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CII Brief - 2021

Enhancing Sustainability Reporting for Investor Insight (sustainability)

Interest is robustly growing amongst investors for accessible, meaningful, and reliable sustainability performance information from corporations. This data, particularly in relation to climate change, is increasingly seen as vital to comprehending the nonfinancial business dynamics that can impact profitability. The CII advocates for sustainability reporting to be both material and industry-sensitive. Moreover, they encourage companies to enlist external assurance of the data they provide. Also, they commend the SEC's recommendation for climate change disclosures but advise for expansion to other sustainability-related disclosures. CII also urges the SEC to establish criteria for a private sector standard setter to create industry-specific sustainability guidelines. Attributes for this entity include investor accountability, financial sufficiency, and enforcing capability. They believe strong governance processes are essential to the accurate gathering and reporting of sustainability information.

Request for Consistent Climate Change Disclosures and Broader Sustainability Reporting. (climate change)

The Council of Institutional Investors (CII), representing various investors with combined assets approximately in trillions, is urging the U.S. Securities and Exchange Commission (SEC) to propose rules for consistent climate change disclosures. Emphasizing the recognition of climate change as a systemic risk which may affect long-term investments, inadequate disclosure could potentially result in asset mispricing and capital misallocation. Expressing support for the SEC's intention to craft relevant rules this year, the CII further advocates for considerations on sustainability-related disclosures. The new disclosure and reporting norms would help investors in making reliable financial decisions based on comprehensive risk assessments associated with climate change and related sustainability issues. The CII is also calling for reliable sustainability information, strong governance processes, and internal control mechanization for effective sustainability reporting.

Review of ESG Reporting Frameworks and Calls for Enhanced Climate-Related Disclosure (esg)

The State of Washington's State Investment Board encourages the Securities and Exchange Commission (SEC) to consider the current rulemaking process and its potential impact on future financially material ESG (Environmental, Social, and Governance) issues. Several ESG reporting frameworks like the Carbon Disclosure Project (CDP), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and Task Force on Climate-Related Financial Disclosures (TCFD) are discussed. The letter notably highlights the need for improved climate-related and general ESG disclosures, including the reporting of greenhouse gas emissions consistent with the standards set by TCFD. There is also an emphasis on the need for the SEC to work cooperatively with international regulators, policymakers, and investors for a more uniform disclosure regime. Components suggested for inclusion in a broader ESG disclosure framework include diversity of boards and executive officers, key workforce metrics, and political spending.

CII's Recommendations on Enhancements for Sustainability Disclosures and Governance (governance)

The Council of Institutional Investors (CII) advocates that any sustainability disclosures mandated by the Securities and Exchange Commission (SEC), including those pertaining to climate change, should prioritize strong governance processes and rigorous internal controls. The same level of scrutiny that is applied to financial reporting should also be applied to the gathering and reporting of sustainability information. CII suggests the SEC look to the Task Force on Climate-related Financial Disclosures (TCFD) for guidance on governance disclosures. Furthermore, CII identifies several enhancements required for the International Financial Reporting Standards (IFRS) Foundation and the proposed Sustainability Standards Board (SSB), including ensuring stable, secure, and independent funding; adequate representation of qualified investors; and a thorough public due process that considers investors' information needs. CII also recommends a similar governance structure for SSB to mitigate potential conflicts of interest. Finally, CII posits that climate-related disclosure should be regarded as part of a holistic Environmental, Social, and Governance (ESG) disclosure framework, not a standalone element.

Sustainable Investing, Climate-Related Risk Reporting and Human Capital Management under Biden Administration (innovation)

The document discusses the interest in data, sustainable investing, and the policies ushered in by the Biden Administration. The focus lies on the progress of climate-related risk and human capital management reporting. Voluntary climate disclosure standards by various globally recognized organizations including CDP, CDSB, GRI, IIRC, SASB, and TCFD are mentioned, as well as the creation of a new initiative: The Corporate Reporting Dialogue, aimed at aligning different reporting frameworks.The document suggests that SEC should consider whether and what independent verification or assurance should be provided to ensure the reliability of such disclosures. It further recommends SEC should contemplate requiring the use of a specific reporting framework. The summary emphasizes the current state of voluntary use in certain frameworks and notes significant global support for mandatory climate risk disclosure.

Public Comment on Auditing Standards Amendments: Views and Oppositions (auditing standards)

The Public Company Accounting Oversight Board (PCAOB) has requested further comments on the proposed adjustments to auditing standards that relate to the audit process involving accounting firms and individual accountants outside the main audit firm. Audited financial statements are a vital tool for investors making investment decisions. The Council of Institutional Investors (CII) consistently asserts that the responsibility of creating accounting and auditing standards should lie with independent organizations, but does not endorse the idea of replacing U.S. standards or standard setters with their international counterparts despite the market's globalization. However, the council advocates for high-quality international accounting and auditing standards. These standards ought to be perceived as fulfilling the needs of the investing public, and standard setters should be free from significant influence. Effective accounting or auditing standard setters should have: recognition of reporting, adequate funding, independence and technical expertise, accountability to investors, robust due process, protections for their judgments and decisions, and a solid enforcement mechanism.

