



August 12, 2024

Financial Accounting Standards Board  
801 Main Avenue  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**Subject: Politicization of GAAP**

State treasurers and auditors have responsibilities related to the prudent investment of our states’ funds, including public retirement funds, and therefore have a strong interest in accurate and reliable financial reporting by companies in which public monies are invested. State auditors and treasurers also have involvement in state-level auditing standards and recognize the value of uniform standards throughout the United States. However, uniform standards are appropriate only if they are based on sound fiscal principles such as financial materiality.

FASB should not politicize GAAP by adding sustainability or greenhouse gas (GHG) emissions reporting standards.<sup>1</sup> Requiring specific climate-reporting rules is inconsistent with core GAAP principles, and their inclusion in GAAP would be harmful for multiple reasons. First, they are inconsistent with the principle of materiality. According to the Biden Administration’s own calculations, physical risk is not material to commercial or residential real estate for approximately 99% of loans, and transition risk is not material for 98% of corporate loans.<sup>2</sup> For the small percentage of loans for which it is material, the general principles of materiality would already require reporting this information. Adding prescriptive sustainability and GHG rules that apply far more broadly is also inconsistent with the core GAAP principles of sincerity (because they promote

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<sup>1</sup> See FASB, *Objectives of Research Projects* (select “Agenda Consultation”), <https://fasb.org/projects/current-projects/objective-research#section418737>; FASB, *Tentative Board Decisions* (May 8, 2024), [https://fasb.org/page/PageContent?pageId=/news\\_and\\_meetings/past-meetings/05-08-24.html&bcpath=tff](https://fasb.org/page/PageContent?pageId=/news_and_meetings/past-meetings/05-08-24.html&bcpath=tff).

<sup>2</sup> The percentage of commercial and residential real estate loans impacted by physical risk with a greater than 500 basis points change in probability of default was only 0.1-1.4% for a “common” shock. Board of Governors of Federal Reserve System, *Pilot Climate Scenario Analysis Exercise: Summary of Participants’ Risk-Management Practices and Estimates* at 24 & Table 8 (May 2024), <https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf>. For the majority of corporate loans, there was only a 50-basis-point (0.5%) or less transition risk, and only 2% of loans had a transition risk impact of over 500 basis points. *Id.* at 32-33 & Fig. 11.

a partisan agenda to achieve the goals of the Paris Agreement) and prudence (because they call for speculation about the existence and impact of possible future climate-related laws and regulations). Finally, FASB should not repeat what it did in 2021 and add any topic relating to such ESG-reporting standards to its forthcoming 2024 agenda consultation.<sup>3</sup>

If FASB incorporates the climate-disclosure rules that are actively being researched as part of FASB's "climate related financial reporting project" into GAAP, it will have politicized its standard-setting process, companies will incur substantial expenses without any corresponding financial benefit to investors, and significant litigation will likely ensue. The only part of our government that has authority to require these rules is Congress, and it has wisely chosen not to do so. FASB should not act unilaterally in this area.

## **I. The SEC's Climate-Disclosure Rules, the TCFD Framework, and the ISSB Standards Are Not Appropriate Financial Reporting Standards for GAAP**

This section outlines three different emissions disclosures schemes that purport to be about financial reporting but in reality are about commandeering the financial system to advance a substantive climate agenda that has not been democratically approved in the United States. The elements of these schemes should not be incorporated into GAAP or included in the upcoming agenda consultation.

### **A. SEC Climate Disclosure Rule**

On March 28, 2024, the SEC published its climate disclosure rule, requiring registrants to provide specific climate disclosures in their registration statements and annual reports.<sup>4</sup> The Rule is particularly problematic because SEC rules already require companies to report material information to investors, and these new rules singled out climate-related disclosures for separate treatment at the behest of environmental activists and the Biden Administration's whole-of-government climate agenda.<sup>5</sup> Shortly after the rules were adopted, multiple parties sued to challenge the rules in federal court.<sup>6</sup> On April 4, 2024, the SEC stayed its new rules pending the resolution of the lawsuits.<sup>7</sup>

The SEC's new rules require registrants to make the following disclosures (among others):

- a description of any climate-related risks that have materially impacted or are reasonably likely to have a material impact on the registrant, including on its strategy, results of

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<sup>3</sup> See 2021 Agenda Consultation at p. 10, <https://www.ifrs.org/content/dam/ifrs/meetings/2022/september/fasb-iasb/ap-24b-2021-fasb-agenda-consultation-report.pdf>.

