



**Deloitte & Touche LLP**  
695 East Main Street  
Stamford, CT 06901-2141

Tel: +1 203 708 4000  
Fax: +1 203 708 4797  
[www.deloitte.com](http://www.deloitte.com)

June 12, 2021

Ms. Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street N.E.  
Washington, DC 20549

*Re: Request for Public Input on Climate Change Disclosures*

Dear Ms. Countryman:

Deloitte & Touche LLP is pleased to respond to the March 15, 2021, request for public input on climate change disclosures. We support consistent reporting of high-quality, transparent, relevant, and comparable information that investors need to make investment decisions. The demand for climate-related and other environmental, social, and governance (ESG) disclosure has accelerated, in part because of an increasing focus by investors and other users on the importance of this information to companies' performance. We therefore support the Commission's consideration of ways it might improve its current disclosure regime to facilitate timely and material disclosure by companies, as well as investor access to that information.

We also appreciate the opportunity to provide our thoughts on some of the important issues that the Commission will be considering as it moves forward. These include our observations from our role in the capital markets (e.g., current practices, company readiness, and key drivers of good disclosure), as well as our thoughts on the value of converged standards in this area.

While we understand that the SEC currently is primarily focused on climate-related matters, we believe many of the considerations raised in the request for input are also relevant to other ESG matters, and we therefore have framed our letter with that in mind.

#### **OBSERVATIONS FROM OUR PARTICIPATION IN THE CAPITAL MARKETS**

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While 90% of the S&P 500 provide some form of sustainability or ESG disclosure,<sup>1</sup> in our work with companies we have observed a wide variation in where companies are on the journey to integrate ESG considerations into their enterprise risk management system, strategy, and core business activities. We have also seen significant variation in what each company measures and reports. Some have a robust

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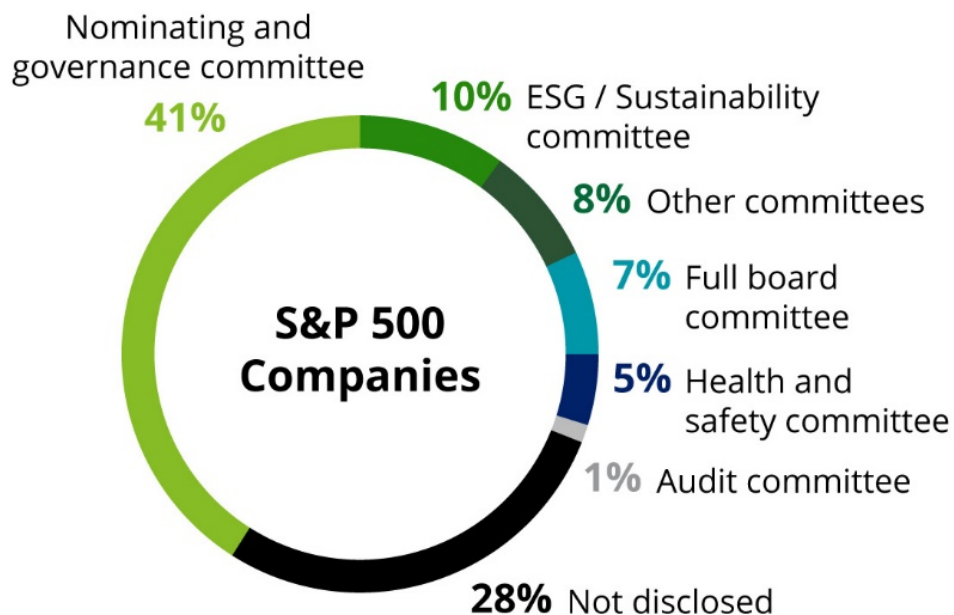
<sup>1</sup> See *G&A Institute annual S&P 500 sustainability reporting analysis*, available at: <https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html>.

infrastructure to define, measure, consider, and communicate on ESG matters, while others are only beginning to consider how to integrate ESG considerations into core business functions.

As the SEC moves forward in considering how to address ESG matters in its disclosure regime, it will be important to consider these variations among companies, and how those may affect the ability to elicit useful, reliable, and comparable ESG disclosure across all SEC reporting companies.

Our observations about the variation in company practice on ESG matters was supported by our review of proxy statements of the S&P 500.<sup>2</sup> Our review revealed variation in board oversight of ESG matters; the largest percentage (41%) delegated oversight responsibility for ESG matters to the nominating and governance committee, while significantly smaller numbers had established formal ESG/Sustainability committees (10%), designated it as a full board issue (7%), or assigned it to another committee (14%). Notably, the second largest group (28%) did not disclose whether the board had defined the governance structure around ESG. *See figure 1 below.*

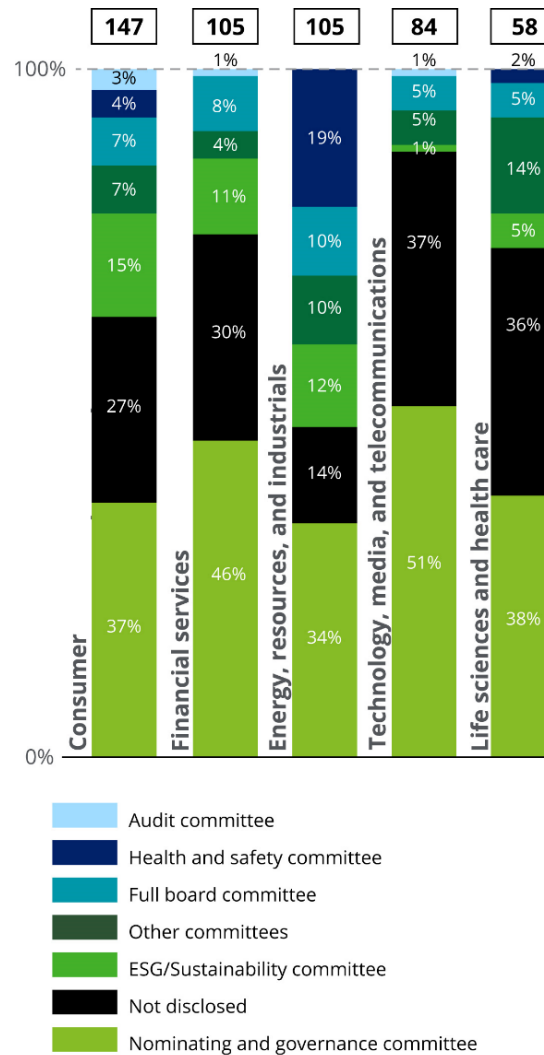
**Figure 1**



We found that the energy, resources, and industrials industry had a higher percentage of health and safety (19%), ESG/Sustainability-specific (12%), or other types of committees (10%) overseeing ESG, which may be a result of the core business objectives, regulatory requirements, and history of focus on employee safety of that industry. In contrast, within the technology, media, and telecom industry, which generally may not be subject to the same level of environmental, health, and safety compliance requirements, 37% of companies did not disclose information about ESG oversight at the board level. This variation may be especially informative to the extent it reflects different levels of maturity on ESG matters in different industries. *See figure 2 below.*

<sup>2</sup> See *On the audit committee's agenda: Defining the role of the audit committee in overseeing ESG* (Nov. 2020), available at: <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/defining-the-role-of-the-audit-committee-in-overseeing-ESG.html>.

Figure 2



While we still see a variation among companies, in the past year we also have observed a general increase in focus on ESG matters—by both companies and investors—especially in light of the effects of the COVID-19 pandemic and social justice movements. This has included an increased focus on workplace health, safety, and wellness; diversity, equity, and inclusion; and executive pay, especially for companies that implemented workplace reductions in response to COVID-19.<sup>3</sup> As growing societal awareness of social and environmental issues leads to increased scrutiny of and accountability for

<sup>3</sup> We also reviewed the proxy statements filed between February 2020 and January 2021 of the Fortune 100 companies and found that less than 40% have incorporated ESG measures in their executive compensation plans. Of those companies that have incorporated ESG measures, the most common category was “S” (social), followed by “E” (environmental). Of those that did include ESG measures, measures tied to human capital/culture and diversity, equity, and inclusion are by far the most common. See *On the board’s agenda: Incorporating ESG measures into executive compensation plans* (Apr. 2021), available at: <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/incorporating-esg-measures-into-executive-compensation-plans.html>.

corporate practices, companies and investors are likely to continue to focus on the potential financial and reputational impacts of ESG matters on company performance. It therefore is increasingly important that the information companies report on these topics is credible and well supported.

However, while events of the last year have prompted some companies to accelerate quickly in addressing some areas of ESG in their core business activities, many are still developing governance structures, processes, and controls for accumulating, analyzing, and reporting ESG information. This is true even for those companies that currently provide robust ESG disclosures. If a company's current disclosures are made outside of its SEC filings, they often are not subject to the same governance and control frameworks as the company's SEC disclosures. The cost and time needed to develop and implement new processes, technology and capabilities could be significant for some companies.

Moreover, companies that currently disclose ESG information, including in standalone sustainability reports, often do so on a different cycle than their Forms 10-K. In some cases, this timing is driven by reliance on information from third parties to develop those disclosures. New disclosure requirements within the current SEC periodic reporting deadlines could be especially challenging for these companies.

