG Protocol, SASB, GRI and now the work of the European Commission on updating non-financial disclosure requirements (NFRD becoming the CSRD) and the sustainable finance regulation (taxonomy) for sustainable investments.

In our experience an SEC mandatory climate disclosure framework covering GHG emission data referencing the WBCSD/WRI GHG Protocol combined with disclosures on climate scenarios, risks and opportunities in the TCFD would form a sound basis for SEC reporting of major companies. For many companies this is what they are already reporting, as well as other key ESG metrics using either SASB or GRI Standards.

In other words, <u>we do not believe another reporting standard is needed</u>. However, in order to improve consistency and comparability across companies within a sector or across sectors, there is an urgent need to better define the required public SEC disclosures and format including for example for climate-related disclosures:

- quantitative elements (such as annual absolute total Scope 1 and Scope 2 emissions and Scope 3 emissions per category (report or explain basis), intensity indicators for these emissions, and comparative data for the previous 3-5 years.
- Specific disclosures on TCFD climate scenarios, current impacts on the environment and people, risks and opportunities for the business, including longer-term predictions
- 5 year targets for reducing GHG absolute emissions, not just intensity in line with the Paris agreement.

**b) Reporting boundary, corporate consolidation principles and re-statements**

One issue which has challenged, and still challenges, both the writers of reporting standards/guidelines and the reporting companies is how to deal with the reporting ‘boundaries’ for climate and other ESG information compared with financial data – especially when non-financial data is included in integrated annual company reports / management reports.

The boundary/consolidation rules for financial data (in annual financial statements) is clear – ownership is foremost, also in terms of responsibility and liability. Extending disclosures up and down the value chain, using LCAs to cover raw materials through to product disposal may be seen as a risk to the company. However, when considering climate change in relation to the future financial sustainability of a company, as well as the external environment and people, the impacts extend way beyond the company’s own operational or financial control to the full value chain, both upstream - to raw materials, transport and services through to product use and disposal. In other words, disclosures on the risks posed by climate to a company, and its future (financial) performance will, in many cases, not be captured by aligning carbon disclosure boundaries with financial disclosure boundaries.

We therefore recommend the SEC to extend mandatory carbon reporting to the full value chain and consider mandatory disclosure of the following (data) consolidation principles in addition to the actual data and other climate management disclosures in order to enhance the consistency and comparability of the disclosures:

- The applicable consolidation boundary used for the quantitative metrics – i.e. financial control, equity based, operational control, other (define)
- Which facilities are included in the data e.g. mines, offshore platforms, manufacturing sites, OR are excluded e.g. offices, transport, distribution centres, retail outlets, etc. and % contribution to the total.
- How non-operated joint ventures (NOJVs) are dealt with and how data are obtained/checked for these operations
- How ‘unavailable’ data are estimated / extrapolated and what % these form of the totals
- What changes (restatements) have been made to prior years’ data and why.

### c) The role and importance of assurance

As financial reporting has demonstrated over many years, while a standardised reporting framework is essential to support the reporting of consistent and comparable data and other information, it does not guarantee the reliability of the reported information – neither its accuracy nor its completeness. Third party review (audit, assurance or verification) is essential to provide the additional confidence needed by investors that their decisions are based on reliable, consistent and comparable disclosures.

Here we want to emphasise that the auditing of GHG data and carbon-related disclosures requires a high level of technical expertise and competence outside those possessed by most accountants and financial auditors. A broader understanding of sustainability and a specific climate risk perspective is needed for the assurance of non-financial information where reporting boundaries vary, corporate data are often collected annually and involve many steps including unit conversions and emission factors, there are usually few internal control mechanisms and governance around the data and public disclosures is extremely variable.

Here we recommend the SEC to consider the main recommendations in the recently published guide to assuring Extended External Reporting (EER) published in March 2021 by the IAASB and WBCSD which indicates the (technical) competencies required for accepting an assurance engagement on climate disclosures and other ESG information. https://www.iaasb.org/focus-areas/extended-external-reporting.

These competencies (independence, experience, expertise and lack of conflicts of interest) are also reflected in various sector association reporting assurance requirements such as those of the ICMM (https://www.icmm.com/en-gb/about-us/member-requirements/assurance-and-validation/procedure).

We strongly urge the SEC NOT TO restrict the audit or assurance of GHG emissions, climate disclosures and ESG information to the financial auditing community. We believe in many cases it would cause a large increase in audit fees (to cover the unknown 'risks' involved) and would not result in the quality of information required by investors. In a number of our assurance engagements, where non-financial data or reports were previously assured by a major accounting firm, we have found errors in the previously assured data and clients tell us they had concerns about the limited knowledge and understanding of the subject matter(s) in the audit team.

Should assurance become mandatory, we recommend the SEC consider the approach being taken by the European Commission in its proposed update to the Non-financial Reporting Directive. This is to initially make assurance at a limited level of assurance (review engagement) mandatory and, in addition, open up the assurance market for this type of information to fully independent technical assurance and certification firms as well as accountants with sufficient and available technical resources.

https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_1806
Quote:
'*The Commission's proposal allows Member States to open up the market for sustainability assurance services to so-called 'independent assurance services providers'. This means that Member States could chose to* ***allow firms other than the usual auditors of financial information to assure sustainability information'***

Finally, to facilitate this approach and to overcome the boundary and consolidation issues mention in (b) above, we recommend the mandatory subject matter (disclosures) requiring assurance should be contained in a separate (‘Climate’?) supplement to the financial filings. These disclosures need to be clearly defined by the SEC, for data indicators (referencing existing standards), including appropriate international reporting units, as well as for broader management information, for example ESG goals, GHG emission reduction targets or TCFD scenario descriptions and specific disclosures regarding boundary and consolidation principles.

