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CII Brief - 2022

Potential Changes in Sustainability-Related Financial Disclosures (sustainability)

The council of institutional investors (CII), has shared its views on the international sustainability standards board's drafts on disclosed sustainability-related financial information and climate-related disclosures. These institutional investors show a considerable interest in sustainability performance linked to profitability and other non-financial metrics to aid decision-making. The need for standards focusing on materiality and industry considerations has been recognized, to provide investors with useful and comparable data. The establishment of the ISSB and its mission is generally supported for sustainability disclosure guidelines. CII advocates for a more comprehensive baseline for corporate sustainability disclosures with assurance over time. Furthermore, they agree with the proposal for reporting entities to disclose sustainability-related financial data as part of their general purpose financial reporting. They suggest including a statement of the effect of material sustainability-related risks and opportunities on the entities' business strategy, financial position and attempts to address the risks and opportunities in the reporting.

Improving Corporate Sustainability Disclosures & Assessing Climate-Related Risks (governance)

The Council of Institutional Investors (CII) generally endorses the steps taken towards expanding corporate disclosure, particularly in regard to sustainability performance and corporate governance policies. They assess factors like materiality to investment, transparency, and anticipated benefit to the investor before supporting this expansion. Notably, the CII backs the initiative by the International Sustainability Standards Board (ISSB) to develop a standard baseline for corporate sustainability disclosures. The CII acknowledges the proposed disclosure requirements for governance processes, strategy, risk management, and metrics as appropriately defined. They agree that a comprehensive understanding of a company's climate-related risks and opportunities necessitates a mix of information. Furthermore, the CII supports requiring entities to adhere to the IFRS sustainability disclosure standards. However, despite the general affirmation, they also raise potential challenges surrounding the application of these concepts, which could pose difficulties for companies conducting their materiality assessments and assurance providers. In conclusion, they advocate for periodic revisions to the auditor as a method of promoting corporate governance.

Consultations and Proposals on Climate-Related Financial Disclosures (climate change)

This content revolves around proposals and consultations on climate-related financial disclosures, primarily focusing on issues such as capital management, human capital, supply chain relationships, executive compensation, cybersecurity, and climate change. It features discussions with the International Sustainability Standards Board, responses to the IFRS Foundation's consultation paper, and several letters written to notable people like Gary Gensler, the Chair of the U.S Securities and Exchange Commission. The text highlights investor demand for information about climate change risks and the potential for mispricing of assets due to inadequate climate change disclosures by companies. The disclosure requirements proposed balance the costs of applying with the benefits of information on strategic resilience to climate change. The text also points out the dynamic nature of climate change, related business risks, and opportunities, indicating the need for ongoing maintenance of climate-related disclosures to meet the users' needs.

Sustainability-Related Risks and Opportunities: Impact on Business Models and Strategic Decisions (business model)

The objective highlights the need for strategies that allow users of general-purpose financial reporting to understand the implications of substantial sustainability-related risks and opportunities on an organisation's business model, strategy, and financial position. It stresses the importance of a company's approach to managing these risks and opportunities. The focus is on climate-related risks which can greatly influence an entity's value, their use of resources, their response to climate threats, and their ability to adapt their business and operational plans. The proposal also includes the requirement for companies to disclose the actual and potential impacts of material climate-related risks on their business strategies, models, and future outlooks. Assessment methods, such as scenario analysis, used to gauge the impact of climate-related risks on the business and financial statements are also important, as they support the resilience of the entity's strategy and business model. Additional disclosure about the scope emissions data could assist investors in understanding transition risks and potential disruptions in a company's supply chain, business model, and cash flows.

Enhancing the Effectiveness of Accounting and Auditing Standard Setters: The Key Factors (accountability)

The success of accounting and auditing standard setters is dependent on a number of key attributes. These include a stable funding stream, deep technical expertise, accountability to investors, open and rigorous development processes, and protection from external interference. Recognition of the role of financial reporting as a public good is also crucial, alongside sufficient funding, and independence from conflicts of interest. Investor involvement in the form of representation and considerations also forms a critical part of an effective standard-setting process. In line with this, standard setters should have a thorough public due process that includes solicitation of investor input on proposals. Additionally, the structure and process of standard setting should be adequately protected from being overridden by government bodies. Enforcement of standards by regulators is necessary, and in the area of corporate sustainability disclosures, standards should also follow these principles. Continued reforms are essential to strengthen transparency, independence, oversight, and accountability within the system. Historically, a lack of accountability and oversight has led to significant losses for market participants, emphasizing the need for robust controls. Developments such as the Sarbanes-Oxley Act of 2002 and the Global Settlement with Wall Street firms have improved the situation. The Treasury's efforts to promote transparency and accountability around financial institutions' net-zero targets and the enhancement of climate-related disclosures for investors have also been acknowledged. The importance of employing verification standards, like ISO 14000 series and Accountability's AA series, is still under review.

