17 June 2022

Vanessa A. Countryman
Securities and Exchange Commission
100 F Street NE
Washington
DC 20549-1090

Dear Ms Countryman,

THE ENHANCEMENT AND STANDARDIZATION OF CLIMATE-RELATED DISCLOSURES FOR INVESTORS (S7-10-22)

ICAEW welcomes the opportunity to respond to the SEC's proposed rule to enhance and standardise climate-related disclosures by reporting entities under SEC authority. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 161,000 chartered accountant members in over 147 countries.

Introduction

We congratulate the SEC on issuing a high-quality, evidence-based proposal. This is a valuable and timely point of reference for those in other jurisdictions considering the introduction of similar reporting requirements.

The urgent need to develop a global framework for the reporting of climate-related and other sustainability matters, and the infrastructure required for its effective implementation, is a major focus of ICAEW's wide-ranging programme of work in support of the Paris Agreement and the United Nations' Sustainable Development Goals. We are longstanding supporters of widely applied, high quality international reporting standards and believe that global alignment is critical to efforts to meet the increasing demand from investors and other users of company reports for consistent, comparable and reliable information on sustainability matters.

To assist in our assessment of global and jurisdictional proposals for new requirements for the reporting of sustainability matters in mainstream financial filings, we make reference to a number of broad, inter-related principles, as follows:

1. Due process is transparent and of sufficient quality; proposals are preceded by effective outreach, are clear and accessible, and constituents have sufficient opportunity to provide effective input.
2. The proposals are likely to enhance significantly the availability to investors of high quality and consistent information on sustainability matters.
3. The new or enhanced information will be published at the same time as the financial statements, to encourage connectivity and investor understanding.
4. Implementation dates have due regard to the degree of preparedness of reporting entities within scope and the practical challenges of implementation.
5. The new or enhanced information proposed will be subject to a third-party assurance regime to enhance investor confidence in the reliability of the reported information.
6. The proposals contribute to the global alignment of sustainability reporting requirements, including definitions and language, to minimise in particular the challenges of compliance for reporting entities subject to more than one regulatory regime.

It is in this context that we have undertaken a high-level review of the SEC's proposal, drawing on our experience of similar reporting innovations and following conversations with a broad range of stakeholders about the proposal, including those with a focus on reporting in the US. We have not in general addressed the SEC's detailed questions, although in some cases we have made reference to particular questions or paragraphs.

An International Outlook

The proliferation of climate and other sustainability reporting frameworks around the world has become a major obstacle to efforts to improve the ability of investors to understand and compare reported information in this area. We therefore strongly support the decision of the SEC to base its proposed rule to a significant degree on existing international frameworks, namely the TCFD recommendations and the Greenhouse Gas Protocol.

It is however important for all relevant bodies to continue to prioritise global agreement of fundamental definitions and terms such as 'net zero', 'material' and 'enterprise value' to allow for consistency and comparability on a worldwide scale. Many entities will fall within the scope of two or more sets of climate-related disclosure rules. If a high degree of alignment is not achieved, compliance for such entities could be unduly costly, the risk of errors may increase, and the end result may prove to be unnecessarily lengthy reports of questionable value to investors. We therefore strongly support the recent establishment by the International Sustainability Standards Board (ISSB) of a working party of key standard setters to consider these issues, of which the SEC is a part, and strongly encourage on-going collaboration.

Alternative Reporting Provision

Within paragraph 189 of the proposed rule, the following question is posed:

An International Sustainability Standards Board (ISSB) has recently been created, which is expected to issue global sustainability standards, including climate-related disclosure standards. If we adopt an alternative reporting provision, should that provision be structured to encompass reports made pursuant to criteria developed by a global sustainability standards body, such as the ISSB? If so, should such alternative reporting be limited to foreign private issuers, or should we extend this option to all registrants? What conditions, if any, should we place on a registrant's use of alternative reporting provisions based on the ISSB or a similar body?

ICAEW fully supports the proposed adoption by the SEC of an alternative reporting provision structured to encompass reports made pursuant to criteria developed by the ISSB. We believe allowing foreign private issuers to report against ISSB standards would be a significant step forwards towards global comparability. We believe the additional advantages of adopting an alternative reporting provision as described include greater efficiencies for multinational businesses able to comply with one set of requirements and improvement to market efficiencies, as analysts and investors can rely on consistent and comparable reporting.

