The Institute of **Internal Auditors**
Elevating Impact

June 6, 2022

U.S. Securities and Exchange Commission
100 F St, NE
Washington, DC 20529-1090

Dear Chairman Gensler and Commissioners Peirce, Lee, and Crenshaw:

The Institute of Internal Auditors (IIA) commends the U.S. Securities and Exchange Commission (SEC) for undertaking its proposed rule "The Enhancement and Standardization of Climate-Related Disclosures for Investors" and appreciates the opportunity to comment on the rule's critical issues of governance, risk management, financial impacts, assurance, and data protection.

The IIA and its more than 210,000 members across the world, including 70,000 members in the United States, are committed to protecting the public interest. Our organization's members ensure sound governance and risk management in public- and private-sector organizations by encouraging strong internal controls through an enterprisewide approach.

We recognize that disclosures of an organization's climate-related risks, material impacts, and financial metrics will be decision-useful information for investors and other stakeholders, and beneficial to the world in the fight against climate change and reaching the goal of net zero emissions.

We believe that the key to Question 1, on how investors will use disclosed information to assess physical effects and related financial impacts of climate-related events, is the quality and reliability of disclosed information and the confidence investors have in it.

Confidence over the effectiveness of internal controls and data is created by effective governance, which is built upon the independent internal assurance provided by an internal audit function. That in turn builds trust in disclosures for good decision-making.

Internal auditors take a risk-based approach in prioritizing engagements of auditable areas that represent the greatest threats faced by the organization and those most important to achieving goals. They work closely with senior management and the governing body according to professional standards in The IIA's International Professional Practices Framework (IPPF) and the roles and responsibilities of effective governance provided in the widely accepted Three Lines Model, updated by The IIA in 2020. The model articulates the core components of effective independent oversight and governance, emphasizing the need for clear roles and responsibilities toward confronting applicable risks, and the crucial importance of effective coordination, communication, and collaboration to ensure alignment with policy priorities.

Effective governance over disclosures results in transparency and provides confidence to all stakeholders, including the public. This requires objective assurance independent of management.

As such, The IIA's comments particularly emphasize the need for effective governance: accountability by a governing body for organizational oversight, actions by management to achieve success through informed risk-based decision-making, and objective assurance independent of management by an internal audit function to provide clarity and confidence.

While the role of *external* auditors is complementary to the work of *internal* audit functions, their approach is historical in nature – looking at past performance. The internal audit function's comprehensive scope of work focuses on future events because of its continuous evaluation and monitoring of controls and processes. Internal audit serves the organization by helping it accomplish objectives and improve operations, risk management, internal controls, and governance processes.

As further protection over the quality of data, we fully support electronically tagging both narrative and quantitative climate-related disclosures in Inline XBRL. This will enable faster, easier, more reliable, and consistent access to information for analysis and decision-making.

The IIA is a member of the International Integrated Reporting Council (IIRC) and committed to addressing the broader issues associated with ESG on a global level. Our recommendations to the SEC mirror positions expressed by others, such as one of the priorities issued by the International Organization of Securities Commissions board that it is essential to facilitate independent oversight of companies' disclosures. Our detailed feedback and suggestions to specific questions are below.

Effective governance is necessary for climate-related disclosures to be the value the SEC envisions through accountability by a governing body, risk-based actions by management, and objective assurance by an internal audit function to protect the public interest.

We would welcome the opportunity for further discussion with the Commission and Commission staff. Please do not hesitate to contact me or our Vice President of Global Advocacy, Policy, and Government Affairs, Mat Young, ([redacted]), for any questions, comments, or additional input.

Sincerely,

Anthony J. Pugliese

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters

IIA Comments Regarding SEC Proposed Rule
The Enhancement and Standardization of Climate-Related Disclosures for Investors

QUESTION 3. *Should we model the Commission's climate-related disclosure framework in part on the framework recommended by the TCFD, as proposed? Would alignment with the TCFD help elicit climate-related disclosures that are consistent, comparable, and reliable for investors? Would alignment with the TCFD framework help mitigate the reporting burden for issuers and facilitate understanding of climate-related information by investors because the framework is widely used by companies in the United States and around the world? Are there aspects of the TCFD framework that we should not adopt? Should we instead adopt rules that are based on a different third-party framework? If so, which framework? Should we base the rules on something other than an existing third-party framework?*

IIA Response. Voluntary reporting, while well-intentioned, has led to a lack of uniformity and consistency, preventing comparative assessments and accurate assurance. A single, uniform framework and/or an aligned set of frameworks on climate disclosures would provide an opportunity for comparability among corporations and investors and allow for more informed business decisions that consider ESG impacts. This will enable long-term organizational resilience. The IIA is on record in support of the International Financial Reporting Standards Foundation's creation of a global set of internationally recognized sustainability reporting standards through the International Sustainability Standards Board (ISSB). We recommend the SEC continue to incorporate provisions of the TCFD and include provisions of the ISSB standards as much as possible.

