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June 11, 2021

Dear Chair Gensler:

We respond to the call for public input on climate change disclosure, specifically Question #11, "Should the Commission consider other measures to ensure the reliability of climate-related disclosures?" We want to alert you to our working paper, "The role of the external auditor in managing environmental, social, and governance reputation risk". We have recently revised the paper for a second round submission to *Review of Accounting Studies*, and it is available on SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3864175. Thus, it has started, but not completed, the peer review process, so our results and their interpretation are still preliminary.

In the paper, we explore whether companies with more heightened ESG risk, based on negative media coverage, seek more non-audit services (NAS) from their external auditor. We would expect NAS fees to increase if the company engages the auditor for pre-assurance and assurance-related ESG services. We predict and find a positive impact to future firm value when companies increase their NAS purchases in times of heightened ESG risk. We measure future firm value based on three-year-out ROA (return on assets), and three-year-out Tobin's q (a measure of market value). We also find a positive impact to a measure of future heightened ESG risk that we construct. We interpret our findings as suggesting that the external auditor has expertise in helping companies manage ESG risk, likely through their pre-assurance and assurance-related services.

Subsample analyses indicate the association between NAS and heightened ESG risk is driven by companies owned by institutional shareholders, suggesting active investors approve of auditor-provided ESG services; and that the future firm value outcome results are driven by companies with ESG industry specialist auditors, suggesting that the effect we observe is driven by auditor ESG industry expertise.

We are limited in our ability to establish causality due to the nature of archival data. However, we run robustness tests and additional analyses to try to rule out alternative explanations for our results, which we believe suggest an important assurance role for the external auditor in enhancing the reliability of climate-related disclosures.

Sincerely,

A handwritten signature in black ink that reads "Tamara Lambert".

Tamara Lambert, PhD, CPA (inactive)
Associate Professor of Accounting

A handwritten signature in black ink that reads "Bright Asante-Appiah".

Bright Asante-Appiah, PhD, CPA, CFE
Assistant Professor of Accounting