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Letter in Response to "Public Input Welcomed on Climate Change Disclosures"

We are pleased to see the Securities and Exchange Commission providing an opportunity for public comment on this very important topic. By way of brief background, we are academics with a deep interest in standards for reporting on climate and other environmental, social, and governance (ESG) issues. Barker is Professor of Accounting, and Faculty Dean, at the Saïd Business School at the University of Oxford. Eccles retired from the Harvard Business School and is now a Visiting Professor of Management Practice at the Saïd Business School.

We have done extensive research on this topic. For example, in October 2018 we published the Green Paper "Should FASB and IASB be responsible for setting standards for nonfinancial information?" In December 2020 we submitted our comment letter in response to the IFRS Foundation's consultation paper on sustainability reporting. We include these as reference. In particular, our comment letter provides extensive discussion about the many general issues raised by the Commission, albeit not with a climate focus.

Each of us also has substantial practical experience in standards for reporting. For example, Barker was a Research Fellow at the International Accounting Standards Board and board member of the UK's accounting standard-setting body, and Eccles is the Founding Chairman of the Sustainability Accounting Standards Board. Both of us have been advisors to the Impact Management Project.

For us, the most important question to address is (9) regarding "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?" The answer to this question has enormous implications for all of the other questions. **Our view is that there should be a single set of global standards and that these standards should be endorsed and mandated by the appropriate regulatory body in each national jurisdiction. In the U.S., that body would be the Commission.**

A single set of global standards

The logic for a single set of standards is a straightforward one. The world's largest investors—and we note the tremendous concentration in the asset management industry, especially in the United States—invest globally. They want to be able to compare a company's performance on climate issues and other ESG topics in general, and on industry-specific topics, regardless of the jurisdictional domicile of the company. For the most part, they are able to do this today for financial performance, albeit by making adjustments between International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (U.S. GAAP). Similarly, companies want to be able to

compare and benchmark their performance against a relevant set of global peers. The cost/benefit to companies of having a single set of standards to adhere to is an obvious one. A single set of global standards for climate and ESG disclosure will enable global markets to play their critical and necessary role in supporting sustainable value creation.

We also believe that global standards can only be set by an independent, global body, with well-established and robust governance and due process. In our view, the obvious candidate for this role, and in several ways the only serious candidate, is the International Sustainability Standards Board (ISSB) being established by the IFRS Foundation. Most of the world's jurisdictions already follow IFRS developed by the IASB, and IFRS is in general closely aligned with U.S. GAAP. Much of the legal and regulatory groundwork for jurisdictional adoption, and for alignment with financial reporting, is therefore largely already in place.

Should the U.S. decide to establish its own set of standards, the opportunity for a global set will be lost, because no major jurisdiction would adopt standards developed and controlled by another major jurisdiction. Should the U.S. decide to collaborate with the IFRS Foundation, however, substantial momentum will be provided for a global set of standards. The U.S. is the largest capital market in the world and many of the world's largest asset managers, including eight of the top 10, as well as many of the largest global corporations, are based in the U.S. It is not in the interests of those stakeholders that, at present, the European Union is on course to develop its own sustainability reporting standards. With U.S. support for the ISSB, however, global convergence on a single set of standards becomes the likely outcome.

National control over endorsing and mandating standards

We emphasize that setting standards in distinct from mandating their adoption. In financial reporting, the IFRS Foundation has no direct control over whether its standards are required to be used. Control rests with national jurisdictions.

In practice, U.S. control would be exercised in two ways. First, and as part of the due process of the IFRS Foundation, the U.S. voice in setting standards would be powerful. This is because the IFRS Foundation must realistically set standards that are in practice likely to be adopted, not least in the world's largest capital market. Second, it would be entirely a matter of U.S. control to determine whether, and to what extent, global standards are endorsed and mandated within the United States.

We note that there is variation in what "mandated" means, ranging from recommended practice, to a 'comply or explain' approach, to an absolute reporting requirement. There is also jurisdictional discretion over how monitoring is done and if, and to what extent, assurance is required. There is also discretion over whether to require additional reporting requirements beyond a common baseline of global standards. What's critical is that such a baseline exists, and that the particular metrics chosen by the ISSB for any given topic provide the basis for consistent evaluation by capital market participants globally. The obvious example is greenhouse gas emissions, at the core of the climate disclosure issue being addressed by the Commission, the ISSB, and the EU Taxonomy's Corporate Sustainability Reporting Directive (CSRD). While specific requirements might diverge in practice, they each build on the foundation of a shared platform.

In conclusion, we are very supportive of the Commission taking such a serious and careful approach to improving climate and other ESG disclosures. We urge that it coordinate to the maximum extent

feasible with the ISSB in order to support a baseline set of global standards for sustainability reporting.

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