Definition and Regulation of Foreign Financial Regulatory Authority and Qualified Investors (nist)

The paragraph outlines the definition and a detailed breakdown of a foreign financial regulatory authority and qualified investors including their respective profiles. This foreign authority refers to any foreign securities authority, a self-regulatory organization, or other entities sanctioned by a foreign government to implement or enforce laws relating to financial activities like insurance, commercial lending, or future delivery contract trading. The text also explains what actions might lead to barring individuals from participating in these financial activities. A qualified investor, under this narrative, includes entities registered with the commission, persons and businesses that invest on a discretionary basis, government entities, banks, insurance companies, small businesses, and more. The text also makes provisions for exclusions and exemptions, particularly for charitable organizations and church plans. In the context of state laws, it delineates the restrictions on states implementing certain laws that would be contradictory to those established under the chapter. The paragraph concludes by indicating penalties for violations and the conditions under which these penalties would apply. Thus, the material is essentially a legislative guide to the categorization and control of entities involved in foreign financial transactions.

Exploring the ESG Disclosure Regime and Climate-related Disclosure Requirements (esg disclosure)

Following the content, a growing interest in Environmental, Social, Governance (ESG) disclosure schemes, primarily the need to disclose climate-related factors and greenhouse gas emissions, is apparent. People are debating whether these climate-related requirements should form part of a broader ESG disclosure framework. Several questions are also being raised about the best ways to establish and regulate ESG disclosure standards, and whether they should be subject to stringent verification measures like audits or attestation. Other discussions touch on whether the commission should assign an ESG disclosure standard setter, and how climate-related disclosures relate to other ESG disclosure issues. Moreover, people believe that the Task Force on Climate-related Financial Disclosures (TCFD) guidelines on greenhouse gas emissions reporting could be an excellent starting point.

The Impact of Greenhouse Gas Emissions and the Push for Net Zero Emissions (greenhouse gas emissions)

The European Commission plans to cut at least 55% of greenhouse gas emissions by 2030, compared to 1990 levels. This has driven many corporations to set 'net zero' emission targets to decrease reputational risk and business damage. These initiatives are also tied to the stipulations of the Paris agreement, which calls for a decrease in greenhouse gas emissions to achieve a balance with anthropogenic emissions. Statistical models are being used to track the average greenhouse gas emissions of green bond issuers, and they play important parts in various financial regulations and definitions. The final reports of investments now include indicators related to greenhouse gas emissions. Several sustainability terms are mentioned, such as 'net zero emissions'—a state where the amount of greenhouse gas produced equals the amount removed from the atmosphere.Institutions are being consulted and feedback is being gathered, particularly from those specially focused on sustainability reporting and responsible investment practices. There is an international push to transition investment portfolios to net zero greenhouse gas emissions by 2050, and certain metrics, such as scope 1 and 2 greenhouse gas emissions, are being highlighted for mandatory reporting. These practices underline the growing importance of assessing climate-related risks across investment portfolios.

Enhanced Audit Planning and Supervision for Protection of Investors (audit quality)

Our associates, composed of non-U.S. asset owners, asset managers, top five accounting firms, and the center for audit quality, largely agree with Megan Zietsman, expert and ex-board member, on proposed changes in audit procedures. If accepted, these amendments would refine how audits involving other auditors are planned and supervised, directly influencing the quality of audits and protection of investor interests. Significantly, this can have a greater impact on Emerging Growth Companies (EGCs). These proposals could elevate the validity of financial reports by the EGCs and thus, enhance the overall quality of audits and safeguard the investors.

Enhancing the Role of Accounting and Auditing Standard Setters (accountability)

The effectiveness of standard setters within the realms of accounting and auditing can be advanced by the support of market participants, non-governmental organizations, and governments. This support should be channeled towards upholding their independence and securing their long-term survival. Essential aspects for the successful development of standards include stable funding, technical expertise at all levels, investor accountability, open development process, and adequate protection from external influences. The achievement of these attributes often involves cooperation from various jurisdictions. The standard setters should also include an enforcement mechanism to ensure adherence to these standards, and their criteria for recognition should include independence, sufficient funding, and accountability to investors among others. It is also critical for these bodies to address a lack of agreed framework for climate-related risk disclosures. Notably, balancing specific rules-based quantitative information with more principles-based qualitative information is beneficial.

Importance of Governance and Assurance in Sustainability Disclosures (internal controls)

The Council of Institutional Investors (CII) underscores the need for robust governance processes and internal control systems when reporting climate change and other sustainability data. They emphasize that for information to be reliable, issuers must have a well-designed, implemented, and maintained governance structure for the collection and dissemination of data. This should be as rigorous as those used for financial reporting, ensuring the same level of reliability and credibility. The consensus is that off-financial information should similarly be subject to internal controls over financial reporting. Additionally, the Sustainability Accounting Standards Board agrees companies should develop comparable internal control systems for sustainability information.
