

August 23, 2021

Via Electronic Mail

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F St, NE
Washington, DC 20529-1090

Re: Climate Change Disclosures

Dear Chair Gensler:

On behalf of The Institute of Internal Auditors (IIA), I am writing to thank you for your work on the Commission's efforts to address climate change disclosure. We commend you for tackling an issue of vital importance not only to the investor community but to all of our fellow citizens.

As you mentioned in recent remarks, any disclosure needs to be consistent and comparable. Although disclosure of climate risk factors and impact has grown, such voluntary reporting has resulted in a lack of uniformity and consistency, preventing comparative assessments and accurate assurance. A standard system of climate disclosure requirements would provide an opportunity for companies and investors to adequately compare actions and allow for more informed business decisions that consider ESG impacts, or as you say, "decision-useful."

I also appreciate your seeking reliance on quantitative as well as qualitative data. Similar to financial reporting, the data used to create sustainability reports are based on the day-to-day operations and decisions driving organizations toward achieving objectives. However, to be truly valuable and reliable, the climate information required by the SEC must be trustworthy, and as such we recommend that data assurance be part of any new disclosure requirements. Proper control activities must be designed and operating effectively — from the operational steps through the collection and analysis of the data that will be used in reporting. Material data should be high-quality data that is timely, complete and accurate.

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While operationalizing sufficient control activities is the responsibility of management, internal audit is necessary to provide objective assurance, independent from management, that established control activities are properly designed and operating effectively, thus providing confidence and trust to stakeholders. Internal audit assures trust in this data as it is situated within the organization and provides confidence in the reliability of data when shared externally.

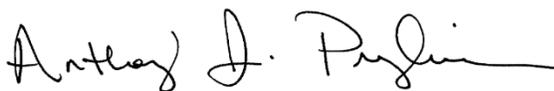
As an objective advisor, internal audit is best positioned to provide assurance over climate change or ESG compliance programs. Internal controls over non-financial reporting help mitigate risk and reduce uncertainty. In fact, The IIA's [International Professional Practices Framework](#) requires internal audit to identify risk disclosures and controls to non-financial reporting.

Proper climate change reporting also demands effective governance. The widely accepted [Three Lines Model](#), updated and published by The IIA in 2020, articulates the core components of effective governance, emphasizing the need for clear roles and responsibilities toward confronting applicable risks, and the crucial importance of effective coordination, communication, and collaboration. Within an effective governance structure, internal audit that is well resourced and positioned ensures integrity, trust, transparency, compliance, and accountability. Internal audit is best situated to offer value both internally to management and also to the Board of Directors.

Because of its holistic view and understanding of risks across an organization, internal audit provides informed assurance on effective governance structures and systems of internal controls that, in turn, ensures complete, accurate, and reliable information around climate change disclosures as well as any future disclosures the Commission may consider. Listed companies that publish climate-related disclosures should acknowledge to shareholders whether they have an internal audit function that is sufficiently independent from management and whether internal audit has audited the disclosures. This would contribute to confidence in the markets.

Thank you for your continued support of our country during this challenging time. If you have any questions regarding this issue, please contact me or Brad Jones, The IIA's Director of Government Relations, at brad.jones@theiia.org or 202-434-9230.

Sincerely,



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