**d) Global approach: key developments in other reporting jurisdictions**

As already mentioned, we strongly advise the SEC not to reinvent the wheel by creating a new reporting standard for USA listed companies and instead work towards a global approach which will allow multinational companies reporting in different jurisdictions to report the same disclosures including consolidated data metrics, management approach and information on governance. A global approach in a global world (just like the recent G7 tax proposals) is what is needed to ensure investors and other stakeholders have consistent and comparable information on which to base their decisions. The work of the European Commission, and its working group EFRAG, on the Corporate Sustainability Reporting Directive (replacing the current NFRD) is, we believe, leading in this field.

Thank you for providing this opportunity to contribute to this important discussion.

Yours sincerely

Beth C.B. Wyke

Beth Wyke
*Partner, Head of Corporate Assurance, ERM CVS*

## APPENDIX: SEC QUESTIONS

***SEC Questions for Consideration***

1. *How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?*
   a) *Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?*

**ERM CVS response (see responses above)**

In a supplement which would be attached to the annual report / other filings– this would facilitate the use of an appropriate reporting boundary and the engagement of a different assurance provider with sufficient technical competencies in the subject matter.

   b) *What information related to climate risks can be quantified and measured?*

**ERM CVS response (see responses above)**

Those mentioned above for absolute GHG emissions in CO2 equivalents, GHG emission intensity and goals. We recommend the disclosures should include total actual emissions as well as a reduced figure due to emission offsetting. The SEC could include total energy use and % of energy use from renewable sources.

In addition to the above consideration could be given to disclosure of current major economic activities (facilities such as mines, manufacturing and production sites) which are located in water stressed areas or which could be affected by a specific change in sea level.

As mentioned above we believe that disclosure of only quantified metrics, without the surrounding information on TCFD scenarios, climate strategy, management and goals, would not provide the forward looking picture than investors need.

   c) *How are markets currently using quantified information?*

   d) *Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)?*

**ERM CVS response (see responses above)**

As well as those mentioned above, including Scope 1 and Scope 2 emissions, we recommend moving forward with Scope 3 emission reporting by category using the disclose or explain principle. Some of the 15 categories may not be relevant for a specific company or they may need more time to collect and consolidate the data. Categories relating to suppliers, contractors and products are extremely complex. However, it is only by including Scope 3 emissions that comparability between companies can be improved, for example between a company that uses its own transport versus one that contracts out all its transport operations.

e) *What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision?*

**ERM CVS response (see responses above)**

TCFD scenarios, SASB standards

f) *Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how?*

**ERM CVS response (see responses above)**

Start with the largest companies or with specific emission cut-off. If possible follow the EU proposal for the CSRD – companies with more than 250 employees - for global consistency

**g)** *Should disclosures be phased in over time? If so, how*?

**ERM CVS response (see responses above)**

As mentioned in the letter above, this is urgent and could have been done after the SEC's 2016 survey. Most large companies are already reporting key climate metrics so phase one could be for reporting year 2021.

h) *How are markets evaluating and pricing externalities of contributions to climate change?*

i) *Do climate change related impacts affect the cost of capital, and if so, how and in what ways?*

j) *How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions?*

k) *How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?*

2. *What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?*

**ERM CVS response (see responses above)**

As already stated, we believe the Commission should provide a mandatory reporting framework with minimum disclosure requirements (level playing field) that references specific existing reporting standards. Sectors and companies that want to go further (or need to to satisfy their stakeholders can already do so.

3. *What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?*

**ERM CVS response (see responses above)**

We believe the combination of reporting Scope total 1, 2 and 3 emissions according to the GHG Protocol as well as TCFD reporting requirements can be applied to all companies, irrespective of sector. Adding such complexity would make comparisons very difficult. Consider company groups with daughter companies in completely different sectors. Even in one sector - oil and gas - companies operate different combinations of upstream, midstream, downstream, distribution, retail, renewables, etc.

4. *What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?[7] Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?*

**ERM CVS response (see responses above)**

SEE ABOVE

5. *How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?*

**ERM CVS response (see responses above)**

SEE ABOVE

6. *What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed*

*with or furnished to the Commission?*

**7.** *How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?*

**ERM CVS response (see responses above)**

YES – prior year data do not tell the full story. Disclosure of internal governance, oversight and internal controls around the reliability of the disclosures and top management remuneration linked to climate goals and targets would provide investors with much better insight into those companies that are serious about reducing their emissions and impacts.

*8. What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?*

**ERM CVS response (see responses above)**

Global consistency is a must. Designate recognised standards that have already gone through a full consultation process, rather than inventing new ones which would also take too long.

***9.*** *How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?*

**ERM CVS response (see responses above)**

SEE ABOVE SECTION (c ) – recommend referencing the IAASB Standards ISAE3000/3410 or ISO 14064:3 for assurance of climate disclosures.

*10. Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?*

**ERM CVS response (see responses above)**

Over time introduce reporting on internal controls around climate reporting. CEO/CFO representation and responsibility for the data would be great but currently may be a step too far for some companies.

**11.** *What are the advantages and disadvantages of a "comply or explain" framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?*

**ERM CVS response (see responses above)**

SEE ABOVE – we think this approach should be restricted to Scope 3 data and should indicate timeline for reporting if data are not available in year 1.

**12.** *How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?*

**ERM CVS response (see responses above)**

SEE ABOVE – essential for understanding the level of commitment and management of climate risks and opportunities

13. *What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?*

14. *In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?*

**ERM CVS response (see responses above)**

YES – for additional ESG disclosures the principle of performance indicators (quantified metrics) plus strategy, management and goals can apply

We recommend priority is given to water use, biodiversity, diversity (all types) and employee rights and conditions, supply chain impacts (e.g. human rights) and plastic packaging.