Virtual Roundtable on ESG Reporting:

Roundtable Summary

June 2021

CAQ

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INTRODUCTION

On June 3, 2021, the Center for Audit Quality (CAQ) convened a roundtable, moderated by Wes Bricker, Assurance Leader at PwC, to discuss the March 15, 2021 SEC's request, *Public Input Welcomed on Climate Change Disclosures* (Request for Input). The roundtable brought together 20 participants representing board members, public company management, institutional investors, and public company auditors (see Appendix for a detailed listing of participants). The event was held under the Chatham House Rule, meaning that participants are free to use the information received, but what was heard shall not be attributed to any one individual or organization.

The purpose of the roundtable was to understand multi-stakeholder perspectives on the Request for Input and identify points of consensus and distill disparate views to help inform the SEC's efforts to address climate and other ESG risks and opportunities.

This summary was prepared for the purposes of submitting to the SEC what we heard in this roundtable discussion. The discussion was centered around three main discussion topics: ESG Frameworks and Standards, SEC Disclosure Requirements, and Assurance. Each discussion topic started with a polling question that then launched into further discussion of that topic. Below is a summary of what was heard by discussion topic.

DISCUSSION TOPIC 1: ESG FRAMEWORKS AND STANDARDS

The Request for Input has a series of questions that are looking for views on the advantages and disadvantages of disclosure requirements that draw on existing ESG frameworks and standards. The CAQ is supportive of a globally accepted ESG reporting system that is built from existing standards and frameworks that can be adapted to the market needs in different jurisdictions. This would help support companies in presenting ESG information to investors that is comparable across companies and industries.

Existing Standards and Frameworks

Roundtable participants were asked to respond to the following polling question: *Are you supportive of a system for ESG disclosure (including climate) that is built from existing standards and frameworks?*

+ **87%** of respondents answered **supportive**
+ **13%** of respondents answered **neither supportive nor unsupportive**
+ **0%** of respondents answered **unsupportive**

The polling results show the significant majority of roundtable participants are supportive of a system that is built from existing standards and frameworks, while a minority were neutral. Preparer participants noted that a system built from existing standards is preferable for preparers because many companies already report ESG information in accordance with existing standards and frameworks and have designed controls and processes to support that reporting. The costs of implementing reporting based on a system that starts with new standards and frameworks could increase the costs of implementation. It was noted that not all existing standards and frameworks have been designed for investors and it will be important that the standards or frameworks selected as the starting point be focused on presenting material information for investors.

One existing framework mentioned was the Task Force on Climate-related Financial Disclosures (TCFD). A board member noted it would be important to understand what information companies currently disclose in accordance with TCFD, and for the TCFD recommended information that is not currently being voluntarily disclosed it will be important to determine the barriers or obstacles for such disclosures. For example, are companies not disclosing certain TCFD recommended topics – such as not just risk, but *opportunities* – because of liability concerns, the inability to measure, or some combination of these and other reasons. Further to this point, it was noted that existing SEC rules do not permit mitigating factors in company risk factor disclosures. Another board member noted that it would be important to understand what does and does not work within each existing framework and standard to then determine which are the best starting point.

Independent Standard Setter

There was broad support across stakeholder groups that an independent standard setter for ESG reporting is necessary. Avoiding political influence, meeting the likely ongoing, evolving needs of ESG reporting, promoting certainty, and standardizing disclosure were some of the key reasons cited for supporting the need for an independent standard setter. However, there was a minority view that it is premature to decide whether we need an independent standard setter.

There was strong support for the independent standard setter to be global in nature with many participants mentioning their support of the work that is going on at the IFRS Foundation to establish an international sustainability standard setter, which participants noted could help support a global baseline for ESG disclosures. One participant noted the inefficiencies of “150 GAAPs” many years ago. However, there was a minority view that a global standard could be problematic because of materiality differences across jurisdictions, and that there could be legal issues with the US delegating responsibility to a global body.

DISCUSSION TOPIC 2: SEC DISCLOSURE REQUIREMENTS

Investor demand for ESG information has resulted in a largely market driven system for ESG disclosure. However, we often hear that a major challenge for users of this information is the lack of consistency, comparability, and reliability of the ESG information companies present.

To drill down on participant views on SEC disclosure requirements for ESG reporting we asked participants the following polling question: *What should any climate related or other ESG disclosure requirements by the SEC be based on?*

+ **62%** of respondents selected that SEC disclosure requirements should be based on **investor demand**

+ **29%** of respondents selected that SEC disclosure requirements should be based on **issuer materiality determination**

+ **9%** of respondents selected that SEC disclosure requirements should be based on an **SEC mandated suite of metrics**

Investor Demand

An investor participant noted that there is a significant amount of money flowing into sustainability-based funds, which makes it all the more important that company reporting align with investor needs. There is currently an information gap between the ESG related risks and strategy that a company discloses and the information that is needed by investors to price those risks into company valuation models.

