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Accounting Firms' Concerns with the SEC's Proposal to Report Scope 3 Greenhouse Gas Emissions

Julia Ellerbruch
John Carroll University, jellerbruch24@jcu.edu

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Advisor: Dr. Mark Sheldon

Second Reader: Dr. Albert Nagy

I. INTRODUCTION

A proposed rule from the Securities and Exchange Commission (SEC), *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (herein, the "Proposed Rule"), would require registrants to provide certain climate-related information in their financial statements and annual reports (SEC 2022), and could therefore affect their accounting in upcoming years. The Proposed Rule has three main components: information about climate-related financial risks following the Task Force on Climate-Related Financial Disclosures (TCFD), financial statements requirements, and greenhouse gas (GHG) emissions disclosures (SEC 2022). The first component requires registrants to disclose climate-related financial risks per the Task Force on Climate-Related Financial Disclosures. This includes companies sharing their governance structure, the method by which they identify risks, the strategy they use to address the risks they have identified, and then the goals or metrics the company uses to measure progress. The second requirement involves the company writing a footnote to their financial statements about the financial impacts of climate change on their company at the individual line item level. Specifically, a registrant would be required to write a footnote if climate-related risks impact a certain line item by 1% or higher (Wyatt 2023). The final requirement has registrants disclose their Scope 1 and Scope 2 GHG emissions. It requires disclosure of Scope 3 emissions for large publicly traded companies if these emissions are material or if the registrant has defined Scope 3 reduction targets. Reporting on Scope 3 emissions is a controversial component of the Proposed Rule and is the main focus of this study.

II. BACKGROUND AND METHODOLOGY

The Proposed Rule sets sustainability reporting standards for comparability and uniformity purposes, including for GHG emissions. To comply, registrants would need to disclose three scopes of GHG emissions. The Greenhouse Gas Protocol carefully defines the different scopes of greenhouse gas emissions so registrants do not misrecord or include emissions in the incorrect scope. Scope 1 includes direct emissions that are released from sources that are “owned or controlled by the company” (GHG Protocol 2015, p.25). This could be considered what the company “burns” in operations (Rade 2023). Scope 2 includes indirect GHG emissions from purchased electricity (or other power source) that is consumed by the company (GHG Protocol 2015). The emissions from Scope 2 occur where the electricity (or other power source) is generated. Finally, Scope 3 GHG emissions are all other indirect emissions. These emissions occur throughout a registrant’s value chain and typically occur at businesses not owned or controlled by the registrant (GHG Protocol 2015).

Scope 3 GHG emissions are the most difficult to track and report because they require registrants to disclose GHG emissions “in the upstream and downstream activities of a registrant’s value chain” (SEC 2022, p.150) only if material or if the registrant has set a goal or target for overall emissions reductions. Scope 3 gets harder to report because it is more arbitrary and further away from the core business operations. For example, Scope 3 emissions include business travel, purchased goods and services, employee commutes, leased assets, distribution, transportation, and potentially end-of-life disposal of products produced (Rade 2023). Companies and accounting firms question the ability of registrants to be able to record and report Scope 3 GHG emissions in a timely fashion, and how materiality is specifically defined for these GHG emissions. This study will focus on this controversial feature of the Proposed Rule.

The Proposed Rule has set regulations on Scope 3 GHG emissions. The Proposed Rule says that registrants would be required to disclose their Scope 3 GHG emissions “if those emissions are material, or if the registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions” (SEC 2022, p.162). This requirement would allow investors to be able to track the registrant’s progress toward the reduction target or goal. The SEC in the Proposed Rule defines materiality for Scope 3 emissions, which would result in a disclosure, as “if there is a substantial likelihood that a reasonable investor would consider them important when making an investment or voting decision" (SEC 2022, p.162). Materiality could vary between industries, market restraints, and policies companies face. This requires registrants to not only examine quantitative data but also other factors that the registrant should consider when determining the materiality of their Scope 3 GHG emissions. If a registrant does not believe their Scope 3 GHG emissions are material, the Proposed Rule encourages the registrant to provide the basis for that determination as well. Additionally, the SEC proposed to give registrants an additional one-year phase-in period to disclose their Scope 3 GHG emissions. This phase-in period would allow registrants to gather necessary information and measurements. The proposed compliance date, which was written in 2022, for Scope 3 GHG emissions for Large Accelerated Filers would be the fiscal year 2024, and for Accelerated filers and non-accelerated filers would be the fiscal year 2025 (SEC 2022). Lastly, small reporting companies (SRCs) are not required to disclose Scope 3 GHG emissions (SEC 2022). Overall, the SEC believes it is useful for registrants to disclose Scope 3 GHG emissions if material or within a goal, for investors to fully understand the climate-related risks of the registrant. These risks could be considered when making investment decisions.

