



June 12, 2021

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

Re: Request for Public Input, *Climate Change Disclosures*

Dear Ms. Countryman:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to express its views on the Securities and Exchange Commission's (SEC or Commission) request for public input on climate change disclosures. The IMA has responded to the request in its letter dated June 12, 2021, reflecting strategic support for environmental, social and governance (ESG) reporting. FRC supports the IMA letter and wishes to emphasize certain specific concerns.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Climate change disclosures, like all disclosures, are currently subject to the existing well-understood approach of materiality as defined by the US Supreme Court. We acknowledge that the evaluation of materiality is both qualitative and quantitative and includes not just past events but potential future impact. However as explained in the detailed comments below, we request that the Commission consider the impact on registrants' finance teams, systems, and controls while responding to investor needs.

Considerations for New Regulations

- ***Materiality***

We strongly believe that climate change disclosures should continue to be subject to the well-understood existing approach of materiality based on the Supreme Court definition. Disclosure of the risk and potential impact of nonmaterial climate change-related matters may produce boilerplate disclosures and/or disclosure overload that we believe reduces investor clarity.

- ***Single framework for reporting***

We believe that there must be a single principles-based framework for any climate change disclosures under new regulations (new climate change disclosures). That framework should be principles-based but specify which metrics are recommended disclosures and provide measurement criteria for those



metrics. For example, if Scope 1 greenhouse gas emissions is a recommended climate change metric, it should be measured in the same manner by all registrants to ensure comparability for investors. In addition, under a principles-based approach, reporting on all climate change metrics should not be mandatory; registrants should report only on those material to their business.

There are a variety of existing frameworks today, and multinational registrants currently devote substantial resources to current local climate change reporting requirements and as well as in consideration of proposed requirements in the United States and other countries. We urge the SEC to work with international standard setters and regulators to establish a uniform global framework so that resources are not expended to support multiple frameworks. A single framework also benefits investors by providing consistency and comparability. As part of that process, the commonly used existing frameworks should be evaluated to determine which metrics are being reported. For those metrics that are not being reported, why? Is no reliable data available? Is the metric subject to an uncomfortable level of estimation?

- *Internal controls over climate change reporting*
We believe that any new climate change disclosures in SEC filings must be subject to the registrant's system of internal controls resembling those of financial reporting as part of a registrant's governance process. As noted below for many registrants, existing systems and other data sources for gathering and reporting climate change data are not fully established and may not be subject to any internal controls. Designing these processes and controls and related governance structures will take significant time and resources to implement and operationalize.
- *Implementation timeline*
As noted, registrants may not have robust systems, processes, controls and governance for all climate-related data. Today much data is collected on an ad hoc basis often outside the finance function and subject to varying levels of control. Further, subject matter expertise for climate change data may not reside within the finance or control function. Existing financial reporting systems, processes and controls for financial data have taken many years to develop at significant cost.

New climate change disclosure data collection and analysis systems, processes, controls and expertise will similarly require significant resources, time and cost to obtain and implement. Committee members have found that third party systems that have been developed for climate change data collection are not fully established and will take time to develop into more accurate and robust vehicles. This finding is similar to their experience for third party systems for the new revenue and leases accounting. A multi-year, phased approach for any new climate change disclosures consistent with time allowed for implementation of new accounting standards is necessary to migrate to any new disclosures.

- *Separate reporting with different timing*
Much of the climate change reporting is not currently included in the annual/quarterly SEC reporting process unless it has a material impact on the financial statements. As noted, we believe that new climate change disclosures should be subject to control processes resembling those for financial reporting to the SEC. This will require considerable oversight by registrant accounting and legal staff. So that these resources are not distracted from the critical annual/quarterly SEC financial reporting requirements, we recommend that new climate change disclosures be reported separately with



different timing similar to the separate ESG reporting prepared by many registrants today. Further, we recommend that the reporting be on an annual basis with any material changes reported if necessary in interim periods.

- *Safe Harbor provisions*

We believe that any forward-looking information provided in new climate change disclosures should be subject to the existing safe harbor provisions consistent with forward looking information currently disclosed. In addition, any new regulations should recognize that climate change metrics may be subject to a good amount of estimation and permit good faith efforts by registrants.

- *Assurance/third-party review*

We acknowledge that investors benefit from third party assurance. However, given the immaturity of registrant systems and processes for climate change data under a control environment, requiring assurance or third-party review is premature and is not a recommended use of registrants’ resources at this time. In addition, auditors and the Public Company Accounting Oversight Board may need time to alter existing audit approaches for any new climate change disclosures.

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We would be pleased to discuss our comments with the SEC or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants

