June 11, 2021

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

Re: Climate Change Disclosures Request for Input

Dear Chair Gensler:

The American Institute of CPAs (AICPA) welcomes the opportunity to comment on the request for public input on climate change disclosures made by Acting Chair Allison Herren Lee on March 15, 2021 (consultation request). The American Institute of CPAs (AICPA) is the world's largest member association representing the CPA profession, with more than 428,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for its members and U.S. auditing and attestation standards for private companies, not-for-profit organizations, and federal, state and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives continuing education to advance the vitality, relevance and quality of the profession.

Overall View

We appreciate the SEC exploring issues related to climate-change disclosure, and more broadly ESG disclosure through a formal request for information.

In today's global economy as much as 80% of the value of many companies is comprised of intellectual property, brand, customer value and other intangible assets that are not fully valued on the balance sheet. It has also been noted that as much as 85% of a company's costs are related to their people.

In this context, it is increasingly important to investors that they have relevant disclosures about the collective drivers of short, medium, and long-term value, and investors having this information is critical to the effective functioning of our capital markets.

As the SEC considers climate change disclosures, we think it is essential that all market participants work towards a comprehensive global reporting solution that provides insight into how an enterprise leverages its array of resources to create value over the long-term, including ESG disclosures.

Specific Areas of Comment

We have grouped the consultation questions and our responses thematically. Our responses are summarized below. Additional details are provided in the Appendix to this letter.

Disclosures - The AICPA supports the SEC seeking input on its consideration of climate-related disclosures in order to provide more consistent, comparable, and reliable information for investors and additional clarity for registrants.

In addition to climate-related concerns, four of the top five top issues cited in the World Economic Forum (WEF) 2021 Global Risk report are environmentally related. Further, there is an increasing expectation by investors that responsible businesses in today's eco-system address a broader range of ESG issues. Accordingly, should the SEC incorporate disclosure in financial filings, we support the concept of considering climate change disclosures as one component of a broader ESG framework.

Disclosures should include details regarding governance of the enterprise, especially with respect to responsibility for ESG and climate change strategy and risk management. Metrics and targets incorporated into the disclosures should be an appropriate subset of those used to manage the business.

Standards and Frameworks - The AICPA also supports the proposition that any climate-related disclosures be based on existing frameworks and standards. In the broader context, we continue to express our ongoing support of the Integrated Reporting <IR> Framework as a model for global corporate reporting.

We recommend that climate-related disclosures be aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) framework. TCFD recommendations have become the global standard for climate change disclosures, increasingly required by regulators around the world.

We also advocate for the use of industry-specific disclosures based on Sustainability Accounting Standards Board (SASB) standards. SASB standards are comprehensive in nature, addressing ESG issues beyond climate change. Notably, the SASB standards enable companies to disclose financially material sustainability information to investors and may be used as a basis for suitable criteria in an attestation engagement.

SEC disclosures should be compatible with emerging international developments, in particular the formation of the IFRS Foundation International Sustainability Standards Board (ISSB) whose proposed objective is to set global sustainability standards under the Foundation's governance structure. We encourage continued engagement by the SEC in the efforts of the IFRS Foundation to ensure international coherence. Requirements should also be sufficiently flexible to accommodate evolving technical best practices, standards, and investor expectations. Use of a third-party standard setter that satisfies independence and other essential criteria for standard-setting, as expected by the market, would provide for responsive and responsible decisions on evolving best practices while still allowing the SEC to require specific disclosures, where appropriate.

Assurance – Key components contributing to the trust in, and effectiveness of, our financial reporting system include management responsibility for the financial statements and controls over reporting, along with assurance provided by licensed professionals who are held accountable to core values of integrity, objectivity and independence, who are required to follow comprehensive standards of practice and are subject to independent inspection. Accordingly, we support the SEC's consideration of assurance over climate-related disclosures as well.

As you are aware, CPAs follow professional attestation standards and guidance and are uniquely qualified and well positioned to help enhance the reliability of ESG-related disclosures.

Internal controls over ESG-related disclosures – A foundation of quality reporting by company management is essential for reliable, comparable and relevant information. The quality of information is also essential to a successful assurance engagement. Given the critical need for effective governance over ESG and climate risk strategies, disclosures, and controls, we also support additional measures to ensure reliability, which includes having effective internal controls and processes in place with respect to ESG information. In the Institute of Internal Auditors' Three Lines of Defense model, management control is the first line of defense in risk management, the various risk control and compliance oversight functions established by management are the second line of defense (this includes internal audit), and independent assurance is the third. Each of these three "lines" plays a distinct role within the organization's wider governance framework.

