June 12, 2020

Accountancy Europe
Avenue d'Auderghem, 22-28/8
B-1040 Brussels
Belgium

Re: Cogito Paper – Interconnected Standard Setting for Corporate Reporting

Dear Sir/Madam:

The Center for Audit Quality (CAQ) is a U.S. autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by U.S. public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA). This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ is pleased to share our perspectives on Accountancy Europe's Cogito paper referenced above (the Paper).[1]

In December 2019, the CAQ released *The Role of the Auditors in Company Prepared Information: Present and Future*. This publication provides a foundational understanding of the current role of auditors in various types of company-prepared and publicly disclosed information, and how auditors are positioned to help fill existing gaps in enhancing the reliability of decision-useful information.

One of these areas is ESG reporting. Over the past year, the focus on ESG reporting as a way for U.S. public companies to communicate business risks and opportunities has rapidly

[1] For purposes of our comment letter, we refer to "ESG" reporting, as compared to "non-financial" reporting, the term that is used in the Paper. While there can be inconsistencies in how the term is used in the U.S., ESG generally refers to the three central risks that can influence long-term financial performance of companies in this area: environmental (including climate risk), social and governance.

translated into growing investor, policymaker, regulator and corporate interest in this type of enhanced corporate reporting.[2] This has been driven by, among other things:

- The rise of corporate purpose[3] and a focus on long-term value, including intangible assets such as human capital and corporate brand and reputation, for all stakeholders, including investors, employees, customers and others;
- Investor demand to understand a company's ESG profile – from both an operational and strategic perspective – in making capital allocation decisions; and
- U.S. public company Board of Director (Board) and management interest in identifying strategies to drive differentiation, cost efficiencies, and resilience.

The current COVID-19 pandemic has furthered heightened interest in this company-reported information.

Despite this, one of the biggest challenges that we hear from investors, companies and Board members in assessing a company's ESG risks is the lack of broadly adopted ESG reporting standards. While the building blocks of reliable, comparable and relevant ESG information begin with a foundation of quality reporting by company management, the challenge for companies to determine what types of ESG information to report, and how to communicate relevant information to stakeholders in a landscape of multiple frameworks and standards, is real.

A globally accepted system built from existing standards and frameworks that can be adapted to the market needs in different jurisdictions could help support companies in presenting ESG information that is comparable.

Moreover, because ESG information is increasingly used by the capital markets, the information needs to be credible and well supported, so that when questions are asked, there are good answers about the quality of the process for accumulating and reporting the information, the oversight of the reporting, and the ability of the information to withstand outside challenges. Put another way, the information needs to be reliable. In our public interest role, U.S. public company auditors play a role in the flow of reliable information for decision-making. Like the audits of financial statements and internal control over financial reporting, third-party assurance from a public company audit firm enhances the reliability of ESG information presented by companies to investors and other stakeholders.

[2] See, e.g., World Economic Forum, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter, https://www.ssga.com/us/en/individual/etfs/insights/informing-better-decisions-with-esg, and https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-of-the-investor-as-owner-subcommittee-on-esg-disclosure.pdf.

[3] See announcement from the U.S. Business Roundtable.

We appreciate the opportunity to comment on the Paper. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Julie Bell Lindsay (jbelllindsay@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,

Julie Bell Lindsay

Julie Bell Lindsay
Executive Director
Center for Audit Quality