<sup>4</sup> The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed. Reg. 21668 (Mar. 28, 2024); see also SEC, *SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors* (Mar. 6, 2024), <https://www.sec.gov/news/press-release/2024-31>.

<sup>5</sup> The White House, *Fact Sheet* (Jan. 27, 2021), <https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/27/fact-sheet-president-biden-takes-executive-actions-to-tackle-the-climate-crisis-at-home-and-abroad-create-jobs-and-restore-scientific-integrity-across-federal-government/>.

<sup>6</sup> See *In re Matter of the Enhancement and Standardization of Climate-Related Disclosures for Investors*, No. S7-10-22 (Apr. 4, 2024), <https://www.sec.gov/files/rules/other/2024/33-11280.pdf>.

<sup>7</sup> *In re Matter of the Enhancement and Standardization of Climate-Related Disclosures for Investors*.

operations, and financial condition, as well as the actual or potential material impacts of those risks;

- disclosure regarding a registrant’s activities to mitigate or adapt to a material climate-related risk, including the use of transition plans, scenario analyses, or internal carbon prices;
- disclosure about any oversight of climate-related risks by the registrant’s board of directors, and any role by management in assessing and managing material climate-related risks;
- a description of any processes that the registrant uses to assess or manage material climate-related risks;
- disclosure of any targets or goals that have materially affected or are reasonably likely to materially affect the registrant’s business, results of operations, or financial condition;
- disclosure of Scope 1 and Scope 2 emissions “on a phased-in basis by certain larger registrants when those emissions are material,” and the filing of an “attestation report covering the required disclosure of such registrants’ Scope 1 and/or Scope 2 emissions, also on a phased-in basis”; and
- disclosure of the “financial statement effects of severe weather events and other natural conditions including . . . costs and losses.”<sup>8</sup>

As discussed further below, these rules are dressed up to look like financial reporting rules but really are just a tool for pressure by environmental activists. In the context of a different Biden Administration SEC policy change, a U.S. District Court recognized, “[w]hile [proponents] argue [shareholder resolutions related to climate] create shareholder value, that’s really beside the point: both Defendants are primarily driven by the fight against anthropogenic climate change. While not illegal, this approach is vexing for corporations and is aided by what Exxon calls ‘a flawed shareholder proposal and proxy voting process.’” *Exxon Mobil Corp. v. Arjuna Cap., LLC*, No. 4:24-CV-00069-P, 2024 WL 2331803, at \*1 (N.D. Tex. May 22, 2024). The same holds true for the climate-specific financial reporting rules.

## **B. TCFD and ISSB Reporting Standards**

FASB should likewise reject incorporating international standards into GAAP, such as those developed by the Task Force on Climate-Related Financial Disclosure (TCFD) or the International Sustainability Standards Board (ISSB). “In 2017 the TCFD issued a ‘Final Report’ detailing 11 voluntary recommendations, known as the TCFD framework,” across the categories of governance, strategy, risk management, and metrics and targets.<sup>9</sup> The TCFD identifies “core elements of recommended climate-related financial disclosures,” with the most central being “metrics and targets.”<sup>10</sup> And in 2021 it “updated the guidance for all sectors and now asks

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<sup>8</sup> SEC Fact Sheet, *The Enhancement and Standardization of Climate-Related Disclosures: Final Rules*, <https://www.sec.gov/files/33-11275-fact-sheet.pdf>.

<sup>9</sup> See IBM, *What is the TCFD*, <https://www.ibm.com/topics/tcfid>.

