

Office of the Secretary
PCAOB
1666 K Street NW,
Washington, DC 20006-2803

January 12, 2024

Dear Chair Williams,

We write to you today from 27 climate, environment, and consumer protection organizations representing millions of members and supporters to urge the PCAOB to update attestation standards to meet the needs of auditors, companies, and investors as they adapt to growing market demands and new regulatory requirements for third-party verified greenhouse gas (GHG) emissions and climate-related disclosures in 10-K filings. Given California's new climate-related disclosure laws, the pending finalization of the SEC's climate-related disclosure proposal for public companies, and the widespread demand for high-quality environmental, social, and governance (ESG) information more generally, we urge the PCAOB to provide specific guidance and oversight of firms issuing attestation reports on GHG emissions and climate-related disclosures in 10-K filings. The PCAOB is scheduled to update its attestation standards in 2024, and it is crucial that this revision incorporates GHG emissions and climate-related disclosures.

Investors rely on assurance providers to verify a wide range of climate and ESG information, particularly those associated with climate change, environmental impacts, and the clean energy transition. Climate risk factors profoundly impact long-term value¹ and have implications for systemic financial risk,² so investors are rightly seeking reliable, verified disclosures to inform their decision-making.³ Due to this demand, around 80 percent of S&P 100 companies are currently using third-party assurance or verification for climate-related disclosures, including GHG emissions and ESG metrics in 10-K filings.⁴ The prevalent use of third-party attestation providers for limited and reasonable assurance engagements of climate-related disclosures has created the need for greater oversight and guidance on ethics, independence standards, and quality control procedures. Updated attestation standards will provide needed market standards on climate-related assurance engagements for PCAOB-registered auditing firms and other

¹ Whelan, T., Atz, U. and Clark, C. 2021 "ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015-2020." *NYU Stern Center for Sustainable Business*. https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021.pdf

² Financial Stability Oversight Board. 2021. "Report on Climate-Related Financial Risk." <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>

³ Carbon Tracker Initiative. 2021. *Flying Blind: The Glaring Absence of Climate Risks in Financial Reporting*. London: Carbon Tracker Initiative.

<https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/>;

⁴ Securities and Exchange Commission. 2021. "The Enhancement and Standardization of Climate-Related Disclosures for Investors" 87 Fed. Reg. 21334, 21346

assurance providers deemed eligible by the SEC and California Air Resources Board under their rules.

This update is vital due to various new laws and regulations, including new laws in California that will require limited assurance of Scopes 1, 2 and 3 emissions by 2027, and reasonable assurance by 2030 for most major U.S. companies.⁵ In addition, the SEC is expected to require limited assurance for direct emissions (Scope 1) and indirect emissions linked to electricity generation (Scope 2), which will escalate to a requirement for reasonable assurance in the near future, in its forthcoming climate-related disclosure rule for public companies.⁶ These regulators will likely first require limited assurance, which is a lighter touch process, as a transitional step toward achieving more rigorous reasonable assurance.

Currently, there is a lack of standardization around limited and reasonable assurance engagements of sustainability disclosures⁷ which has resulted in market confusion about the quality and reliability of the resulting disclosures. Further, the widespread use of limited assurance among companies—especially in combination with the lack of clarity about what limited assurance means—raises concerns of potential greenwashing.⁸ Clearly defined procedures for limited and reasonable assurance engagements are needed to minimize expectation gaps between what assurance providers are actually doing—especially when providing limited assurance, which is very little—and what market participants understand to be happening, expect and need.⁹

PCAOB should establish minimum procedures for "limited assurance" engagements to promote standardization and ensure investors are not misled regarding the modest extent of assurance provided. These should include standards for (1) organizational and operational boundaries for

⁵ California Senate Bill 253. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB253; California Senate Bill 261. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB261; Frank, Sadie. October, 26, 2023. "How Might California's New Climate Disclosure Law Impact Federal Rulemaking?: Estimating the overlap between California climate disclosure laws and the SEC's proposed climate disclosure rule." *Public Citizen*. <https://www.citizen.org/article/california-sec-climate-disclosure-report/>

⁶ Securities and Exchange Commission. 2021. "The Enhancement and Standardization of Climate-Related Disclosures for Investors" 87 Fed. Reg. 21334, 21346

⁷ Institute of Chartered Accountants in England and Wales. "A buyer's guide to assurance on non-financial information." https://docs.wbcsd.org/2019/11/WBCSD_ICAEW_A_buyers_guide_to_assurance_on_non-financial_information.pdf