With the momentum behind enhanced international collaboration referred to above in mind, we would strongly support the extension of this alternative to all registrants, rather than Foreign Private Issuers only, and we suggest that no conditions should be placed on a registrant's use of such provisions once they have been assessed to be of sufficient quality.

Company Preparedness

The challenges that many companies will face in implementing additional climate-related disclosure requirements, in the United States and elsewhere, are not to be underestimated, especially in jurisdictions where TCFD reporting is not already well-established. These may extend to new governance arrangements, systems implementation, revised data collection requirements and, critically in our view, new and improved internal controls. Additional expertise and capacity will be required in many cases, on boards and across organisations, but will be in short supply. This may in turn impact the ability of investors to make use of the disclosures.

With this in mind, we strongly support on pragmatic grounds a significant degree of phasing-in of the reporting and related assurance requirements, and suggest an ongoing review of the case for extending the phasing arrangements after the disclosure requirements first become effective. The need for speed in addressing the challenges of climate change needs to be carefully weighed against the importance of achieving a true and enduring step-change in the quality of reporting in this critical area.

We also recognise the need for reasonable accommodations, such as the pragmatic decision not to mandate scenario analysis at this stage by registrants that are not currently undertaking such analysis *(in Section II.C.4*)

Emissions Disclosures

We welcome the exemption from the Scope 3 emissions disclosure requirements for registrants meeting the definition of a smaller reporting company *(in Section II.G.3)*, and would support the SEC considering other ways of acknowledging the substantial practical challenges most companies face at present in reporting Scope 3 emissions reliably. This should at least include consideration of a longer phase-in period.

We note that the proposed rule does not mandate use of the GHG Protocol, to allow registrants to adapt to new approaches to measuring emissions. We suggest that the SEC instead considers specifying use of a recognised framework that meets certain minimum criteria, which amongst other things is likely to result in more comparable, and more easily assurable disclosures.

Financial Impact Metrics

We have heard a number of significant concerns about the proposed 'bright-line' requirement in Section II.F, for certain registrants to include in a note to the financial statements, disaggregated climate-related metrics regarding the impact on financial statement line items of climate-related conditions/events and transition activities, unless the impact on the line item is less than 1% of its total. These echo concerns raised in recent weeks about proposals for quantitative disclosures more generally by the ICAEW working group examining draft ISSB sustainability standards.

We recognise that, in principle, requiring the presentation of climate-specific financial information in the notes, subject accordingly to the rigours of provisions regarding internal control and external audit, might be expected to result in useful information for investors. However, we are not convinced that the proposed requirement to isolate, measure precisely and disclose quantitative impacts on individual line items to the level of detail suggested, is realistic given the degree of estimation and judgement likely to be involved. The application of a percentage threshold will result in some impacts being material for a low value line item, yet immaterial in relation to a larger line item. This level of detailed disclosure may have unintended consequences in relation to the cost and efficiency of internal controls over financial reporting, and give the impression that the reported impacts are very precise, which could mislead investors. The requirement would also have consequences for international alignment in this area of reporting.

Further guidance for companies could help here in some respects, but it might be more appropriate for the SEC to simply require disclosure of the impact on the financial statements as a whole, subject to established definitions of materiality, without specifying that this be undertaken on a line-by-line basis.

Assurance

In addition to our support in principle for the inclusion of certain metrics in the audited financial statements, referred to above, we support the separate requirement for an attestation report covering the proposed Scope 1 and Scope 2 emissions disclosures (Section II. H). Our understanding is that investors would welcome enhanced requirements for the provision of external assurance over sustainability information, and we believe that the accountancy profession is generally well placed to provide that assurance.

We recognise that the proposed rule would permit a broad spectrum of emissions attestation providers to provide an attestation report. In this connection we would stress the importance of investors seeking to assess the reliability of the report findings being able to understand the scope of the assurance and the skills and qualifications of the provider. Third party assurance providers should comply with a professional framework encompassing competence, independence and a system of quality management. We strongly support the proposed minimum additional disclosures by attestation providers (*questions posed in paragraphs 160-163*). We would also support the SEC specifying additional requirements, for example in relation to record-keeping by the attestation provider (*question posed in paragraph 163*) and appropriate oversight *(question posed in paragraph 162)*.

Please do not hesitate to contact me if you require any further information.

Yours sincerely

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