<sup>10</sup> TCFD, *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures* at v (June 2017), <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>.

organizations to disclose their GHG emissions *independent of a materiality assessment*.”<sup>11</sup> The TCFD’s 11 recommendations for disclosure still include “the targets used by the [reporting entity] to manage climate-related risks and opportunities and performance against targets.”<sup>12</sup> In other words, these undemocratic standards have as a central purpose imposing targets on companies *regardless of materiality to that company*. “While the TCFD recommendations may have started as voluntary disclosure guidelines, they are rapidly becoming part of the mandatory regulatory framework in many jurisdictions . . .”<sup>13</sup> This rapid adoption stems from an intentional subversion of the prudence principle. It is dishonest for regulators to warn of impending fires, while holding a match behind their backs. But that is precisely what happens when regulators hypothesize about impending climate laws and regulations while concurrently scrambling to implement the very framework described. FASB should maintain its integrity and resist the attempt to make TCFD recommendations “part of the mandatory regulatory framework” in the United States.

Another international organization, the ISSB, was established by the IFRS Foundation in 2021 at COP26 in Glasgow.<sup>14</sup> ISSB’s purpose is to build on the work of TCFD and similar efforts.<sup>15</sup> In June 2023, the ISSB issued its inaugural standards, IFRS S1 and IFRS S2, which are designed to govern sustainability-related disclosures in capital markets worldwide.<sup>16</sup> “IFRS S1 provides a set of overarching disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term.”<sup>17</sup> Although IFRS tries to portray these standards as being about financial reporting, it uses several vague terms that require disclosure far beyond the traditional materiality standard, including where information “could reasonably be expected to affect a company’s . . . access to finance or cost of capital over the short, medium or long term” or “could reasonably be expected

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<sup>11</sup> TCFD, *Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures* at 4 (Oct. 2021), [https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf) (emphasis added).

<sup>12</sup> TCFD, *Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures* at 15.

<sup>13</sup> IBM, *What is the TCFD*.

<sup>14</sup> <https://www.ifrs.org/groups/international-sustainability-standards-board/>. In addition to the ISSB reporting requirements, the Science Based Targets Initiative (SBTi) launched its net zero emissions targets in 2021. <https://sciencebasedtargets.org/about-us>. The role of SBTi is to provide “targets to be used together with . . . TCFD-aligned reporting frameworks.” See SBTi Financial Sector and TCFD Reporting Guidance at 8, <https://sciencebasedtargets.org/resources/files/SBTi-TCFD-reporting-guidance.pdf>.

<sup>15</sup> <https://www.ifrs.org/groups/international-sustainability-standards-board/>. All of the points in this letter regarding TCFD and ISSB standards apply with equal force to the “multi-stakeholder standards” that are created by GRI, which is also pictured in the chart later in this letter. These groups have agreed to expressly coordinate to impose “two ‘pillars’ of international sustainability reporting—a first pillar representing investor-focused capital market standards of IFRS Sustainability Disclosure Standards developed by the ISSB, and a second pillar of GRI sustainability reporting requirements set by the GSSB, compatible with the first, designed to meet multi-stakeholder needs.” IFRS, *IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures* (Mar. 22, 2022), <https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/>; see also *Transcript of IFRS S1 Deep-dive Webinar* at 2 (July 12, 2023) (“[T]he GRI Standards . . . are focused on broader stakeholder needs. . .”), <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s1/s1-deep-dive-webinar-presentation-transcript.pdf>.

<sup>16</sup> IFRS, *ISSB issues inaugural global sustainability disclosure standards* (26 June 2023), <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/>

<sup>17</sup> IFRS, *ISSB issues inaugural global sustainability disclosure standards* (June 26, 2023), <https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s1/an-in-depth-explainer-ifrs-s1/>

to affect a company’s prospects.”<sup>18</sup> With respect to the closely-related IFRS S2 standard, “the ISSB is asking a company ... to identify and provide information about climate-related risks and opportunities that are really important to understanding the prospects of that company’s business in the future[ and] how it is going to perform from a business perspective.”<sup>19</sup>

