



Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111
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sasb.org

June 21, 2019

Re: Public Comment on IAASB Consultation Paper on Extended External Reporting (EER) Assurance

Dear IAASB:

We welcome the opportunity to respond to your consultation. We strongly support IAASB's objective to enable more consistent and appropriate application of ISAE 3000, and greater trust among users of EER reports in the resulting assurance reports.

By way of introduction, I write to you as the Director of Legal and Regulatory Policy for the Sustainability Accounting Standards Board (SASB). SASB is an independent non-governmental organization that issues industry-specific sustainability accounting standards for the disclosure of financially-material information to investors. Using a robust due process with significant market input, SASB has established standards for 77 industries (across 11 sectors), which include, on average, six disclosure topics and thirteen associated metrics. SASB standards help investors by fostering company disclosures of environmental, social and governance (ESG) and other sustainability data that is comparable, consistent, and financially material—empowering investors to make better investment and voting decisions.

SASB enjoys broad market support. For example, SASB's Investor Advisory Group (IAG) and the SASB Alliance -- groups that support SASB's efforts -- include firms from North America, Europe, Asia, and Australia, accounting for more than \$33 trillion in assets under management.

Although SASB is based in the United States, the standards are intended to be used globally. Indeed, although the standards, after many years of research, were only codified in November of 2018, more than 270 public companies have already begun to cite the standards, on a voluntary basis, either in their regulatory filings or in other reports. More than half of these companies are located in Europe or elsewhere outside of the United States. The number of corporations using the SASB standards is also rapidly increasing. Between January through May of this year, 42 companies issued reports using the standards, which is more than the number for all of 2018.

Upon reviewing the paper, we offer the following comments to your questions:

Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

A core objective of SASB is to produce standards for information that is decision-useful. Capital markets require information disclosed to be accurate and unbiased. Third-party assurance will almost certainly lead to more reliable reporting in this area. Although a minority of companies currently use an independent audit firm to provide assurance over a SASB report, the number of companies doing so is growing and will likely continue to grow as more companies use the SASB metrics and include the disclosures in regulatory filings. Indeed, reporting is increasingly being made in regulatory filings (where assurance from an independent third-party is more likely to be obtained). In 2018, 83 percent of SASB reporters made their disclosures in corporate responsibility reports, while only seven percent did so in regulatory filings. This year those numbers have changed to 65 percent versus 20 percent.

SASB has taken the position that its standards can be used outside of regulatory filings in corporate communications such as sustainability or corporate responsibility reports, websites, and annual reports. If used in these places, SASB believes that a reporting entity should design, implement, and maintain a system of controls and governance processes that are comparable to those used for traditional financial reporting. Here again, some companies may want to obtain third-party assurance as they do for financial reporting.

Regarding materiality (Paragraph 30), we note the compatibility of the SASB standards and the draft guidance. As the Consultation Paper notes, determinations of materiality can be a difficult element of EER reporting: “One aspect of preparing EER reports, which is practically different from preparing financial statements, is that the preparer commonly needs to decide how to make judgments about what to include in their EER report based on what will assist decision-making by the intended users.” This leads to “the preparer undertaking a ‘materiality process.’” The fundamental basis for SASB’s approach to standard-setting is that its standards reflect information that is reasonably likely to impact financial performance and therefore be material to an investor, with the issuer making the final decision on what is or is not material. Because financial materiality is the lens through which SASB has developed and issued its standards, a significant obstacle to the preparation of and assurance over sustainability-related disclosures is ameliorated.

Finally, under the Governance and Oversight of the Reporting Process (Chapter 6), SASB agrees that companies should integrate ESG-specific issues in their risk and governance process. Many ESG matters are business risks and opportunities and should be handled accordingly.

As noted by *Enterprise Risk Management Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), governance, including strong board oversight, is a prerequisite to effectively identifying, assessing and addressing the full spectrum of company risks. Incorporating ESG-related risks into a company's governance structure and processes are critical to overcoming the challenges issuers face in managing these risks (e.g., siloed management of ESG-related issues, challenges in quantifying ESG-related risks and organizational biases causing ESG-related risks to be disregarded or underestimated).

In this regard, the Task Force might consider noting the importance of actions such as the following:

- Securing the support of boards of directors and executive leadership teams
- Integrating ESG into key governance processes, and enhancing board-level oversight through audit and risk committees
- Bringing together sustainability, governance, finance, and compliance colleagues to agree on roles.

Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?

We appreciate the use of examples and diagrams to improve clarity, including those examples that specifically cite SASB.

Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?

The structure of the draft guidance aligns well with guidance SASB provides through its [Conceptual Framework](#), [Rules of Procedure](#), and [Standards Application Guidance](#). We support the proposed structure.

Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised) and that the draft guidance does not introduce any new requirements?

We will hold our comments until the Phase 2 consultation process.

Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

We will hold our comments until the Phase 2 consultation process.

Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?

We have no comment regarding this question.

Thank you for considering these recommendations. If you have any additional questions or comments, please contact me at tom.riesenberg@sasb.org.

Sincerely,

Thomas L. Riesenber

Thomas L. Riesenber
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Sustainability Accounting Standards Board