In the context of financial reporting, the vast majority of companies use COSO's Internal Control – Integrated Framework (ICIF) to design and assess the effectiveness of internal control over financial reporting (ICFR). COSO's ICIF has broader applicability to non-financial reporting as well. We believe the ICIF and the knowledge gained in using it, can be effectively leveraged and applied in the context of ESG disclosures. Applying ICIF could help companies design effective internal controls related to ESG information and, as a result, provide disclosures that are relevant, comprehensive, accurate, and are in compliance with any applicable rules.

Other Considerations –

Measurement - We believe that measurement and disclosure of GHG emissions is essential to the management of emissions, and an efficient carbon market is critical to the achievement of any targeted reductions in a cost-effective manner.

Structured data - It is important that ESG information is easily accessible and therefore digitized. The SEC has amassed a robust database of financial disclosures which are structured using XBRL. Structured data allows for the information to be more easily searched, consumed and analyzed. Structuring of ESG data would offer users a cost-effective manner to consume this information similarly to how they consume financial information. The benefits of easier reporting, accessibility and analysis that are provided to issuers, investors, regulators, and authorities through electronic financial reports could also be achieved for ESG disclosures.

Transition period - While we support the consideration of climate-related disclosures, given the complexity of climate change information (e.g., as in the case of scenario analysis), we also see the need for a degree of flexibility with respect to any disclosure requirements. In particular, consideration should be given to providing safe harbor from liability for providing forward-looking disclosures. It may also be necessary to provide a transition period for issuers to prepare to report complete, accurate, and reliable information.

We appreciate the SEC taking leadership on this critical issue and would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter.

Respectfully,

Susan S. Coffey, CPA, CGMA

Chief Executive Officer – Public Accounting

Disclosures

Consultation request: The initial series of questions in the consultation request focuses on climate change disclosures and how to best provide reliable information to investors while providing greater clarity to registrants. The closing series of questions broadens the scope and asks whether climate change disclosures should be one component of a broader ESG framework. Additional disclosure related questions addressed the best approach for requiring such disclosures and how governance and oversight of risks and impacts should be disclosed, including whether disclosures should include the connection between executive or employee compensation and climate change risks and impacts.

Notes in support of AICPA perspectives:

Additional disclosures about the drivers of enterprise value are critical to investors and to the effective functioning of our capital markets. Company value in today's economy is driven increasingly by intangible assets and especially the contributions of employees.[1] Clearly, the need for more information by investors about a company's human capital resources has been recognized by the recent update to Regulation S-K, including as a disclosure topic information about registrant's human capital resources.

The AICPA is an original Foundation Partner of the International Integrated Reporting Council (IIRC) (which recently merged with the Sustainability Accounting Standards Board to form the Value Reporting Foundation). The <IR> Framework provides principles-based guidance for comprehensive, connected, holistic reporting that draws on the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) that companies deploy in their value creation process, thereby improving the quality of information available to providers of capital.

Congruent with this holistic perspective, in response to the recent IFRS Consultation Paper on Sustainability Reporting, the AICPA & CIMA advocated that the proposed IFRS Foundation Sustainability Standards Board be given the mandate to address all sustainability topics relevant to enterprise value creation at the outset; that its long-term strategic ambition should be to cover all material non-financial disclosures relevant to sustainability and enterprise value creation.

This approach is consistent with recommendations made by the SEC Investor Advisory Committee Relating to ESG Disclosure (As of May 14, 2020).[2] Asserting that "the time has come to address this issue" the Committee recommended a principle-based framework, for decision-useful information that would level the playing field among all issuers regardless of market cap size of capital resources. The Committee also noted that disclosures should be "based upon the same information that companies use to make their own business decisions."

We think it is also noteworthy that while the primary mandate of the Securities and Exchange Commission is to address the needs of investors, registrants, and other public securities market participants the broader expectations of business are being challenged, debated and in many cases changing. This shift has often been highlighted by reference to the 2019 statement by the Business Roundtable[3], an association of the chief executive officers (CEOs) of leading U.S. companies which has essentially redefined the purpose of a corporation. The statement, which 181 CEOs signed, committed the executives to lead their companies for the benefit of all stakeholders.

