



The Association of  
Accountants and  
Financial Professionals  
in Business

via email

To: rule-comments@sec.gov

June 12, 2021

Gary Gensler, Chair  
Allison Herron Lee, Commissioner  
Caroline A. Crenshaw, Commissioner  
Elad L. Roisman, Commissioner  
Hester Peirce, Commissioner  
Securities and Exchange Commission  
Washington, DC 20549-0609

Re: Request for Public Input on Climate Change Disclosures

Dear Chair Gensler and Commissioners:

IMA<sup>®</sup> (Institute of Management Accountants) is writing to share its views on the Securities and Exchange Commission's request for public input on climate change disclosures (Request).

IMA is a global association representing more than 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.

IMA is a member of the International Federation of Accountants (IFAC). IMA is a member of the International Integrated Reporting Council (IIRC) and under formal arrangement to work cooperatively with the Sustainability Accounting Standards Board (SASB). IMA is also a founding member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

IMA is uniquely qualified to provide careful and reasoned insight into the Commission's request for feedback on a range of questions regarding sustainable business accounting and reporting. Although the Request raises specific questions regarding financial disclosures and climate change, it is broader than a typical exposure document of a regulatory proposal. Instead, the Request appears to be a means for the SEC to assess a response to worldwide trends.

We observe that there is still a range of views on the movement to interconnect mainstream financial reporting with sustainability reporting. We understand that members of our Financial Reporting Committee (FRC), primarily reflecting the views of traditional, U.S.-based financial compliance professionals have specific views regarding the burdens and responsibilities that they foresee will result from the movement toward interconnecting financial and sustainability disclosure. Their perspective is important, and we are strongly in favor of them expressing their specific concerns. Nevertheless, we respond to the SEC's Request by providing context and stating IMA's global position on sustainable business management and information.



1. Sustainable business reporting must instill trust and confidence: Trust, accountability, and transparency are the cornerstones of professional accountancy. Our work must build the public's trust. The world is asking businesses to reconsider how the planet's limited and precious resources are consumed and to account for them. Expectations are for businesses to deliver on sustainability with the same rigor, thoughtfulness, and energy used to deliver on profits. We support this global transition of delivering profits with purpose.
2. Disclosure of environmental, social, and governance (ESG) information to the securities markets must adhere to accepted definitions of materiality: The fundamental purpose of accounting and reporting is delivering decision-useful information. In financial reporting, this is operationalized through the concept of materiality. We believe that all SEC activity regarding climate change disclosures must be subject to the well understood existing definition of materiality in the U.S. See *Basic, Inc. v. Levinson*, 485 U.S. 224 (1988); *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976). See also SEC Staff Accounting Bulletin No. 99, *Materiality*. Under current rules, registrants are already obligated to disclose the material effects of climate change (see [Commission Guidance Regarding Disclosure Related to Climate Change](#), Release No. 33-9106 (February 2, 2010) [75 FR 6290 (February 8, 2010)]) and other items now characterized as "sustainability." For example, this information must be provided in the applicable sections of Form 10-K such as description of the business, Management's Discussion and Analysis (MD&A), and risks and uncertainties. Many of our constituents, therefore, believe that new mandatory disclosures are unnecessary. Others, however, cite the need to impose ESG reporting standards in order to reduce fragmentation (see item 8).
3. Sustainable business information must be decision-useful and actionable from management's perspective: The fundamental purpose of accounting is the delivery of decision-useful information not only for external users but also for *management*. To be worthwhile, information must be actionable. The constantly increasing demands for additional, external disclosure that is less and less relevant is itself an unintended, unsustainable waste of the accounting team's resources. We want responsible companies not merely to report information but importantly to act responsibly based on the information. Management needs talent resources to analyze the data, respond to risks, innovate, and execute strategies around what is most relevant. CFO team members are instrumental for this process to be robust.
4. Corporate reporting must follow from a value-creation mindset: We strongly support initiatives that bring about integration and alignment of the work of the various organizations and approaches but, at the same time, avoid creating (or enabling) "financial" and "nonfinancial" silos. We observe a market need for a holistic and value-based approach for investors, management, intermediaries, and all other capital market participants. We believe that integrated thinking is a critical part not only of integrated reporting but also of effective *management* of an entity's collective resources contributed by its multiple stakeholders. As demonstrated by our own thought-leadership (see, for example, [Finance Function Partnering for the Integration of Sustainability in Business](#)), it drives the development of enterprise-wide strategy and enhances relationship assets, performance, and value.



5. Disclosure mandates must be clear as to the intended user: The SEC has the specific mission of helping investors. With respect to climate and other ESG disclosures, we urge the SEC to adhere to this mission.

We note, however, that not all users of corporate reporting, or even of financial reporting in the narrower sense, are the same. The markets function not only for short-term investors with an investment horizon of only a few days or months but also for long-term investors such as pension funds, life insurance companies, and fund managers that must maintain portfolios for asset owners with decades-long horizons. We understand the challenge of developing disclosures that consider the needs of these different investors.

We raise with you our observation that some of the global initiatives around ESG are unclear about the intended users of certain reporting. This lack of clarity can make operationalizing new regulation problematic. Moreover, impact accounting is still a nascent area in terms of identifying the key indicators and measurement. All regulation regarding ESG disclosure, whether from the SEC or its counterparts worldwide, must make the intended user for specific information absolutely clear.

