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By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Reference: File Number S7-06-16 [Release No. 33-10064, *Business and Financial Disclosure Required by Regulation S-K*]

Ladies and Gentlemen:

The Assurance Services Executive Committee ("ASEC") Sustainability Assurance and Advisory Task Force (the "Task Force") of the American Institute of Certified Public Accountants ("AICPA") appreciates the opportunity to comment on the Securities and Exchange Commission's ("Commission") Concept Release on the Business and Financial Disclosure Required by Regulation S-K (the "Concept Release"). The task force supports the Commission's efforts to improve the quality and effectiveness of disclosures and is pleased to offer comments with regard to questions raised regarding the Disclosure of Information Relating to Public Policy and Sustainability Matters.

Overall Observations and Comments regarding the Disclosure of Information Relating to Public Policy and Sustainability Matters

Investors value sustainability disclosures
We believe sustainability or public policy issues are important to informed voting and investment decisions. This is evidenced by findings from a 2015 survey of portfolio managers and research analysts performed by the CFA Institute which revealed that 73% of the 1,325 global respondents (55% of whom were U.S. based) take ESG issues into account in their investment analysis and decisions with the main reason being to help manage investment risk[1]. The survey further revealed that 61% of respondents agreed that public companies should be required to report at least annually on a cohesive set of sustainability indicators in accordance with the most up-to-date reporting framework. Given a list of possible issues to rank (ranging from 'not important' to 'very important'), the respondents ranked the issues as follows: Board Accountability (78%), Human Capital (62%),

[1] See full survey results at https://www.cfainstitute.org/learning/products/publications/contributed/Pages/environment__social__and_governance__esg__survey.aspx?PageName=searchresults&ResultsPage=1

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Executive Compensation (61%), Environmental Degradation (54%), Resource Scarcity (52%), Demographic Trends (50%), Supply Chain (47%), Board Diversity (41%), Climate Change (40%)[2].

Line-item disclosures of specific sustainability or public policy issues are unlikely to be appropriate given that material sustainability or public policy issues vary by industry and individual company

Sustainability issues vary by industry and individual company and, as such, it is not possible to list specific disclosure requirements that would be equally relevant and material for all companies to disclose. For example, carbon emissions are more material to a chemical company than to a bank where systemic risk management might be more material. Specific line-item disclosures are thus unlikely to be appropriate given that they vary by industry and company and will likely result in disclosure of immaterial information by certain companies.

The Sustainability Accounting Standards Board (SASB), has attempted to address this issue by developing voluntary sustainability accounting standards (based on the SEC definition of materiality) which take an industry-based approach based on a 10-sector classification system which subdivides into 79 different industries. The SASB, with input from constituents in each industry, has identified the likely material issues for each of the 79 industries along with what they believe to be the appropriate metrics, or Key Performance Indicators (KPIs), for reporting on them within SEC filings. A comparison for SASB guidance from industry to industry clearly suggests that a standard, mandating specific line-item disclosures would be ineffective. However, recommending that companies base their disclosures on a framework such as the SASB's or Global Reporting Initiative's GRI framework could potentially produce effective disclosures in that registrants would report on the matters that are material to their industry and business model and would not need to report on other, non-material matters.

Principles-based guidelines/frameworks that allow companies to identify and report on their specific material issues are likely to elicit the most meaningful disclosures and such frameworks will likely remain relevant as issues evolve over time

A principles-based framework that allows a company to identify and report on its own specific material issues would likely elicit the most meaningful disclosures and avoid the disclosure of immaterial matters. Furthermore, such a principles-based framework would likely remain relevant and useful as issues evolve over time, requiring limited updating.

The International Integrated Reporting Council (IIRC) has attempted to create a principles-based framework that allows companies to identify and report on their specific material issues. As indicated in the International <IR> Framework, an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

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[2] Respondents were asked to rate the listed ESG issues in terms of importance to their investment analysis/decisions on a scale of 1 to 5, where 1 was not important at all and 5 was very important. The percentage shows the percentage of respondents that ranked the issue as important (i.e., 4 or 5).