These are extremely malleable, self-fulfilling, and dangerous standards. This is because other international organizations, including the Net-Zero Banking Alliance (NZBA), have commitments that foreseeably *increase* the cost of capital for companies that don’t comply with sectoral targets established to achieve the Paris Agreement. The NZBA commitment expressly states that its members “commit to[] transition all operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net-zero by mid-century, or sooner ... consistent with a maximum temperature rise of 1.5°C.”<sup>20</sup> As a result, any company that does not comply with sectoral targets aligned with 1.5°C is at risk of having its lending cut off by NZBA members. Therefore information about the company’s compliance with these unrealistic and undemocratic emissions targets falls within the S1 definition of something that “could reasonably be expected to affect a company’s ... access to finance or cost of capital over the short, medium or long term.” This is not a financial reporting standard, but rather a pressure mechanism to impose the UN’s environmental objectives. And while IFRS tries to pretend that it is just applying traditional “materiality” notions, it admits that “[o]ne of the very important pieces of feedback the ISSB received consistently in the 1,400 comment letters to our proposals last year was that ... this is such a big change in reporting for many companies.”<sup>21</sup>

The below chart shows that it is the UN and other groups’ plan to use country-specific regulators to impose ISSB’s reporting standards (see IFRS in the below chart) and sector-specific targets developed by SBTi on “report preparers and users” to achieve “international and domestic policy goals,” including the Paris Agreement’s goal of “2°C/1.5°C targets.”<sup>22</sup>

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<sup>18</sup> *Transcript of IFRS S1 Deep-dive Webinar* at 4.

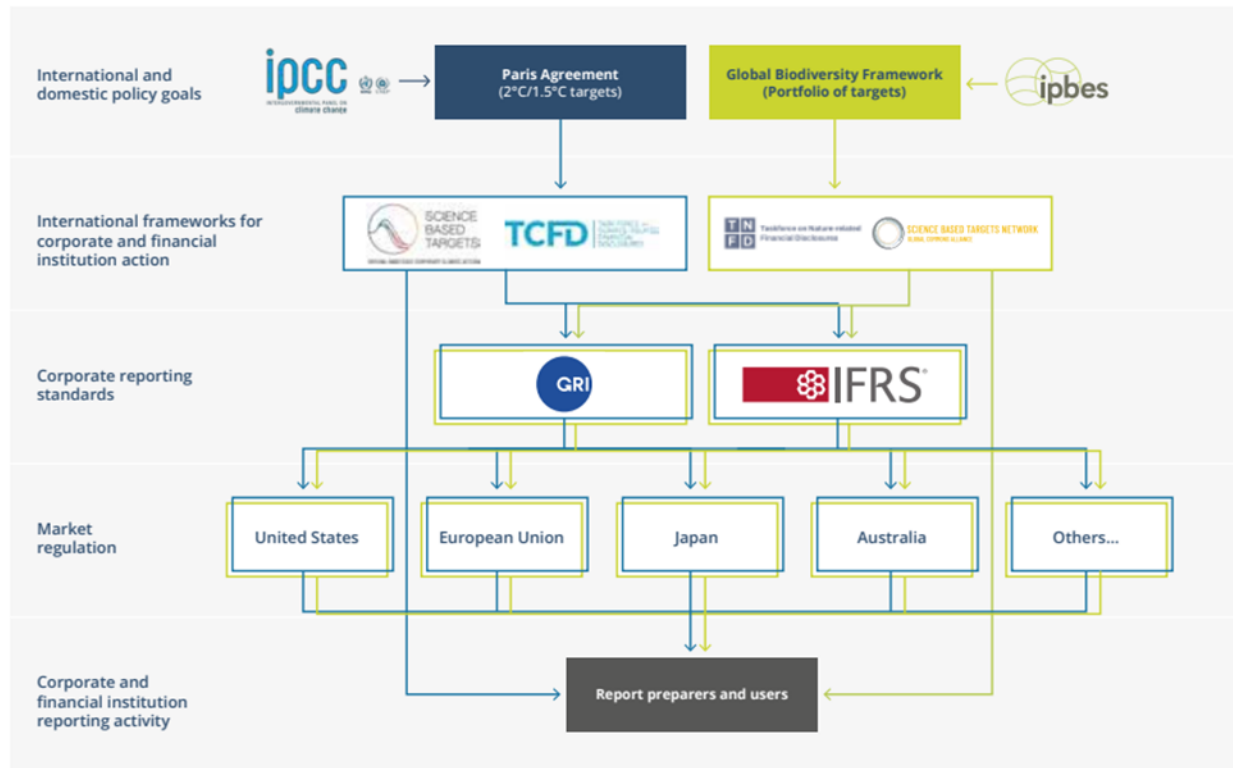
<sup>19</sup> *Transcript of IFRS S2 Deep-dive Webinar* at 2 (July 18 2023), <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/s2-deep-dive-webinar-presentation-transcript.pdf>.