6. ESG information must be relevant to small and medium-size entities: Although the SEC does not directly regulate information reported by private entities, the needs and perspectives of these businesses must be considered in comprehensive approaches regarding sustainable business information and management. Many small businesses have neither relevant key performance indicators nor the resources to measure and report them, but they will need the information for supply chain demands, management decision-making, and when seeking capital.
7. Sustainable business reporting must utilize technology for efficiency in the data ecosystem: IMA's work and participation on global initiatives demonstrate the promise of technology to facilitate alignment of various reporting frameworks (see IMA's [A Digital Transformation Brief: Business Reporting in the Fourth Industrial Revolution](#)). Today, the cost of producing multiple reports for multiple users in multiple jurisdictions is staggering and potentially wasteful. We view technology as a critical means to improve corporate reporting along the information ecosystem from data source to ultimate users. This digital transformation process is changing the means of reporting from a periodic document to the delivery of data sets. Digital reporting can become the means for eliminating the burdens of fragmentation (item 8).
8. ESG disclosure regulations must address the burdens of preparers, particularly around fragmentation: IMA observes that fragmentation has generally been detrimental to the development, implementation, and usefulness of reported sustainable business information. This fragmentation has resulted in confusion among well-meaning organizations that seek to respond to stakeholder demands. We note that this fragmentation is being partially mitigated by the standards organizations themselves, such as through the work of the Impact Management Project. We also note the recent merger of the SASB and the IIRC into the Value Reporting Foundation that we strongly support.

Mirroring the lack of consensus in the profession, some of our members are urging movement toward a single set of global standards with respect to climate. Others urge a single set of standards not only around climate but for all ESG-related disclosures. Still others question whether reaching consensus



on a single, global set of standards is even feasible. Some of our members urge the Commission to require the reporting of climate change disclosures separately with different required filing dates than other reports, while others see the benefit of a comprehensive delivery of financial and sustainable business information together. Each of these somewhat disparate views reflect a single point of consensus: The Commission (and other regulators) must consider the proliferation of corporate reporting burdens.

Financial reporting teams are assuming activities for sustainability reporting on top of their current annual and quarterly responsibilities. They are also responding to newly enacted or anticipated ESG reporting requirements in local jurisdictions around the world. Fortunately, this is occurring amid important and encouraging initiatives, such as by the Financial Accounting Standards Board, toward the simplification of current accounting requirements. We see enormous benefit for the SEC to work with standard setters and international regulators toward uniformity so that resources are not expended on multiple, duplicative reporting. In this respect, we urge the development of initiatives around taxonomy alignment (see item 7).

In summary, we support efforts to reduce fragmentation. We observe that the marketplace of competing frameworks is beginning to coalesce around two sets of guidelines, one from the SASB and the other from the Task Force on Climate-Related Financial Disclosures (TCFD), that are designed to align with existing financial reporting. We observe that many of our constituents look to SASB, in particular, as a means of identifying the specific types of sustainable business information that are likely most applicable to different industries. Other organizations, even in the U.S., have been reporting under the Global Reporting Initiative framework for many years, and many voluntarily comply with the CDP's (formerly, Carbon Disclosure Project) annual survey-based system.

Outside of disclosure regulation and standard-setting, one unfortunate trend that we have been observing is the unrelenting pressure on companies by ratings agencies and data aggregators. Companies are being inundated with requests for information and comprehensive survey instruments as analysts seek more specific disclosures with the goal of comparability across companies, particularly with respect to ESG. However, not all information reported by companies – many with unique and differentiated business models – can be completely commoditized if it is to be decision-useful. In short, there is a difference between meaningful comparability and forced commoditization.

In addition, with respect to standardization, we have a caveat regarding experimentation and agility. In some ways, demonstrating the connection between specific sustainable business metrics with performance and value is still developing. Standardization must be accomplished in a way that permits robust research to continue with respect to measurement techniques.

9. Entities must produce reliable sustainable business information that flows from systems with strong governance and internal controls: As noted, IMA is a member of COSO, which supports the utilization of rigorous and effective control and oversight systems that, as with financial reporting, are equally applicable to climate and other ESG disclosures. Here, we cite our own work: Robert H. Herz, Brad J. Monterio, and Jeffrey C. Thomson, *Leveraging the COSO Internal Control—Integrated Framework to Improve Confidence in Sustainability Performance Data*, 2017. A rigorous internal control process in compliance with the Sarbanes-Oxley Act must be supervised by experienced professionals. New



The Association of  
Accountants and  
Financial Professionals  
in Business

climate change disclosures that are not currently included in the annual or quarterly process will require considerable oversight effort by accounting and legal staff. Our constituents, experts in implementing new types of disclosure in a way that ensures quality and integrity, urge the Commission to move ahead with care. Financial reporting professionals must be allowed the time and space to develop and implement effective systems to ensure the quality of material ESG disclosures.

We would be pleased to discuss our comments at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey C. Thomson". The signature is written in a cursive, flowing style.

Jeffrey C. Thomson, CMA, CSCA, CAE  
President and CEO  
IMA® (Institute of Management Accountants)