⁸ Huw Jones and Simon Jessop, February 22, 2021. "Focus: Corporate sustainability push a \$35 trillion dollar conundrum for auditors." *Reuters*. <https://www.reuters.com/markets/funds/corporate-sustainability-push-35-trillion-dollar-conundrum-auditors-2022-02-22/>

⁹ For example, investors might assume limited assurance of climate disclosures is analogous to the assurance level obtained for a quarterly SEC filing, but this is not the case. For limited assurance of climate-related disclosures, assurance providers typically haven't conducted a prior reasonable assurance engagement in a manner analogous to interim financial statements following an annual report. While quarterly reviews mandate auditors to affirm that they have identified nothing inconsistent with their comprehensive yearly audit, this "negative" attestation relies on the context and understanding developed during the annual audit conducted at a reasonable assurance level.

sustainability-related disclosures that are reasonably set, justified, and disclosed; (2) credible data sources to be utilized when primary measured data is lacking, with full disclosure of data inputs and assumptions; (3) procedures for testing of calculations to ensure accuracy, and (4) clarity around the limits of the limited assurance engagement.

PCAOB is in a unique position to develop attestation standards that align third-party assurance engagements of climate-related disclosures with financial statement audits to improve alignment between the two. To improve consistency between climate-related disclosures and financial statements in 10-K filings, PCAOB standards should encourage communication between assurance providers of sustainability information and financial auditors, especially regarding sustainability matters closely linked to the climate-related estimates and assumptions underlying the financial statements, factors which will likely need to be disclosed in notes to the financial statements pursuant to the forthcoming SEC climate-related disclosure rule for public companies.¹⁰ Reliable climate-related disclosures and GHG emissions figures can assist financial auditors in recognizing material climate-related risks and climate-related estimates and assumptions that require significant auditor judgment, potentially warranting discussion as a critical audit matter where unreasonable assumptions, omissions, or inconsistencies exist.

In response to the growing demand for assurance of climate-related disclosures and GHG emissions in 10-K filings, PCAOB has a responsibility to update attestation standards to meet market needs. Unfortunately, the PCAOB is failing to keep pace with financial regulators in the U.S.¹¹ and audit regulators abroad on incorporating climate-related disclosures into its rules and standards. The International Auditing and Assurance Standards Board has already proposed assurance standards for sustainability-related disclosure.¹² Failing to update attestation standards in line with current market demand, norms, and regulatory requirements could diminish the credibility of PCAOB in global financial markets. Attestation of GHG emissions data and other climate-related disclosures will soon be a general requirement for most major companies in the U.S. and around the world. We strongly urge the PCAOB to take prompt action in updating its attestation standards to include climate-related disclosure and GHG emissions engagements.

¹⁰ Securities and Exchange Commission. 2021. "The Enhancement and Standardization of Climate-Related Disclosures for Investors" 87 Fed. Reg. 21334, 21346

¹¹ Climate Risk Scorecard: Assessing U.S. Financial Regulator Action on Climate Financial Risk. 2023. Boston, MA: Ceres.

https://www.ceres.org/accelerator/regulation/scorecard?gad_source=1&gclid=CjwKCAiA98WrBhAYEiwA2WvhOpdZSNewIE3f7eiyUyEPzehu1eNszcW5sRUDM3v8h3oqF9PMV9U-IRoCs6EQAvD_BwE

¹² International Auditing and Assurance Standards Board (IAASB). 2023. "Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements."

https://ifacweb.blob.core.windows.net/publicfiles/2023-08/IAASB-International-Standard-Sustainability-5000-Exposure-Draft_0.pdf

Sincerely,

Public Citizen
Americans for Financial Reform Education Fund

350.org
Better Markets
Carrizo/Comecrudo Nation of Texas
Cedar Lane Environmental Justice Ministry
Center for International Environmental Law (CIEL)
Chesapeake Climate Action Network
Climate Reality Greater Maryland
Divest Washington
E3G
Earth Action, Inc.
Elders Climate Action Maryland
FreshWater Accountability Project
Friends of the Earth U.S.
Green America
Greenpeace USA
Institute for Agriculture and Trade Policy
Interfaith Center on Corporate Responsibility (ICCR)
The People's Justice Council
The Phoenix Group
Private Equity Stakeholder Project
Revolving Door Project
Sierra Club
Stand.earth
The Sunrise Project
Zevin Asset Management

cc: Board Member Christina Ho
Board Member Kara Stein
Board Member Anthony Thompson
Board Member George Botic