

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

October 26, 2022

Re: Request for Information and Comment, The Application and Use of the PCAOB's Interim Attestation Standards

Dear Chair Williams,

On behalf of Public Citizen and Americans for Financial Reform Education Fund, national advocacy groups with thousands of retail investors among their membership, we appreciate the opportunity to comment on this Request for Information and Comment on the Application and Use of the PCAOB's Interim Attestation Standards. Our response covers Questions 1, 3, 4, and 8.

The PCAOB should update the attestation standards to cover greenhouse gas attestation engagements. Such an update is necessary due to the the growing voluntary use of attestation engagements for verifying greenhouse gas emissions, as well as the Securities and Exchange Commission's (SEC) proposed attestation requirement for accelerated filers and large accelerated filers regarding proposed disclosures of greenhouse gas (GHG) emissions.¹ For direct emissions (Scope 1) and indirect emissions attributable to electricity generation (Scope 2), the proposed attestation engagement would need to be at a limited assurance level in the second and third fiscal years following the disclosure compliance date and a reasonable assurance level thereafter.² For Scope 3 emissions, there is no proposed attestation requirement.³

Over the last few years, investors and other users of financial statements have increasingly recognized the value of emissions disclosure for assessing and managing climate risk. Investor-led standards for climate-related financial reporting, like the Task Force on Climate-related Financial Disclosures, have included GHG emissions in their disclosure recommendations. The International Sustainability Standards Board, a project of the International Financial Reporting Standards (IFRS) Foundation, has recently reinforced the importance of GHG reporting by confirming that Scope 3 emissions disclosure will be part of its final climate reporting standard.⁴ The SEC's proposed rule reflects this developing market expectation and seeks to standardize it.

¹ The Enhancement and Standardization of Climate-Related Disclosures for Investors, 87 Fed. Reg. 21334, 21346 (April 11, 2022) (hereinafter "Proposed Climate Disclosure Rule").

² *Id.* at 21392 et seq.

³ *Id.* at 21397.

⁴ International Financial Reporting Standards Foundation. 2022. "ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions.", IFRS,

The SEC’s proposed attestation requirement is intended to enhance the reliability of disclosures. Such attestation is already a feature of the market, with “80 percent of S&P 100 companies subjecting certain items of their ESG information, including climate-related disclosures such as greenhouse gas emissions, to some type of third-party assurance or verification.”⁵

The PCAOB should take this opportunity to update its attestation standards to reflect the current and developing market realities. While the SEC rule does not designate the PCAOB as the attestation standard setter for greenhouse gas emissions, it does identify the PCAOB as a body that meets the criteria for an attestation standards setter.⁶ It is particularly important for the PCAOB to act because it is the only standard setter that can coordinate the attestation standard with the financial audit. GHG emissions are a critical element of the assumptions and estimates that underlie the financial statements.⁷ Coordinating an audit and attestation engagement can help eliminate redundancy and create an integrated standard for both the audit of the financial statements and attestation of the emissions data that underlies those statements. PCAOB has emphasized the importance of this link in previous rulemakings on attestation standards.⁸ Such a tight linkage is particularly important given the troubling gaps that accounting watchdog Carbon Tracker has identified in the reporting and audit of climate-related assumptions and estimates in financial statements.⁹ Proper attestation standards related to GHG emissions can help auditors identify climate-related risks in the reporting companies’ financial statements, such as vulnerability to rapid shifts in commodity prices in a way that can lead to asset impairment or require restatement of inventory valuations.

The PCAOB should not wait for the SEC to finalize its climate disclosure rule to update its attestation standards to reflect GHG emissions attestation engagements. First, there is precedent for PCAOB proposing updates to attestation standards at the same time as a proposed SEC rule: attestation of broker dealer reports¹⁰ and internal controls over financial reporting.¹¹ Second, if the PCAOB is planning to update its attestation standards anyway in response to this request for comment, to omit GHG emissions attestations now would require another rulemaking later, using valuable staff time and resources. Third,

October 2022. <https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/>

⁵ Proposed Climate Disclosure Rule at 21393.

⁶ Proposed Climate Disclosure Rule at 21401.

⁷ Ross, Samantha. 2021. *Lifting the Veil: Investor Expectations for Paris-Aligned Financial Reporting at Oil and Gas Companies*. Boston, MA: Ceres. <https://www.ceres.org/sites/default/files/reports/2021-05/Ceres%20Lifting%20the%20Veil%20Oil%20and%20Gas%205.18.pdf>.

⁸ PCAOB. 2003. “Briefing Paper: Proposed Auditing Standard – An Audit Of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements.” Oct. 7. 2003.

⁹ 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/>.

¹⁰ PCAOB. 2014. “Proposed Standards For Attestation Engagements Related To Broker And Dealer Compliance Or Exemption Reports Required By The U.S. Securities And Exchange Commission And Related Amendments To Pcaob Standards.” PCAOB Release No. 2011-004. Jul. 12, 2011.

¹¹ See *supra* 8.

regardless of the timeline for finalizing the SEC disclosure rule, firms are using attestation engagements today for verifying greenhouse gas emissions and market participants are relying on such engagements and attestation outcomes to guide decision-making. The PCAOB should respond to this market development with additional guidance to help standardize those attestation engagements. Other standard setters like the American Institute of Certified Public Accountants (AICPA), have recognized this development and begun issuing their own guidance.¹² Finally, the PCAOB should keep U.S. capital markets in line with developments in other jurisdictions. The International Auditing and Assurance Standards Board has launched a new project on sustainability-related disclosures and expects to release an exposure draft standard next year that will include emissions.¹³ Failure to keep pace risks reducing U.S. competitiveness in global financial markets.

GHG emissions are an important indicator of climate risk, and investors seeking to understand the financial performance of reporting companies increasingly view disclosures of GHG emissions as a critical tool. The SEC's recognition of this reality is important, but the global need for attestation of emissions data goes beyond its proposed rule. We encourage the PCAOB to act expeditiously and update its attestation standards to include attestation engagements for GHG emissions.

We thank you for reviewing this comment. If you have any questions, please contact Yevgeny Shrago (yshrago@citizen.org) and Alex Martin (alex@ourfinancialsecurity.org).

Sincerely,

Public Citizen
Americans for Financial Reform Education Fund

¹² AICPA, "Statement on Standards for Attestation Engagements." No. 18, Apr. 2016 <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/ssae-no-18.pdf>; AICPA, "Attestation Engagements on Sustainability Information Guide (Including Greenhouse Gas Emissions Information)." <https://www.aicpa.org/cpe-learning/publication/attestation-engagements-on-sustainability-information-guide-including-greenhouse-gas-emissions-information>

¹³ International Auditing and Assurance Standards Board, "Project Proposal for an Overarching Standard for Assurance on Sustainability." 2022. <https://www.ifac.org/system/files/uploads/IAASB/Project%20Proposal%20for%20an%20Overarching%20Standard%20for%20Assurance%20on%20Sustainability%20%28FINAL%29.pdf>