The SEC allows members of the public to submit comment letters on proposed rulings. All of the submissions are then posted on the SEC's website and are available for the public to read. It is also standard practice for the SEC to consider the public's opinions when finalizing new rules. In response to the Proposed Rule, a variety of stakeholders submitted comment letters. Many of these letters include opinions about Scope 3 GHG emissions reporting, some of which were written by large accounting firms. These accounting firms could provide very useful feedback to the SEC on Scope 3 emissions because they have performed a considerable amount of research in this field, and have deep global experiences. These firms also work with companies daily who may have to record these Scope 3 emissions following a finalized rule in the future. Additionally, CPAs at these firms already assist on environmental, social, and governance (ESG) projects and have knowledge that will be helpful to share with the SEC. Accounting firms have been taking the lead on ESG projects because clients are becoming more interested, investors are demanding sustainability engagements from the companies, and regulatory requirements, such as the SEC's, seem to be inevitable (*Why CPA Firms* 2023). But, on the other hand, accounting firms are hesitant to provide assurance services on ESG topics because of a lack of reporting guidelines and regulations.

This study examines comment letters from the seven largest accounting firms to identify each firm's opinions about Scope 3 GHG emissions reporting. The accounting firms' comment letters that I have chosen to examine are KPMG LLP, Deloitte & Touche LLP, PricewaterhouseCoopers LLP, Ernst & Young LLP, BDO LLP, RSM LLP and Grant Thornton LLP. After examining each of the letters, I will identify insights into what the largest accounting firms are concerned with about Scope 3 GHG emissions regulations if the Proposed Rule passes in its current form.

The seven accounting firms included in this study were chosen based on their size and experience. *Inside Public Accounting*, *Vault,* and *Synder* articles from 2023, all are in agreement that these seven firms are ranked the largest and most prestigious accounting firms in the world (*Most Prestigious Accounting Firms* 2023; Misiuro 2023; *The IPA Top 500 Firms* 2023). There was a lack of consensus among these articles on firm rankings outside the top seven, and therefore those firms were not included in the research. According to *Inside Public Accounting*, these seven firms were the firms with the highest net revenue ranging from Deloitte & Touche LLP with $27.9B in net revenue to Grant Thornton LLP with $2.3B in net revenue. The next closest firm in 2023 was below $2B (*The IPA Top 500* 2023). As such, I proceed by focusing on the comment letters from these seven accounting firms.

Four of the seven accounting firms that were chosen for this study are considered Big-4 firms, and I begin by examining comment letters from those firms. The Big-4 are the four largest accounting firms in the world and provide a wide variety of financial services including audit, tax, advisory and consulting, and even legal advisory. These firms are often considered dominating in the accounting industry and audit more than 80 percent of all US public companies (*What Are the Big Four* 2023). The Big-4 accounting firms include KPMG LLP, Deloitte & Touche LLP, PricewaterhouseCoopers LLP, and Ernst & Young LLP. Then, I examine comment letters from three Mid-Tier accounting firms. The Mid-Tier firms typically have name recognition in the industry by either specializing in a niche or providing the same services as the Big-4 firms on a smaller scale (Wright 2022). These firms can also have a global network and have a great deal of experience, but not quite as big as the Big-4 in size, revenue, and resources. BDO LLP, RSM LLP, and Grant Thornton LLP are the Mid-Tier firms included in this study.

III. ANALYSIS OF COMMENT LETTERS

KPMG LLP

KPMG submitted a comment letter to the SEC that included ideas to keep in the Proposed Rule and suggestions to change the reporting of Scope 3 GHG emissions. In its comment letter, KPMG supports the SEC's Proposed Rule because it will provide investors with more information about companies that are consistent and comparable (KPMG 2022). KPMG also explained its experience with providing assurance over sustainability issues and emission reporting for over two decades, which makes it a valuable source of information (KPMG 2022).