<sup>20</sup> NZBA, *Commitment Statement*, <https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-NZBA-Commitment-Statement.pdf>.

<sup>21</sup> *Transcript of IFRS S1 Deep-dive Webinar* at 8.

<sup>22</sup> *Recommendations of the Taskforce on Nature-related Financial Disclosures* at 20, [https://tnfd.global/wp-content/uploads/2023/08/Recommendations\\_of\\_the\\_Taskforce\\_on\\_Nature-related\\_Financial\\_Disclosures\\_September\\_2023.pdf?v=1695118661](https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661).

Figure 6: Where TNFD fits in the emerging reporting architecture



Commissioner Peirce summed up this trend in her *Audit Regulators and Cliff Hangers* speech in 2022: “Steps taken by the international community serve as a cautionary tale. The recent creation of the International Sustainability Standards Board under the same umbrella organization as the International Accounting Standards Board [see IFRS in the above chart] marries non-financial and financial standard setting in a way that is sure to water down the latter by tainting it with the imprecision of the former.”<sup>23</sup>

## II. Climate-disclosure rules conflict with core GAAP principles

The SEC’s climate-disclosure rules and similar such rules by international bodies are inconsistent with the core GAAP principles of materiality, sincerity, and prudence, which are discussed below. If FASB were to incorporate any of these rules into its accounting standards, it would tarnish its reputation as an independent organization that sets politically-neutral accounting standards based on well-established and generally-accepted principles.

### A. Materiality

In *TSC Industries Inc. v. Northway, Inc.*, the United States Supreme Court defined “materiality” as follows: “an omitted fact is material if there is a substantial likelihood that a

<sup>23</sup> Hester Peirce, *Audit Regulators and Cliff Hangers*, <https://www.sec.gov/news/speech/peirce-audit-regulators-cliff-hangers-20220215>.

reasonable shareholder would consider it important in deciding how to vote.”<sup>24</sup> Put another way, “there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”<sup>25</sup> The GAAP definition of “materiality” tracks the Supreme Court’s definition in *TSC Industries*: “Materiality is an accounting principle which states that all items that are reasonably likely to impact investors’ decision-making must be recorded or reported in detail in a business’s financial statements using GAAP standards.”<sup>26</sup>

The climate-disclosure rules are inconsistent with these well-established principles of materiality. The rules are not limited to financially material repercussions that a company will incur if it fails to comply with current environmental laws. Instead, the rules appear to be designed to influence companies to change their behavior in alignment with non-binding international agreements that seek to reduce greenhouse gas emissions. In this way, the rules attempt to bypass the democratic process by effectively codifying disputed environmental policies without Congressional approval. The rules also appear to incorporate, at least in substance, novel concepts like “double materiality”<sup>27</sup> and “dynamic materiality,”<sup>28</sup> which are incompatible with the traditional concept of materiality under established GAAP standards.<sup>29</sup> This is especially apparent in light of the rules’ requirements regarding Scope 1 and Scope 2 emissions, which may have an external impact on the environment but have no direct impact on a company’s financial condition.