Council of Institutional Investors' Stance on Accounting and Auditing Standards (auditing standards)

The Council of Institutional Investors (CII) advocates for independent organizations to establish accounting and auditing standards, but does not currently support the idea of replacing U.S. standards or standard setters with international ones. Despite this, the CII acknowledges the global nature of financial markets, the substantial investment in securities reporting in international standards, and thus supports high quality international accounting and auditing standards. The CII defines high quality standards as those satisfying the investing public's needs via an independent and unaffected process. It also lists attributes for an effective standard setter, such as recognizing reporting's role, sufficient funding, independence and technical expertise, investor accountability, thorough public due process, adequate protections, and clear enforcement. While opposing U.S. standard replacement, CII still acknowledges the importance of high-quality international standards due to the globalization of financial markets.

Importance and Implications of Auditor Independence (auditor independence)

The passage discusses the crucial role of auditor independence in maintaining confidence in audit outcomes and financial reporting. The independence of auditors is pivotal to enabling objective judgements about entities being audited. Changes in auditor independence rules may potentially limit the availability of high-quality auditors, affecting unaudited funds from benefiting from quality audits. However, the narrative argues that mandatory audits carry limited benefits, as unaudited funds still undergo surprise inspections and investors are savvy enough to spot manipulations in fair-value reporting. It also notes procedural enhancements for independence assessments in auditor firms and stresses the need for audit committees to exercise their authority effectively to uphold auditor independence and audit quality. The passage underlines the essentiality of compliance with ethical requirements and quality controls in upholding auditor independence.

Business Risk Management and Disclosures (cybersecurity)

The main interests revolve around the comprehensive management of diverse sources of risk in a business. These include capital structure, human capital, supply chain relationships, executive compensation, cyber security and climate change. A significant emphasis is on the disclosure regarding board member's expertise in managing climate-related risks. A similar requirement for disclosure about board member's expertise or experience in cybersecurity risk is also mentioned, demonstrating support for strengthened transparency in business risk management.

CII's Stance on International Standards and Globalization of Financial Markets (international standards)

At present, CII opposes replacing US accounting or auditing standards with international ones. Despite this, they recognize the significance of the globalized financial markets and the increasing number of investments in international-standard reporting enterprises. Hence, the organization generally supports high-quality international accounting and auditing standards. However, they stand firm in their current stance, not in favor of replacing US standards or standard setters.

Greenhouse Gas Emissions and Emissions Trading Systems: Scope, Reduction Targets, and Disclosure Requirements (greenhouse gas emissions)

The primary focus is on reducing net greenhouse gas emissions by applying a pricing system on entities releasing gases while complying to obligations. These entities rely on Emissions Trading Systems (ETS), which vary significantly from one country to another due to different factors like political ambitions, system organization, or experience. The EU ETS, a cap-and-trade system, has been particularly influential, with other jurisdictions adopting similar approaches. The EU fit-for- package aims for stringent greenhouse gas emissions reductions. Most trading takes place via derivative contracts, reflecting the EU ETS's annual cycle of surrendering allowances. There's consensus on reporting entities' scope and scope greenhouse emissions due to its relevance in assessing climate-related risks. Temperature scenarios and reductions targets are essential in aligning with the Paris agreement objectives. Disclosure of scope 1, 2, and 3 emissions is encouraged, with a push for mandatory disclosure. Lastly, to avoid catastrophic climate impacts, there's a need for significant reduction in emissions and the development of transition plans for corporations and investors aiming for net zero greenhouse gas emissions.

Anticipated Shift towards ISSB-Modeled ESG Reporting Legislation (esg)

Jessica Ground, the Global Head of ESG at Capital Group believes that future national legislation may be modeled on the International Sustainability Standards Board (ISSB) standards. This, however, would require time for implementation. Optimistically, the proposed 'safe harbor' could lower the costs of scope disclosures while also stimulating ESG disclosures that align with both the capabilities of reporting companies and the demands of investors.

Consultation on the Refinement of FASB Standards and Environmental Obligations (environment)

The Financial Accounting Standards Board (FASB) has invited comments on potential improvements to various aspects of financial statement disclosures, including going concern, risks and uncertainties, goodwill and other intangibles, and environmental obligations. In addition, the Securities and Exchange Commission (SEC) has outlined its stance on not being primarily an environmental commission, but addressing the impacts where significant for investor assurance. This includes tracing and reporting on environmental impact through the supply chain. Notably, the implementation of these disclosure standards is significant for large accelerated filers.