In regards to GHG emissions reporting, KPMG agrees with the work of the Greenhouse Gas Protocol (GHG Protocol), which is the leading framework that companies currently use to report their GHG emissions. The GHG Protocol is creating a wide range of frameworks and methods that have been setting the standards for companies to use for reporting and measuring climate-warming emissions. KPMG suggests that the SEC collaborate with the GHG Protocol before requiring companies that already use the GHG Protocol to change their basis of accounting for GHG emissions.

KPMG acknowledges that reporting emissions is difficult and involves estimations and levels of uncertainty. It is especially difficult with Scope 3 emissions because the company must rely on assumptions about third parties. KPMG is concerned about the Proposed Rule explaining that emission measurements need to be reasonable estimates because this may be misleading or may confuse registrants about the precision needed for these disclosures. KPMG suggests that investors would benefit from a hierarchy of data quality required for each scope. This would communicate the level of uncertainty and the type of data that the company has for this section of reporting. This is a potential example that KPMG created in their comment letter that takes into consideration the GHG Protocol Scope 3 emissions calculation guidance:

- “Level 1: All actual data (actual consumption + actual emissions factor)
- Level 2: Hybrid data (estimated consumption + actual emissions factor or estimated emissions factor + actual consumption)
- Level 3: All estimated data (estimated consumption + estimated emissions factor)” (KPMG 2022, p. 18)

KPMG also considers other aspects of Scope 3 reporting, including that safe harbor provisions should be included in the finalized ruling, but it should be proportional to the characteristics of the data. This is the same case with the period required to report; the period should be proportionate to the amount of data and work that is required of the registrant (KPMG 2022). KPMG also agrees that when disclosing intensity metrics for carbon emissions, Scope 3 should be reported separately from Scopes 1 and 2 (KPMG 2022). Overall, KPMG advocates for the SEC to further align with the GHG Protocol to improve the Proposed Rule.

Deloitte & Touche LLP

Deloitte & Touche LLP (herein, “Deloitte”) also submitted a comment letter in response to the Proposed Rule and made several recommendations about the reporting of Scope 3 GHG emissions. In its comment letter, Deloitte referred to a survey it conducted in 2021 of 300 senior finance, legal, and sustainability leaders about companies' job readiness for requirements in the Proposed Rule. According to this survey, only thirty-one percent of respondents noted they would be prepared to disclose Scope 3 GHG emissions which is compared to fifty-eight percent who said they would be prepared to disclose Scope 1 and forty-seven percent for Scope 2 GHG emissions (Deloitte 2022b, p.8). In its comment letter, Deloitte attributes this unpreparedness mostly to the lack of technology or data issues. According to Figure 1 in Deloitte's comment letter, forty-eight percent of respondents were very or extremely concerned about companies having adequate technology to even be able to report their required emissions disclosures (Deloitte 2022a).

Similar to KPMG, Deloitte observes that Scope 3 GHG emissions are largely based on estimates instead of actual measurements. There can be many unknowns and the variance between the estimation and actual results can be large. Features such as the timing, nature, or amount of impact that these emissions have on the business all would affect the assessment of materiality for Scope 3 GHG emissions which adds to the difficulty of materiality calculation (Deloitte 2022a). Deloitte recommends that "the Commission may consider whether the disaggregated data by each constituent greenhouse gas should only be required to be disclosed when individually material" (Deloitte 2022a, p.5). This would mean that registrants only report on certain GHGs when a specific one is material.

Deloitte also suggests the SEC should give more guidance for how materiality is defined for Scope 3 emissions (Deloitte 2022a). Materiality for Scope 3 emissions for a registrant could be much more arbitrary compared to traditional disclosure materiality in the context of financial statements. Deloitte also highlights that the SEC said to make a materiality assessment for Scope 3 emissions, the registrant must also include emissions from outsourced activities (Deloitte 2022a). However, this may be confusing because outsourced activities would be included in the definition of Scope 3. Additionally, Deloitte suggests that the SEC read comments from companies to figure out if the timeline given in the Proposed Rule is sufficient for registrants to be able to provide reliable information with the technology they have or can receive within that time frame (Deloitte 2022a).

Deloitte also notes that the SEC should allow companies to follow the GHG Protocol guidelines. The firm believes this would help because most companies already use the GHG Protocol framework for sustainability reporting and it will help create consistency in reporting throughout the financial statements and sustainability disclosures (Deloitte 2022a). Deloitte commented that some challenges occur when reporting Scope 3 GHG emissions when an entity is not consolidated or proportionally consolidated because that entity would be reflected in the Scope 3 emissions. Therefore, Deloitte believes that the GHG Protocol framework would help resolve this complication (Deloitte 2022a).