Disclosures (cont'd)

While we are not advocating for a broadening of the remit of the SEC, we think it is essential that all interested parties work towards a global reporting solution that provides insight into how an organization leverages its array of resources to create value over the long-term for the benefit of not only shareholders, but for a wider range of stakeholders. On this front, we support the recent update to the International Federation of Accountants (IFAC) Enhancing Corporate Reporting[4] report which outlines a multi-stakeholder Sustainability Building Blocks approach that encompasses a broader scope of sustainability issues, along with the sub-set that are material to enterprise value creation and therefore, of primary interest to investors or other providers of capital.

Standards and Frameworks

Consultation request: The consultation request also included a number of questions about standards and frameworks. These questions included the use of industry developed standards, industry-specific standards, standards setting, and standards setters. Other details included the level of granularity for industry-specific disclosures and "comply or explain" provisions with respect to compliance with standards or frameworks.

Notes in support of AICPA perspectives:

To the extent possible, SEC disclosures should be aligned with other emerging international developments, including standards set by the new IFRS Foundation proposed International Sustainability Standards Board (ISSB) and that any climate-related disclosures be based on existing frameworks and standards. The <IR> Framework is an industry-agnostic framework geared towards comprehensive reporting of the drivers of the enterprise value creation process. It is not specifically targeted to climate-change or sustainability reporting.

The TCFD Framework, which has become the global standard for climate change reporting, is also industry agnostic. The Task Force has created supplemental guidance for the finance sector, as well as guidance for non-financial sectors that was based on the twelve industries that account for the largest GHG emissions, energy usage and water usage. However, while disclosure of climate-related information has improved over time, the quantity and quality of disclosure has not been as robust as hoped for. According to feedback received by the TCFD "The top-cited issue by preparers on implementing the Metrics and Targets recommendation was the lack of standardized industry metrics."[5]

The Sustainability Accounting Standards Board (SASB) has created industry-specific standards across 77 industries in 11 sector categories. SASB standards are developed in accordance with their conceptual framework that sets out the concepts, objectives and principles that provide guidance for their standard setting process. Significant research and market engagement at both the industry and company level are key to SASB's evidence-based, market driven approach to setting its standards.

SASB standards are categorized using the Sustainable Industry Classification System® (SICS®) developed by SASB which uses sustainability profiles to group companies into sectors and industries "in accordance with a fundamental view of their business model, their resource intensity and sustainability impacts, and their sustainability innovation potential." SASB has also developed a Materiality Map to identify industry- specific issues likely to be material for a company.

Standards and Frameworks (cont'd)

Notably, the SASB recently published a 2021 *Climate Risk Technical Bulletin* which is designed "to help investors better understand, measure and manage their exposure to climate-related risks and opportunities." [6] Applying the SASB Materiality Map, this Bulletin provides a detailed mapping of the types of climate risk likely to be financially material in each industry. It also provides recommendations for preparers "on how industry-specific climate risk can be more effectively measured, managed, and disclosed."

The SASB standards are designed to enable the reporting of financially material sustainability information to investors and may be used as a basis for sustainable criteria in an attestation engagement.

As part of the effort to advance the cause of global alignment of corporate reporting, the IIRC and SASB have merged their organizations into a new organization – The Value Reporting Foundation. The combined organization will maintain the integrated reporting framework, advocate integrated thinking, and set sustainability disclosure standards for enterprise value creation.

In addition, key sustainability reporting framework and standards-setters have already identified how their different frameworks and standards can be used together to meet the information needs of a company's investors. The CDP, CDSB, GRI, IIRC and SASB *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* illustrates how existing frameworks and standards can be interoperable to meet ESG reporting needs. Further, their publication *Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard* illustrates how their frameworks and standards, along with elements of the TCFD framework, could provide a starting point for global climate-related financial disclosure.

Assurance

Consultation request: Another group of questions in the consultation addressed how disclosures should be enforced or assessed, including whether and how audit or assurance requirements should be required; also how to ensure meaningful disclosures, along with other measures to ensure the reliability of disclosures such as executive certification of the information disclosed and/or the controls around such reporting.