Unlike traditional disclosures that meet the established GAAP standard of materiality, the SEC’s and ISSB’s climate-disclosure rules impose reporting requirements that go well beyond what many companies are presently doing. They treat climate risk differently from other topics without justification, and they set an extremely low quantitative threshold for costs.<sup>30</sup>

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<sup>24</sup> 426 U.S. 438, 449 (1976).

<sup>25</sup> *TSC Industries*, 426 U.S. at 449; *see also In re Matter of the Enhancement and Standardization of Climate-Related Disclosures for Investors* (emphasis added) (SEC acknowledging its “long-standing authority to require the disclosure of information important to investors in making investment and voting decisions”).

<sup>26</sup> Harvard Business School Online, What is Materiality in Accounting and Why is it Important? (Jan. 5, 2016), <https://online.hbs.edu/blog/post/what-is-materiality>.

<sup>27</sup> “Double materiality requires analysis of both inbound and outbound sustainability impacts.” Deloitte, *Applying The Double Materiality Principle* (Feb. 6, 2024), <https://www2.deloitte.com/us/en/events/financial-executives-dbriefs-webcasts/2024/applying-double-materiality-principle.html>; *see also* Maggie Pahl, *The Meaning of Materiality in the Context of Climate Change* (Nov. 20, 2023),

[https://www.americanbar.org/groups/environment\\_energy\\_resources/publications/ed/the-meaning-of-materiality-in-the-context-of-climate-change/](https://www.americanbar.org/groups/environment_energy_resources/publications/ed/the-meaning-of-materiality-in-the-context-of-climate-change/) (“In the context of climate change, double materiality is conceptualized as a two-way street. Companies are directed to report on material matters both from an impact perspective (how the company impacts the climate) and a financial perspective (how the climate impacts the company).”).

<sup>28</sup> “Dynamic materiality” accounts for “sustainability topics,” including “matters that reflect [an] organization’s significant impacts on the economy, environment and people.” *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* (Sept. 2020),

[https://www.wlrk.com/docs/Statement\\_of\\_Intent\\_to\\_Work\\_Together\\_Towards\\_Comprehensive\\_Corporate\\_Reportin\\_g.pdf](https://www.wlrk.com/docs/Statement_of_Intent_to_Work_Together_Towards_Comprehensive_Corporate_Reportin_g.pdf) at 5.

<sup>29</sup> *See* page 4, *supra* (discussing the malleability of the materiality standard in practice for these climate disclosure rules).

<sup>30</sup> *See, e.g.,* Comm’r Hester Peirce, *Green Regs and Spam: Statement on the Enhancement and Standardization of Climate-Related Disclosures for Investors* (hereinafter, *Green Regs and Spam*) (Mar. 6, 2024), <https://www.sec.gov/news/statement/peirce-statement-mandatory-climate-risk-disclosures-030624> (noting the “absurdly low . . . thresholds for disclosing how severe weather events and other natural conditions affect a company’s

## ***B. Sincerity***

The climate-disclosure rules are also inconsistent with the core GAAP principle of sincerity, which is that the entity's accounting is an accurate and correct depiction of the financials.<sup>31</sup> The rules are inherently biased and are designed to achieve the policy goals of the Paris Agreement rather than to inform reasonable investors about materially financial facts. As stated previously, the SEC's climate-disclosure rules are based on the framework of TCFD, which was itself established by the Financial Stability Board ("FSB").<sup>32</sup> Far from being neutral, the former chairs of both the TCFD and the FSB (Michael Bloomberg and Mark Carney, respectively) openly used their influence to push an agenda to achieve net zero by 2050 in line with the Paris Agreement outside of the democratic process. For example, in September 2022, both Bloomberg and Carney penned a public statement advocating for "no new coal," and promoting the elimination of financing for new coal projects.<sup>33</sup> These two also served as chairs of GFANZ, which is an umbrella organization established that includes the NZBA and other horizontal associations of entities in the financial industry.<sup>34</sup>