PwC LLP

Another firm with global experience that has been proactive in ESG matters is PricewaterhouseCoopers LLP (herein, “PwC”). PwC believes that the Proposed Rule’s required disclosures can greatly increase the quality of information investors receive and transparency between the company and stakeholders (PwC 2022). Still, PwC takes issue with some aspects of the Proposed Rule, including components related to Scope 3 emissions.

PwC recognizes that it may be important for investors to have information about a company’s Scope 3 emissions, especially when upstream or downstream activities produce an extensive amount of emissions. However, PwC also believes that the reporting of Scope 3 emissions should be narrower than the SEC originally wrote in the Proposed Rule (PwC 2022). The proposal says that when a company has a target for even just one category of Scope 3 emissions, then the registrant is required to disclose all of their Scope 3 emissions. PwC views this as extensive and wants the requirement to be achievable for companies. While PwC agrees that companies should report on Scope 3 emissions in any category that the company has a target or goal, the firm suggests that when there is no target or goal, the SEC should narrow the required disclosures. The SEC should identify what Scope 3 emissions those companies would be required to report on (PwC 2022). PwC gives examples of alternative approaches that the SEC could use including choosing a couple of impactful categories that all registrants would report on, choosing impactful categories for different industries, or letting the registrant choose significant categories for their own company. PwC believes that providing these alternatives and narrowing the requirements would be helpful to the registrant as well as for the investors because it will give users the most useful and relevant information (PwC 2022).

In the Proposed Rule, SRCs are not required to disclose Scope 3 GHG emissions. A smaller reporting company, as defined by the SEC in the adopted amendments to the definition of an SRC, is a registrant "with a public float of less than $250 million, as well as registrants with annual revenues of less than $100 million for the previous year and either no public float or a public float of less than $700 million" (SEC 2018, p.1). PwC suggests that SRCs should report these GHG emissions when they have a target or goal for certain categories and should have the same requirements as any other registrant making the same goals. It may be important for investors or other users of the financial statements to see the progress toward those commitments. PwC believes it would make sense to require smaller reporting companies to disclose their Scope 3 emissions when the company has announced certain targets.

PwC, along with other firms included in this study, is concerned about the implementation of the proposed disclosures, specifically Scope 3 disclosures. PwC makes the point that most companies already report Scope 1 and Scope 2 GHG emissions, but only a small percentage of companies report or track their Scope 3 emissions. The firm makes the recommendation of providing a two-year gap between initial implementation and the date for required disclosure information. This would allow companies to gather reliable information and improve methods of measuring emissions in a sensible period. A two-year gap could also allow more time for the GHG Protocol to enhance their methods and frameworks which would improve companies' reporting capabilities.

EY LLP

The last of the Big-4 accounting firms is Ernst & Young (herein, "EY"). EY also submitted a comment letter on the Proposed Rule and expressed there is a need to form regulations around reporting GHG emissions, especially for investors, but EY has some concerns. First, EY questions why the SEC leaves it up to the registrant to determine how to calculate emissions. While the Proposed Rule allows companies to follow the GHG Protocol or any other calculation framework, this flexibility could result in variances in how companies record emissions and could change the information made available to financial statement users. EY believes the GHG Protocol could be a useful framework to implement even more into the final rule (EY 2022). Most registrants who are already recording GHG emissions already use those processes and frameworks, and this would set standard guidelines. The SEC can then delegate staff to continuously improve how to calculate emissions to address relevant changes (EY 2022).

EY shares concerns similar to Deloitte on how materiality should be measured. A company must be able to measure GHG emissions to determine materiality which creates a problem for registrants who have not measured GHG emissions in previous years. Instead, EY suggests that the SEC should "determine whether Scope 3 emissions disclosures are required based on any emissions data that it already has or can calculate without unreasonable cost and effort and a qualitative analysis of its value chain" (EY 2022, p. 4). This would reduce the burden on companies for having to measure their GHG emissions to determine if their Scope 3 emissions are material.

EY also addresses the fact that when registrants set a goal or target for Scope 3 emissions, the proposal says that the company must disclose all relevant Scope 3 emissions categories. EY suggests, similar to PwC, that the company should align with the targets that are set and only require the company to report on categories that fit into those goals. When a company's goal is to achieve net zero emissions by a certain date, then this would require a disclosure of all Scope 3 emissions. But if the company only wants to meet a goal for business travel, then they would only report Scope 3 emissions for business travel (EY 2022).