However, with any new requirement, management will need to establish an effective system of internal control to ensure that required disclosures are based on complete, accurate, and reliable information. To be truly valuable and reliable, the climate information required by the SEC must be trustworthy.

Climate information is trustworthy when effective internal controls have been established from the very beginning to the end and when those controls are assessed as designed and operating effectively by an objective internal audit function that is independent from management.

QUESTION 4. *Do our current reporting requirements yield adequate and sufficient information regarding climate related risks to allow investors to make informed decisions? In lieu of, or in addition to, the proposed amendments, should we provide updated guidance on how our existing rules may elicit better disclosure about climate-related risks?*

IIA Response. "Better disclosure" is disclosure that contains information that was internally assured by an internal audit function. Within an effective governance structure, internal audit that is well-resourced and positioned ensures integrity, trust, transparency, compliance, and accountability. This is enabled by The IIA's *International Professional Practices Framework (IPPF),* which includes globally recognized *Standards*, authoritative guidance, and Code of Ethics that drive high-quality internal audit work.

We recommend updated guidance from the SEC on how its existing rules may elicit better disclosures about climate-related risks.

Internal audit's role in assessing the effectiveness of internal control over financial reporting for Sarbanes Oxley reporting has proven to be extremely valuable to the assurance the SEC sought at the time. This same role, a requirement for assurance from an independent, objective internal audit function, should be included in the climate-related disclosure rules the SEC will implement.

QUESTION 8. *Should we require a registrant to disclose any climate-related risks that are reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term, as proposed? If so, should we specify a particular time period, or minimum or maximum range of years, for ''short,'' ''medium,'' and ''long term?'' For example, should we define short term as 1 year, 1–3 years, or 1–5 years? Should we define medium term as 5–10 years, 5–15 years, or 5–20 years? Should we define long-term as 10–20 years, 20–30 years, or 30–50 years? Are there other possible years or ranges of years that we should consider as the definitions of short, medium, and long term? What, if any, are the benefits to leaving those terms undefined? What, if any, are the concerns to leaving those terms undefined? Would the proposed provision requiring a registrant to specify what it means by the short, medium, and long term mitigate any such concerns?*

IIA Response. Defining what the SEC means by "short," "medium," and "long" for any climate-related risks that are reasonably likely to have a material impact will be important to disclosures. Indicating defined spans of years will make disclosures comparable and decision-useful, and in setting those spans, the SEC should consider the volatility of climate change and err on the side of shorter spans. However, our recommendation of the need for internal controls does not hinge on time frames: Organizations should identify a risk and clearly identify the controls regardless of the risk being short, medium or long term.

QUESTION 22. *Should we require a registrant to discuss whether and how it considers any of the described impacts as part of its business strategy, financial planning, and capital allocation, as proposed? Should we require a registrant to provide both current and forward-looking disclosures to facilitate an understanding of whether the implications of the identified climate related risks have been integrated into the registrant's business model or strategy, as proposed? Would any of the proposed disclosures present competitive concerns for registrants? If so, how can we mitigate such concerns?*

IIA Response. Registrants describing impacts as part of business strategy, financial planning, and capital allocation is the best way to identify and report on ESG issues and an excellent step toward building a sustainable organization. In our work as a member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and in partnership with the IIRC, we recommend that organizations leverage key governance tools and frameworks — COSO's Internal Control and Enterprise Risk Management (ERM) frameworks, The IIA's Three Lines Model, and the International Integrated <IR> Reporting Framework — to show how integrated thinking and reporting, ERM, and objective assurance, independent of management, align to help organizations achieve their objectives and meet stakeholder expectations. It is critical to short- and long-term value creation to apply ERM broadly, including ESG risks, to understand their impacts and interdependencies through the value creation process, and to embrace the value of independent, objective assurance.

QUESTION 29. *Should we require all registrants to disclose an internal carbon price and prescribe a methodology for determining that price? If so, what corresponding disclosure requirements should we include in connection with such mandated carbon price? What methodology, if any, should we prescribe for calculating a mandatory internal or shadow carbon price? Would a different metric better elicit disclosure that would monetize emissions?*

IIA Response. If a price is calculated, users need to understand that the price is reliable. There must be clear controls around the process to calculate the price, with objective assurance as to the effectiveness of those controls by an internal audit function that is independent from management via a functional reporting relationship to the board (or relevant committee).

QUESTION 34. *Should we require a registrant to describe, as applicable, the board's oversight of climate related risks, as proposed?*

IIA Response. We support requirements to disclose board oversight of climate-related risks as part of a registrant's governance structure. The board is accountable for the success of the organization and needs assurance from an independent source to fulfill its duties. The roles and responsibilities articulated in the Three Lines Model and fundamental to successful governance are essential to obtaining organizational goals, including sustainability efforts, which have become a key priority for organizations. Effective governance inspires stakeholders' confidence and trust that a company's decisions, actions, and outcomes can address priorities and achieve the organization's desired purpose. For many organizations, their purpose includes sustainability.