Along the same lines, the TCFD's sister organization published a report acknowledging that the TCFD is closely tied to the "[i]nternational and domestic policy goals" of the "Paris Agreement (2°C/1.5°C targets)."<sup>35</sup> It's no secret that the development and use of climate-related reporting has been closely tied to the Paris Agreement for years. To take just one example: in 2019, a group of institutional investors with \$34 trillion in assets urged world-government leaders to "[a]chieve the Paris Agreement's goals" and to "[c]ommit to implement the TCFD recommendations in their jurisdictions."<sup>36</sup>

## ***C. Prudence***

Under the core GAAP principle of prudence, formally reported data must free of speculation.<sup>37</sup> The climate-disclosure rules are inconsistent with this principle because they require

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financial statements," and explaining that "[t]he threshold is only \$100,000 for expenditures expensed as incurred and losses in the income statement and \$500,000 for capitalized costs and charges recognized on the balance sheet").

<sup>31</sup> U.S. Department of Justice, Office of Justice Programs, *Generally Accepted Accounting Principles (GAAP) Guide Sheet*, [https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/GAAP\\_Guide\\_Sheet\\_508.pdf](https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/GAAP_Guide_Sheet_508.pdf)

<sup>32</sup> See TCFD, *About*, <https://www.fsb-tcfid.org/about/>; see also 80 Fed. Reg. 21673 (Mar. 28, 2024) (emphasis added) (noting that the SEC's climate-disclosure rules incorporate "substantive requirements that are similar to those in the [TCFD]").

<sup>33</sup> Statement on "No New Coal" from Michael R. Bloomberg, Mark Carney and Mary Schapiro, Glasgow Financial Alliance for Net Zero (Sept. 14, 2022).

<sup>34</sup> GFANZ, *Press Announcement*, <https://www.bloomberg.com/company/press/un-special-envoy-for-climate-ambition-and-solutions-michael-r-bloomberg-joins-un-special-envoy-on-climate-action-and-finance-mark-carney-as-co-chair-for-gfanz/>.

<sup>35</sup> See Recommendations of the Taskforce on Nature-Related Financial Disclosures (Sept. 2023), [https://tnfd.global/wp-content/uploads/2023/08/Recommendations\\_of\\_the\\_Taskforce\\_on\\_Nature-related\\_Financial\\_Disclosures\\_September\\_2023.pdf?v=1695118661/](https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661/) at 9.

<sup>36</sup> Investors with \$34 Trillion Urge Policies for Paris 1.5°C Goal (June 26, 2019), United Nations Climate Change, <https://unfccc.int/news/investors-with-34-trillion-urge-policies-for-paris-15degc-goal>.

<sup>37</sup> Thomson Reuters Tax & Accounting, *Understanding GAAP rules*, <https://tax.thomsonreuters.com/blog/understanding-gaap-rules/>.



significant speculation about future events, including speculation about future environmental laws or regulations that could be imposed in the United States.

As one legal commentator has explained, the SEC’s climate-disclosure rules are fraught with multiple layers of guesswork.<sup>38</sup> The commenter first noted that the rationale for emissions disclosures differs from typical required disclosures. This is because GHG emissions do not have an immediate impact on a company, so the SEC justifies disclosure by considering potential government, regulatory, or consumer actions. “The SEC’s justification for the disclosure is that governments, regulators, or consumers *might* take action against GHG emissions that *might* cause a negative financial effect at the company that *might* be significant to a reasonable investor. The reliance on this series of possibilities is on top of the reliance on the uncertain and imprecise methods for calculating GHG emissions.”<sup>39</sup> The same is true for the ISSB standards. And the doubly-speculative reliance on hypothetical scenarios resulting from imprecise emission calculations creates a speculative link between disclosure and material financial effects. FASB should not import the same speculation into GAAP because it would seriously undermine the integrity of GAAP as a financial accounting system rather than a political beliefs implementation system.