EY commented that the SEC needs to further clarify aspects of the Proposed Rule including what constitutes a climate-related target or goal. A clear definition will be helpful for firms to be able to interpret and apply the Proposed Rule correctly (EY 2022). Additionally, EY notes that the SEC should clarify if Scope 3 emission disclosures would be required for non-public targets or goals. The Proposed Rule only says disclosures are required for publicly set targets or goals (EY 2022).

Another aspect of the comment letter displays that EY agrees with the Proposed Rule in excluding Scope 3 GHG emissions from assurance requirements because they believe the costs of getting assurance would overcome the benefits (EY 2022). EY also agrees that the Scope 3 safe harbor is necessary and is a balance for the financial statements to be used correctly while addressing the difficulties of gathering the necessary information (EY 2022). Other recommendations from EY include adding a longer transition period for companies to be able to apply these new regulations and that the SEC should be more uniform in their interpretation and use of materiality throughout the proposal (EY 2022).

BDO LLP

Another firm that commented on the SEC's proposal is BDO LLP (herein, "BDO"). BDO is one of the top Mid-Tier accounting firms. BDO has been integrating sustainability and ESG projects into its everyday business and even into its culture (BDO 2023). BDO itself has even set sustainability goals and advises clients on how to achieve their own goals (BDO 2023).

In its comment letter, BDO commends the SEC for creating this proposal for setting sustainability standards because the firm sees a need for this to be addressed. BDO's comment letter, however, does take issue with aspects of the Proposed Rule about Scope 3 GHG emissions (BDO 2022). BDO acknowledges that recording Scope 3 GHG emissions can be difficult, and it does not believe that “sufficient market resources exist for all public companies to disclose the information called for in the proposal in the time contemplated by the Commission (i.e., beginning in 2023)” (BDO 2022, p.6). If all companies cannot afford to acquire resources to retrieve the information that the SEC requires, then it may be impossible for those registrants to comply with a finalized rule.

Similar to firms previously discussed, BDO advises the SEC to further define materiality for GHG emissions. The firm makes the point that it would be very difficult for companies to measure emissions and evaluate materiality because these emissions come from upstream and downstream activities and are outside the companies themselves (BDO 2022). Therefore, BDO suggests that the SEC create more specific guidelines for registrants to follow for them to specifically know how to determine materiality given the complexity of Scope 3 GHG emissions in nature (BDO 2022). BDO is also concerned with the SEC disincentivizing companies to set targets or goals about ESG if companies must report Scope 3 emissions when targets are set. Companies may want to avoid the measuring and reporting of the Scope 3 GHG emissions by simply not setting goals (BDO 2022). This could defeat the intent behind the proposal.

The SEC chose to exclude smaller reporting companies from reporting Scope 3 emissions, and BDO agrees with this decision. BDO is concerned with the fact that most smaller companies have not historically tracked emissions nor do they have the ability to. Most resources needed to track these indirect GHG emissions may cost more to acquire than the benefit of reporting them to investors (BDO 2022). BDO even suggests that the SEC further investigate a cost-benefit analysis before requiring SRCs to track any GHG emissions at all. These companies would still have to report material information which may include climate-related information (BDO 2022). Therefore, even if the smaller companies are scoped out of these emissions requirements, material information will still be available to investors.

BDO also makes notes about the transition period and timeline that the SEC has in mind for when companies will be required to report. Precisely the same as PwC, BDO recommends that the SEC make the effective date two years after the finalized rule is released (BDO 2022). Additionally, BDO suggests that the SEC allows companies to compute their Scope 3 emissions within six months of year-end. BDO explains that the gap in reporting may "help companies operationalize the disclosure requirements and allow for integrated reporting in annual reports" (BDO 2022, p. 9). An adjusted timeline could allow registrants ample time to gather information and resources to properly record the required information (BDO 2022).

RSM LLP

RSM US, LLP (herein, "RSM") is another top Mid-Tier accounting firm that submitted a comment letter to the SEC. On RSM's webpage (RSM 2023) titled "Environmental, social and governance," RSM explains how it has a strong history of advising and assisting public and non-public clients in ESG projects. RSM clarifies that it only makes suggestions on matters that it has experience or knowledge about, and believes that it has trustworthy information on.