Issuer Materiality Determination

One board member noted that if there is a material financial risk related to specific ESG risks it should be captured in the issuer's SEC filings. If the risk does not directly relate to a material financial risk, it should go in a separate report. Another board member noted that not every industry will have the same level of materiality as it relates to climate, and posited whether the work of the Sustainability Accounting Standards Board (SASB) could be used by companies to determine what ESG topics are potentially material in their sector and start there with their reporting.

It was noted that Europe is going to require ESG reporting in the financial filings, and the US will be different if the SEC requires this information be reported somewhere outside of financial filings. A board member suggested that a safe harbor for reporting this information could allow companies to grow into this reporting and not be discouraged by legal liability concerns. A preparer also noted that the timing of when a company files its annual report on Form 10-K is often much earlier than when certain ESG information is currently reported because of the timing when certain ESG data is available.

SEC Mandated Suite of Metrics

An institutional investor shared the view that an SEC mandate, based in materiality and by sector, that sets a minimum baseline for required ESG disclosures could help companies focus on what data they need to report and at what level of quality. However, there were some participants concerned that a mandated ESG disclosure system could risk being outdated "very soon" and lack the flexibility to meet the information needs of investors. It was noted that an overly prescriptive approach could result in companies presenting information that is not relevant for all issuers. There were views that guidance from the SEC on climate and other ESG disclosures could help companies navigate what and where to disclose ESG information.

DISCUSSION TOPIC 3: ASSURANCE

The Request for Input asks about the advantages and disadvantages of making climate-related disclosures subject to audit or some sort of assurance. To obtain an understanding of the views of roundtable participants on this subject we asked the following polling question: *Should climate related and other ESG disclosures be subject to assurance from public company auditors?*

+ **45%** of respondents selected **yes** climate related and other ESG disclosures should be subject to assurance from public company auditors

+ **46%** of respondents selected climate related and other ESG disclosures should be subject to assurance from public company auditors **over time**

+ **9%** of respondents selected climate related and other ESG disclosures should **not** be subject to assurance from public company auditors

Participants from multiple stakeholder groups were supportive of the ESG disclosures being subject to assurance from public company auditors. However, there was some concern that you cannot put the "cart before the horse" and that standards for reporting need to be determined before there can be assurance at a scale similar to other assurance services. There were some that suggested the assurance did not need to come from public company auditors, however, there were also views that public company auditors would be best positioned to provide this assurance based upon their knowledge and experience with internal controls and reporting. Additionally, a board member noted that if the ultimate goal is integrated reporting with ESG is integrated into financial reports, external auditors are the best positioned to provide the assurance. An investor noted that even if the assurance was to come over time as standards for reporting are sorted out, companies should start working with their public company auditors now because it is going to take time to put the processes in place to report ESG information. Another investor noted that assurance will heighten the importance management puts on the reporting of quality ESG information. On level of assurance, there were perspectives that not everyone understands the difference between limited and reasonable assurance and that ultimately assurance could start at limited and evolve to reasonable as the reporting matures.

Appendix: Participants

NAME	TITLE	ORGANIZATION
Julie Bell Lindsay	Executive Director	Center for Audit Quality
Wes Bricker	Vice Chair, US and Mexico Assurance Leader	PwC
Jan Babiak	Board Member and Audit Committee Chair	Walgreens Boots Alliance, Inc.
Keith Bell	Senior Vice President	The Travelers Companies, Inc
Allison Binns	Executive Director, Sustainability Research	Morgan Stanley
Jim Burton	Partner, ESG & Sustainability Services	Grant Thornton LLP
Richard Cantor	Chief Credit Officer	Moody's Corporation
John DeRose	Managing Director	Ernst & Young, LLP
Heather Dixon	Senior Vice President, Global Controller and Chief Accounting Officer	Walgreens Boots Alliance, Inc.
Michelle Edkins	Managing Director Investment Stewardship	BlackRock
Cyndi Glassman	Board Director	Discover/Navigant
Brandon Landas	Partner, National SEC Services	BDO
Dennis McGowan	Senior Director, Professional Practice	Center for Audit Quality
Julie Santoro	Partner	KPMG
Leslie Seidman	Director	GE, Moody's Corporation
Mark Shannon	Partner	Crowe
Chris Spahr	Director/Equity Analyst	Wells Fargo Securities
Kristen Sullivan	Partner	Deloitte
Amie Thuener	Principal Accounting Officer	Alphabet
Scott Wilgenbusch	Partner	RSM