Notes in support of AICPA perspectives:

Sustainability assurance is increasingly being expected by shareholders, regulators, investors, and other stakeholders. According to the CFA Institute's 2017 *Environmental, Social and Governance (ESG) Survey*, which includes responses from over 1,500 portfolio managers and research analysts, 69% of portfolio managers and research analysts think it is important that ESG disclosures be subject to independent verification. Additionally, the TCFD's final Report states that "Disclosures should be reliable, verifiable and objective."[7] The proposed European *Corporate Sustainability Reporting Directive* includes provisions that, if adopted, would initially require companies in the European Union to obtain limited assurance on reported sustainability information with an option to move towards reasonable assurance in the future.

As highlighted in the overview developed by the AICPA and the Center for Audit Quality, *ESG Reporting and Attestation: A Roadmap for Audit Practitioners*, “Third-party assurance from an independent accounting firm can enhance the reliability of ESG information reported by companies, in a manner similar to the process that occurs with audits of financial statements and internal control over financial reporting.”[8] The AICPA has also developed a guide *Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information)* to assist CPAs when performing examination or review engagements on sustainability information applying the AICPA’s Statements on Standards for Attestation Engagements (SSAEs).

Critical to the assurance process is the ability of an enterprise to produce high quality, reliable information. This is dependent upon good governance. While most companies have sufficient controls in place to produce auditable financial statement information, ESG data is often not subject to the same governance and control processes. Therefore, we think it is important for companies to establish effective processes and internal controls over this ESG information.

Other Considerations

Consultation request: Measurement issues in the consultation request included questions related to disclosures, preparers, and markets. Other considerations addressed in this section include the need for flexibility, safe harbor provisions, and the possible need for a transition period for any disclosure requirements.

Notes in support of AICPA perspectives:

Measurement – With respect to the use of quantified information by markets, investors are clearly interested in incorporating ESG information in their analysis and portfolio construction. However, they currently rely extensively on third party ESG data providers which is a sub-optimal solution. As a result, markets are not accurately pricing the externalities of climate change or other ESG issues, and as such, these issues are not appropriately reflected in the cost of capital.

The TCFD recommendations are a framework structured around four core themes of governance, strategy, risk management, and metrics and targets. Key metrics include Scope 1, Scope 2 and Scope 3 emissions. Achievement of emission reductions for many companies will not only involve strategies to reduce emissions that are controllable by the organization, but also offsetting emissions via carbon markets. While acknowledging that establishing carbon markets is beyond the remit of the SEC, a recent report by the Market Risk Advisory Committee of the Commodity Futures Trading Commission (CFTC) notes that while disclosure is a critical building block, “financial markets will only be able to channel resources efficiently to activities that reduce greenhouse gas emissions if an economy-wide price on carbon is in place at a level that reflects the true social cost of those emissions.” [9]

Companies are conducting TCFD recommended climate scenario analyses. However, a 2019 study by the TCFD found that the disclosure around these analyses with respect to strategy or financial impact is limited.

Further, academic research funded by our organization on TCFD implementation by Australian listed companies revealed a significant gap in both the quantity and quality of climate-related disclosures between the largest ASX 100 companies and the bottom 200 companies This research concluded that "the ability for preparers of financial reports to provide such information in a manner that is decision-useful is, however, limited by three fundamental problems, including: a) The lack of specification and guidance available; b) The nature of the measurements required, which are often complex and require significant scientific expertise; and c) The desire for investors to see, in the market, forward-looking information pertaining to organisational strategy, stress-tested against a variety of climate change 'scenarios'. This latter information is inevitably uncertain, as well as being possibly commercially sensitive in nature.".[10]

The TCFD and other organizations continue to refine scenario models and methods in order to address these challenges. In the meantime, regulators around the globe are continuing to propose disclosure requirements that are based on TCFD recommendations.

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[1] PwC, In-the-loop/sec-new-human-capital-disclosure-rules.pdf
[2] SEC, SEC Investor Advisory Committee Relating to ESG Disclosure (As of May 14, 2020)
[3] Business Roundtable, Busines-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans
[4] IFAC, Enhancing Corporate Reporting: Sustainability Building Blocks | IFAC
[5] TCFD, Task Force on Climate-related Financial Disclosures, 2020 Status Report (October 29, 2020).
[6] SASB, Climate-risk-technical-bulletin
[7] AICPA, Sustainability Assurance Brochure
[8] CAQ, ESG Reporting and Attestation: A Roadmap for Audit Practitioners | The Center for Audit Quality
[9] CFTC, Managing Climate Risk in the U.S. Financial System (cftc.gov)
[10] CIMA-TCFD, Accounting-for-the-climate-horizon-a-study-of-tcfd-implementation.html