In its comment letter, the firm addresses the question about requiring registrants to obtain an attestation report on their Scope 3 emissions. RSM believes the SEC should exclude Scope 3 emissions from an assurance or attestation requirement because there is a high level of uncertainty or estimation around recording Scope 3 emissions, there could be challenging circumstances for registrants to consider for these calculations, and there are many companies that would need to record their direct and indirect emissions for the registrant to be able to report Scope 3 emissions (RSM 2022). Therefore, RSM believes that attestation for only Scope 1 and 2 GHG emissions should have a phase-in timeline that allows companies to have enough time to fully understand the new requirements and ample time to gather the needed resources.

RSM suggests that if GHG emissions are required to be disclosed, then it would be important for the registrant to design and implement effective internal controls (RSM 2022). As large accelerated and accelerated filers are required to report on the effectiveness of their internal controls, RSM believes that companies who must report GHG emissions should "be required to provide an assessment and disclosure of the effectiveness of controls over the GHG emissions" (RSM 2022, p.13). Other than these suggestions RSM does not comment on Scope 3 GHG emissions. Most of its comments in the letter consist of answering questions regarding attestation and assurance, but since RSM does not think that Scope 3 emission reporting should require attestation, then these comments would not apply (RSM 2022).

Grant Thornton

The last comment letter analyzed in this study is from Grant Thornton LLP (herein, "Grant Thornton"), which is another Mid-Tier firm that has a vast global network and experience in accounting services. The firm agrees with the Proposed Rule that companies should not be required to provide an assessment or disclosure on the effectiveness of controls over GHG emission reports, nor obtain an attestation report from a GHG emissions attestation provider (Grant Thornton 2022). The cost of receiving these reports outweighs the benefits that it would offer investors. Grant Thornton also agrees with the Scope 3 liability safe harbor and that it should only be required to disclose Scope 3 GHG emissions when those emissions are material or if the company has set goals or targets (Grant Thornton 2022).

Grant Thornton also provides feedback on how the SEC can improve the Proposed Rule concerning Scope 3 emission reporting. In doing so, the firm questions the way to measure emissions for leased assets. Grant Thornton believes the method proposed may not be intuitive (Grant Thornton 2022). A company may be leasing an asset and using it in daily operations, but those emissions would be considered Scope 3 emissions. This company would be able to benefit from the Scope 3 liability safe harbor even though it used the asset daily. On the other hand, a company that owns an asset but leases it out, would not use the asset daily but any carbon emissions produced would be considered Scope 1 emissions. This company would not benefit from the Scope 3 liability safe harbor and would have to obtain assurance over the carbon emissions from the leased asset. Grant Thornton urges the SEC to further clarify these proposed regulations from the perspective of lessees and lessors (Grant Thornton 2022).

Grant Thornton also expresses concerns with the timeline for companies to be able to report their GHG emissions and have ample time to mitigate the risk of error or large estimations. The firm provides a couple of suggestions that the SEC could further explore (Grant Thornton 2022). For example, the SEC could require GHG emissions metrics only for the current period or permit users to exclude immaterial components from Scope 1 and 2 emissions (if accompanied by rationale). This would allow the registrant to focus on material components. Grant Thornton also suggests a “comply or explain” (Grant Thornton 2022, p.10) approach which could give the SEC the option to permit the issuer to comply or if the registrant has not recorded GHG emissions in the past, then they explain why they are unable to provide a disclosure. Other suggestions include the SEC being flexible about the period used to report GHG emissions, permitting the disclosures of GHG emissions metrics outside the Form 10-K, or on an extended reporting period (Grant Thornton 2022).

Finally, Grant Thornton agrees with the proposal that small reporting companies should be excluded from disclosure of Scope 3 emissions but believes the SEC should require small reporting companies to disclose these emissions when they set a public target or goal (Grant Thornton 2022). This would allow an investor to track and monitor progress toward accomplishing these goals (PwC made this same suggestion).

IV. DISCUSSION

Overall, the SEC has much to consider when it comes to how the Proposed Rule treats Scope 3 emissions. Each of the accounting firms analyzed in this study brought up concerns about the Proposed Rule or areas in the Proposed Rule that should be further clarified. After analyzing the comment letters, the major takeaway from this study is that the firms brought up seven main concerns that should be brought to the SEC's attention. These concerns included (1) that the Proposed Rule should include or use more guidance specifically from the Greenhouse Gas Protocol, (2) there should be more guidance for how registrants should measure Scope 3 GHG emissions due to the complex nature of those emissions, (3) the definition of materiality and climate-related targets or goals need to be clarified, (4) the timeline for when Scope 3 emissions should be recorded needs to be examined, (5) the disclosure requirements for Scope 3 emissions need to be narrower, (6) SRCs should have to disclose Scope 3 emissions when an SRC sets a target or goal, and (7) the definition of a climate-related target or goal needs to be further defined.