It is important for the SEC to understand this landscape as it considers how to best address ESG considerations in its disclosure regime, because lack of company readiness can greatly affect the quality of disclosure, even for well-intentioned companies. While company readiness may be more relevant to the timing of any new requirements, rather than to their substance, it is nonetheless an important consideration; reliable company systems and processes are the foundation of high-quality, relevant, and comparable disclosure among companies.

The SEC should also consider how other key drivers of quality in the current SEC reporting system might be applied to help support high quality, relevant, and comparable ESG disclosures. These include how any new ESG disclosure requirements will fit into the existing requirements related to company controls, as well as whether the disclosures will be subject to external assurance.

In its review of public disclosure, the Center for Audit Quality found that the majority of S&P 100 companies already subject certain elements of their ESG disclosures (including climate-related disclosures, such as greenhouse gas emissions) to some sort of third party assurance or verification.<sup>4</sup> However, the rigor of that third party review may vary greatly from company to company, because the scope of the review and the qualifications of the providers vary (e.g., the CAQ found only 11% received assurance from a public company auditing firm). Investors are accustomed to assurance in SEC filings at the level of that provided for financial statements and internal control over financial reporting. Therefore, they likely will expect any assurance that may be required by the SEC on ESG-related disclosure will similarly be provided by assurance providers who:

- Have skills and experience in providing assurance and reporting on companies,
- Follow established standards in providing assurance,
- Follow established independence and ethics rules and demonstrate professional skepticism,
- Maintain licenses that include continuing professional education, and
- Maintain a system of quality control over the work they do.

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<sup>4</sup> The Center for Audit Quality's *S&P 100 and ESG Reporting* (Apr. 29, 2021), available at: <https://www.thecaq.org/sp-100-and-esg-reporting/>.

Other considerations relevant to the quality of ESG reporting that the Commission should consider include how the nature of some ESG information (as compared to more traditional historical financial information) may affect the use of existing legal safe harbors or other liability protections under the securities laws. Providing appropriate protections for disclosure that may be inherently forward-looking in nature, or contain significant estimates, may encourage companies to provide more robust and meaningful disclosure.

## **THE VALUE OF STANDARDS IN DRIVING CONSISTENT, COMPARABLE, AND RELIABLE DISCLOSURE**

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The quality, transparency, relevance, and comparability of ESG disclosures can be enhanced by following established standards and frameworks. Reporting that links ESG factors and financial information could further highlight how the risks and opportunities faced by businesses translate into long-term value creation and profitability, or longer-term challenges, as well as short-term financial performance.

We have worked closely with several private sector efforts to develop high quality standards, including the CDP (formerly the Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Financial Disclosures (TCFD). We believe that each of these efforts can assist companies in enhancing the quality, consistency, and comparability of their ESG disclosure. We also note that several leading investors have also supported these efforts, especially those of the SASB and/or TCFD.<sup>5</sup>

As discussed further below, however, while we have been supportive of all of these efforts, we also believe that rationalization of standards and requirements would be helpful to companies in preparing information, as well as to investors as they make investment decisions. If the SEC takes action to require increased disclosure in this area before such rationalization is achieved, we nonetheless urge the Commission to consider how the existing standards may align with the SEC's objectives, so that to the extent possible new SEC requirements are consistent with the efforts to rationalize existing standards.

## **THE BENEFITS OF GLOBAL CONSISTENCY**

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As noted above, private sector efforts to establish ESG disclosure standards have contributed to the quality, transparency, relevance, and comparability of ESG disclosures. However, in some cases they also have resulted in duplication and/or parallel reporting, and therefore have not resulted in the level of consistency in reporting across companies that would likely result from a single set of standards. We have observed increasing frustration in the market with the multiple reporting standards, as well as with multiple stakeholder-specific requests (e.g., from investors, customers, as well as ESG raters and rankers), that may require companies to report some ESG-related information multiple times and in multiple formats to different stakeholders.

In addition to private sector efforts in this area, other governments are addressing ESG disclosures in their local jurisdictions. For example, the European Commission recently proposed legislation that, if adopted, would require all large companies in the European Union to report on how sustainability

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<sup>5</sup> See, e.g., *Larry Fink's 2021 letter to CEOs* (Blackrock), available at: <https://www.blackrock.com/us/individual/2021-larry-fink-ceo-letter>; *Vanguard's Investor Stewardship Annual Report* (Dec. 2020), available at: <https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2021-investment-stewardship-annual-report.pdf>; State Street Global Advisors' *The ESG Data Challenge: The Importance of Data Quality in ESG Investing* (Jan. 2021), available at: <https://www.ssga.com/library-content/products/esg/esg-data-challenge.pdf>.

issues, such as climate change, affect their business, as well as the impact of their activities on people and the environment.<sup>6</sup> Auditors would play a key role by providing assurance on that reporting. The legislation may apply to large subsidiaries of non-EU companies that operate in the EU, thus potentially adding to the variety of ESG reporting requirements to which multinational companies are subject.