Maintaining trust and confidence in this area is important as interest in sustainability has soared recently. In *Deloitte's 2022 CxO Sustainability Report: The Disconnect Between Ambition and Impact*, more than 2,000 C-suite executives across 21 countries were polled to examine business leaders' and companies' concerns and actions when it comes to climate change and environmental sustainability. Ninety seven percent said their companies had been negatively affected by climate change, including about half who saw impacts on operations such as disruptions to business models and supply networks. They also reported feeling pressure to act on sustainability concerns from a variety of stakeholders, such as regulators, shareholders, consumers, and employees.

The sustainability advocacy organization Ceres has urged corporate boards to oversee systematically and explicitly "environmental, social and governance (ESG) risks in order to keep their businesses resilient in the face of growing global climate and water crises." The work of all organizations on sustainability issues, especially those with strong board investment and oversight, will be easier for investors and others to evaluate under the SEC's proposed rule.

QUESTION 126. *Should we require a registrant to disclose, to the extent material, any use of third-party data when calculating its GHG emissions, regardless of the particular scope of emissions, as proposed? Should we require the disclosure of the use of third-party data only for certain GHG emissions, such as Scope 3 emissions? Should we require the disclosure of the use of third-party data for Scope 3 emissions, regardless of its materiality to the determination of those emissions? If a registrant discloses the use of third-party data, should it also be required to identify the source of such data and the process the registrant undertook to obtain and assess the data, as proposed?*

IIA Response. Introducing third-party data introduces potential risk as well as the potential for unreliable and unverifiable data. If a registrant discloses the use of third-party data, it should be required to identify the source of such data, the process the registrant undertook to obtain and assess the data, and how the data was validated. Having processes in place does not mean those processes are being followed. Assurance over the processes and the data should be required, regardless of the scope of the emissions. Internal auditors, through a combination of monitoring, testing, inspection, evaluation, and review, undertake assurance engagements and provide validated findings and recommendations.

QUESTION 154. *Should we require the attestation engagement and related attestation report to be provided pursuant to standards that are publicly available at no cost and are established by a body or group that has followed due process procedures, including the broad distribution of the framework for public comment, as proposed? Is the requirement of ''due process procedures, including the broad distribution of the framework for public comment'' sufficiently clear? Would the attestation standards of the PCAOB, AICPA, and IAASB meet this due process requirement? Are there other standards currently used in the voluntary climate-related assurance market or otherwise in development that would meet the due process and publicly availability requirements? For example, would verification standards commonly used by non-accountants currently, such as ISO 14064–3 and the AccountAbility's AA1000 Series of Standards, meet the proposed requirements? Are there standards currently used in the voluntary climate related assurance market or otherwise under development that would be appropriate for use under the Commission's climate-related disclosure rules although they may not strictly meet the proposed public comment requirement? If so, please explain whether those standards have other characteristics that would serve to protect investors?*

IIA Response. We recommend inclusion of The IIA's *International Standards for the Professional Practice of Internal Auditing* in answer to this question about "other standards currently used in the voluntary climate-related assurance market or otherwise in development that would meet the due process and publicly availability requirements." Internal audit's focus is risk and uncertainty, and it is well-positioned to provide assurance on climate change or ESG compliance programs. Internal controls help manage risk and reduce uncertainty beyond what is expected for financial reporting.

Internal auditors in conformance with the *Standards* are essential to the governance of climate-related disclosures. Companies that publish climate-related disclosures should acknowledge to investors and stakeholders whether they have an internal audit function that is sufficiently independent from management, which is essential to compliance with the *Standards*. This would contribute to confidence in the markets. As the establishment of effective internal audit practices has been included in a number of SEC enforcement decisions, a more proactive approach is warranted.

QUESTION 161. *Should we require the registrant to disclose whether the attestation provider has a license from any licensing or accreditation body to provide assurance, and if so, the identity of the licensing or accreditation body, and whether the attestation provider is a member in good standing of that licensing or accreditation body, as proposed? In lieu of disclosure, should we require a GHG emissions attestation provider to be licensed to provide assurance by specified licensing or accreditation bodies? If so, which licensing or accreditation bodies should we specify?*

IIA Response. It is important to be clear about the need for assurance, not just attestation. Attestation provides some reliability of reported information, while the internal audit function provides assurance to the board over the design and effectiveness of internal controls over many types of risks, including ESG-related risks. Internal audit's expertise and experience regarding controls over financial reporting will readily transfer to internal controls over sustainability reporting. And internal audit performs services that can be relied upon by the external auditor, thus reducing costs.

We recommend that SEC registrants be required to explain the ways in which they engage the internal audit function in attestation engagements, and if not, why not.