### III. Costs and risk of litigation to companies and to FASB

Aside from being incompatible with GAAP’s core principles, the incorporation of climate-disclosure rules into GAAP would also impose substantial expenses on companies without providing a corresponding financial benefit to investors. As SEC Commissioner Hester Peirce has explained, such rules will require companies to establish “elaborate internal control systems and ... procedures to capture and distill information related to physical and transition risks, severe weather events, severe natural conditions, and [GHG] emissions.”<sup>40</sup> To meet these requirements, companies will be forced to “hire third-party climate consultants, assurance providers, internal and external counsel, and information technology professionals; face legal liability through Commission actions and the inevitable flood of class actions for their mandated filed disclosures; and bear the indirect costs of lost management time, board distraction, and disruptive changes in company operations.”<sup>41</sup> Thus, if FASB were to impose the SEC’s climate-disclosure standards or similar international rules, companies would face significant compliance costs and likely would also face lawsuits from investors related to such standards.

Moreover, if the SEC were to approve any such FASB standards, then investors would likely challenge that approval under the Administrative Procedure Act.<sup>42</sup> Neither FASB nor the SEC were established as environmental regulators, and Congress did not confer such authority on these entities.<sup>43</sup> Significant and resource-intensive litigation will therefore inevitably result from

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<sup>38</sup> Andrew Vollmer, Public Interest Comment, *The SEC Lacks Legal Authority to Adopt Climate-Change Disclosure Rules* (footnote omitted), <https://www.sec.gov/comments/s7-10-22/s71022-20123525-279742.pdf> at 16; see also *Green Regs and Spam* (quoting from the preceding comment by Andrew Vollmer and noting that “many climate disclosures are high-priced guesses about the present and future”).

<sup>39</sup> *Green Regs and Spam*.

<sup>40</sup> *Green Regs and Spam*.

<sup>41</sup> *Green Regs and Spam*.

<sup>42</sup> See, e.g., 5 U.S.C. § 706.

<sup>43</sup> See, e.g., *W. Va. v. EPA*, 597 U.S. 697, 721-24 (2022).

such actions. As noted at the outset of this letter, the SEC had to stay its climate disclosure rules after multiple lawsuits were filed in federal court.<sup>44</sup>

#### IV. Conclusion

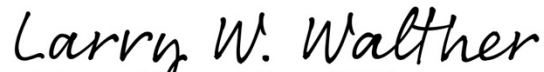
In light of all the foregoing concerns, FASB should avoid setting or modifying any GAAP standards that would incorporate the SEC's climate-disclosure rules or any similar climate-related criteria. Incorporating such rules or criteria would politicize FASB and undermine its role of providing neutral accounting standards based on generally accepted principles. Congress is the only part of our government that has authority to require these rules, and it has wisely chosen not to do so. FASB should not act unilaterally in this area.

Sincerely,

  
Alabama Auditor Andrew Sorrell

  
Alaska Commissioner of Revenue Adam Crum

  
Arizona Treasurer Kimberly Yee

  
Arkansas Treasurer Larry Walther

  
Idaho Treasurer Julie Ellsworth

  
Indiana Comptroller Elise Nieshalla

  
Indiana Treasurer Dan Elliott

  
Iowa Treasurer Roby Smith

  
Kansas Treasurer Steven Johnson

  
Kentucky Auditor Allison Ball

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<sup>44</sup> See *In re Matter of the Enhancement and Standardization of Climate-Related Disclosures for Investors*, No. S7-10-22 (Apr. 4, 2024), <https://www.sec.gov/files/rules/other/2024/33-11280.pdf>.

  
Louisiana Treasurer John Fleming

  
Mississippi Treasurer David McRae

  
Missouri State Auditor Scott Fitzpatrick

  
Nebraska Auditor Mike Foley

  
Nebraska Treasurer Tom Briese

  
Nevada Controller Andy Matthews

  
North Carolina Treasurer Dale Folwell

  
North Dakota Treasurer Thomas Beadle

  
Oklahoma Auditor & Inspector Cindy Byrd

  
Oklahoma Treasurer Todd Russ

  
South Carolina Treasurer Curtis Loftis

  
Texas Comptroller Glenn Hegar

  
Utah Auditor John Dougall

  
Utah Treasurer Marlo Oaks

  
West Virginia Treasurer Riley Moore

  
Wyoming Treasurer Curt Meier