Informed by our experience related to the efforts to converge accounting standards over past decades, we believe that global convergence is important because of the global nature of many companies, and the fact that global issues benefit from global solutions. We therefore support the efforts of the IFRS Foundation to establish an International Sustainability Standards Board (ISSB) that will focus on globally accepted sustainability standards (for climate initially, but eventually on a range of ESG topics). We believe that the IFRS Foundation is well-positioned to lead the efforts to rationalize existing disclosure standards and frameworks, given its proven track record of independent global standard setting.

We therefore have been supportive of other moves to consolidate the various ESG frameworks and standards to contribute to global convergence. For example, last year we supported the development by the World Economic Forum's International Business Council (WEF/IBC) of a core set of 21 universal, comparable disclosures that are considered critical for business, society, and the planet.<sup>7</sup> In addition to promoting the adoption of these metrics, WEF/IBC has encouraged greater cooperation and alignment among existing standard setters, and recently announced its support of the IFRS Foundation's ISSB.<sup>8</sup> We are also serving as one of the facilitators of the work being done by the five leading sustainability standard setters and reporting initiatives that joined forces to set out the vision and roadmap towards a more coherent and comprehensive corporate reporting system.<sup>9</sup>

We were pleased to see the SEC express support for the statement by the International Organization of Securities Commissions (IOSCO) in support of convergence efforts—specifically that of the IFRS Foundation—and that the SEC will co-chair the IOSCO Technical Expert Group to advise on standing up the ISSB. We encourage the SEC to remain active in these discussions to help shape global standards in this area so that the Commission does not lose an important opportunity to align with global standards at the outset.

While we believe that the global convergence efforts are important to create a baseline and will enhance quality and comparability across companies and markets, we also recognize that local regulators (including the SEC) may want to adapt global standards—or provide additional requirements—to reflect jurisdiction-specific priorities. If the SEC determines that it should proceed with developing new disclosure requirements for public companies, we encourage the Commission to do so in a way that would allow those requirements to be aligned with global standards either from the start, or in the future.

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<sup>6</sup> See European Commission's *Sustainable finance package* (Apr. 2021), available at:

[https://ec.europa.eu/info/publications/210421-sustainable-finance-communication\\_en#csrd](https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd).

<sup>7</sup> See The World Economic Forum's *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* (Sep. 2020), available at:

[http://www3.weforum.org/docs/WEF\\_IBC\\_Measuring\\_Stakeholder\\_Capitalism\\_Report\\_2020.pdf](http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf).

<sup>8</sup> See May 12, 2021 announcement, 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).

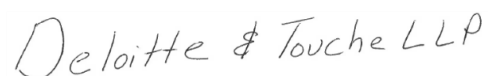
<sup>9</sup> See, e.g., *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting: Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB* (Sep. 2020), available at: <https://29kijwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>.

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The past year has underscored the importance of environmental, social, and governance matters to our markets. This is reflected in Deloitte Global's *2021 Resilience Report*<sup>10</sup> in which 60% of the CXOs surveyed believe major disruptions, such as societal issues or climate-related natural disasters, are likely to become more frequent. The views of these executives emphasize the increasing importance to investors of disclosure about such matters, as they seek to understand how companies are prepared for such disruptions, which are often linked to ESG topics. We commend the Commission for its timely focus on this developing area, and we appreciate the opportunity to share our views.

We also look forward to further engagement as the SEC moves forward to address ESG matters in its disclosure regime. If you have any questions or would like to discuss our views further, please contact Kristen Beck Sullivan at (203) 708-4593 or Christine Davine at (202) 879-4905.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP

cc: Gary Gensler, Chair  
Hester Peirce, Commissioner  
Elad Roisman, Commissioner  
Caroline Crenshaw, Commissioner  
Allison Herren Lee, Commissioner  
John Coates, Acting Director, Division of Corporation Finance  
Paul Munter, Acting Chief Accountant

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<sup>10</sup> See Deloitte Insights *2021 Global Resilience Report: Building The Resilient Organization*, available at: [https://www2.deloitte.com/content/dam/insights/articles/US114083\\_Global-resilience-and-disruption/2021-Resilience-Report.pdf](https://www2.deloitte.com/content/dam/insights/articles/US114083_Global-resilience-and-disruption/2021-Resilience-Report.pdf).