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Use of a broad framework, such as the IIRC's International <IR> Framework, supplemented by detailed disclosures noted in the SASB standards and Global Reporting Initiative's (GRI) framework could potentially produce effective disclosures. The International <IR> Framework, which is targeted towards investors, could be used to determine the broad content and material[3] issues that should be disclosed, while detailed KPIs or metrics to be disclosed for those material matters could be drawn from the SASB standards and GRI framework, recognizing that the GRI framework and SASB standards do not cover all of the capitals included under the International IR framework.

Voluntary sustainability reporting has its advantages and disadvantages

We believe registrants choose to provide sustainability information outside of their Commission filings for a variety of reasons.

Some of the advantages of voluntarily reported information on company websites are listed below:

- It allows companies to provide more detailed information than might be suitable for their Commission filings and allows companies to communicate with a broader range of stakeholders, not only investors. The GRI Framework is serving this function for 60% of the top 100 companies across 45 countries (including the United States)[4]. It is the most widely used (globally and in the U.S.) sustainability reporting framework, which aims to have companies report on the issues that are most material to both the company and "key stakeholders." Because the focus is on reporting information that is material to multiple stakeholders, not only investors, the framework allows for expanded communications.
- Another reason that registrants provide sustainability information outside of their Commission filings is that the finance and sustainability reporting functions have limited interaction and are thus not fully aligned. In companies that have less mature sustainability reporting processes (which account for the majority of sustainability reporting companies, especially in the U.S.), there is generally limited connection between those responsible for the sustainability reporting and those responsible for financial reporting. To alleviate the problems associated with this lack of alignment, the International <IR> Framework offers a potential solution. One of the aims of Integrated Reporting is to "support integrated thinking," which strives to eliminate such disconnections within organizations. Per the International <IR> Framework "Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term." The IIRC believes that by the process of integrated thinking, and the application of principles such as connectivity of information, organizations will no longer produce numerous, disconnected and static communications, as is currently the case.
- It allows for internal processes that produce sustainability information to operate on a different timetable than that required for filings with the Commission.

[3] The close link between materiality for purposes of Integrated Reporting and materiality in securities law is explored in the 'Reconciling Approaches' section of the IIRC publication Materiality in <IR>: Guidance for the preparation of integrated reports.

[4] See *Currents of Change - The KPMG Survey of Corporate Responsibility Reporting 2015* https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/kpmg-survey-of-corporate-responsibility-reporting-2015-O-201511.pdf

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- It allows companies to produce reports in different levels of detail and for different audiences as needed. For example, the report intended for hand-held devices can be less voluminous than the report intended to be downloaded. Separate reports can be prepared for separate legal jurisdictions.
- It allows for flexibility with reporting boundaries. The reporting boundary for sustainability information is often different than the boundary used for consolidated financial information included in filings with the Commission.
- Registrants deliver multiple messages in sustainability reports. Discussions with various companies revealed numerous reasons for producing sustainability reports. These range from enhancing the company's reputation; to assisting with recruiting efforts; to meeting expectations of employees, investors, and customers that expect the company to issue a sustainability report; and to simply forming part of the company's culture.

Some of the disadvantages of voluntarily reported information on company websites are listed below:

- Because voluntary reporting is in early stages, the systems and processes supporting sustainability reporting have deficiencies. Based on discussions/interviews with companies and discussions at various roundtables, these deficiencies include manual and disjointed processing with limited internal controls in place. This significantly increases the risk of disclosing inaccurate information which is less likely to be useful for decision-making purposes (by investors or other users of the information). This is confirmed by the fact that many companies restate their sustainability information. The KPMG Survey of Corporate Responsibility Reporting 2013 revealed that in 2013 twenty-five percent of the 100 largest companies in 41 countries that prepared a corporate responsibility report, made some form of restatement. [5] Of these restated reports, twenty-one percent were due to errors or omissions.
- Sustainability reports, especially in the U.S., are generally not assured. In certain instances, select information within sustainability reports is assured but the information assured is generally minimal relative to the body of information disclosed. Given the lack of assurance, there is less comfort in the marketplace that the reports prepared have actually been prepared in accordance with the stated frameworks. Furthermore, companies can (and often do) focus on disclosure of positive sustainability results as opposed to balanced reporting that covers both positive and negative aspects. Further, the lack of assurance in combination with the poor systems, processes and internal controls contribute to a lack of reliability of the information disclosed. Disclosure of inaccurate or otherwise unreliable information poses potentially significant risks to investors and others that rely on such information for decision-making purposes. In addition, the essential evolution of financial reporting to broader corporate reporting may never materialize if users lose trust in the credibility of such information from the outset.

We believe there is a need for financial reporting to evolve into a broader form of corporate reporting

As indicated above, broader corporate reporting is being sought by investors and other company stakeholders such as employees and customers who expect such disclosures from companies. In recent years there has also been significant growth in the number of organizations and initiatives that are ultimately working to broaden

[5] https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf

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corporate reporting from its current focus on financial reporting.[6] For example, other market participants, like the World Federation of Exchanges (WFE), undertook a project to determine what, if any, guidance to put in place for their member exchanges on how to implement their sustainability policies. What resulted was WFE Guidance & Recommendations that identify material ESG metrics which exchanges can incorporate into disclosure guidance to companies listed on their markets. The guidance highlights 34 key performance indicators, including energy consumption, water management, CEO pay ratio, gender diversity, human rights, child and forced labor, temporary worker rate, corruption and anti-bribery, tax transparency in addition to other corporate policies. The significant growth in the number of organizations, like the WFE, that are ultimately working to broaden corporate reporting from its current focus on financial reporting further demonstrates the need for disclosure of such information.

As an organization, we believe there is a need for financial reporting to evolve into a broader form of corporate reporting. Our support for enhanced corporate reporting started most notably with the work of the AICPA Special Committee on Financial Reporting (the Jenkins Committee), was built upon by the AICPA Special Committee on Enhanced Business Reporting, and continues today with our active support of Integrated Reporting.

Ultimately, if disclosure requirements with regard to sustainability or public policy issues are put in place, we believe it is essential for investor protection that such disclosures be subject to assurance in order to increase the consistency and reliability of such disclosures

Information that is not consistent from company to company and period to period and not reliable for investor decision-making could negate the benefits of such disclosures. In order for the reported sustainability information to be reliable, we believe it should be assured. This sentiment is shared by investors as evidenced by the fact that 69% of the CFA survey[7] respondents indicated that it is important that ESG disclosures be subject to independent verification. We further believe that the CPAs, given their education and experience requirements, specialized training, and strict adherence to accountancy laws and professional code of conduct are best positioned to provide such assurance services.

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[6] Examples of such organizations and initiatives include: the IIRC, the SASB, the GRI, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the World Federation of Exchanges' Sustainability Working Group, the United Nations Global Compact (UNGC) Sustainable Stock Exchanges Initiative (SSE), the Climate Disclosure Standards Board (CDSB), and the CDP (formerly known as the Carbon Disclosure Project).

[7] See full survey results at https://www.cfainstitute.org/ethics/Documents/esg_survey_report.pdf

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In conclusion, we support the Commission's efforts to improve the quality and effectiveness of disclosures and appreciate the opportunity to comment on the questions raised in the Concept Release regarding the Disclosure of Information Relating to Public Policy and Sustainability Matters. We would be pleased to discuss our comments or answer any questions that the Commission may have regarding the comments expressed in this letter.

Sincerely yours,

AICPA

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