Below are tables that display which accounting firms discussed each of those seven topics (i.e., as laid out in the previous paragraph) in a comparison chart (Table 1) and how many firms discussed each topic in a bar graph (Table 2). These graphs highlight which topics the firms chosen for this study are most concerned with. The timeline for when registrants need to be able to record Scope 3 GHG emissions is the topic that all seven firms bring up and express concerns about in their comment letters, as shown in Table 1 and Table 2. This is most likely the most commented-on issue because quite a few of the firms expressed concerns with companies getting quality information in the suggested amount of time by the SEC in the Proposed Rule. There may need to be more consideration for how long it will take for registrants to gather resources to be able to properly make targets or goals, measure Scope 3 emissions, and then properly record those emissions according to regulation.

The next most discussed topic is that there needs to be further clarifications for how Scope 3 emissions should be measured and recorded. Six of the accounting firms in this study comment on this (Table 2), which includes all of the firms except PwC (Table 1). This topic fits in well with the timeline topic previously discussed because firms are concerned with the lack of guidance for how registrants should measure Scope 3 emissions. By nature, Scope 3 emissions are the most difficult to track, and due to the lack of frameworks or protocols provided by the SEC, registrants may vary in the ways they measure and therefore record their carbon emissions. This could prevent the standardization and comparability of financial statements between registrants. This would no longer provide investors with useful information.

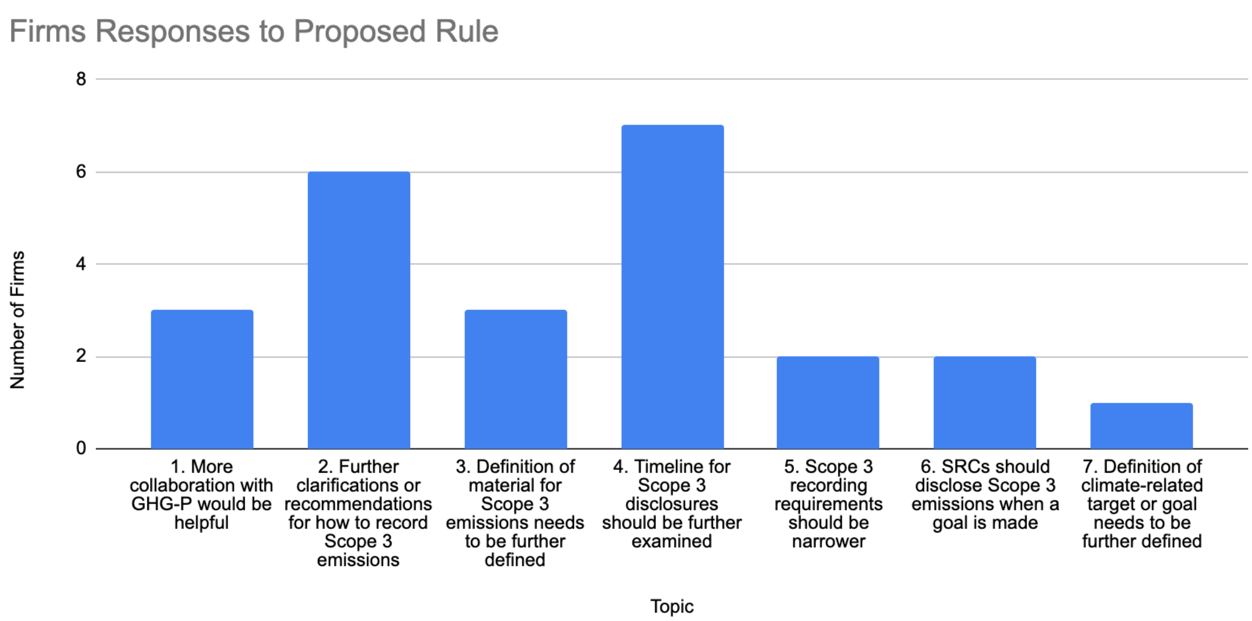
A framework that is currently being utilized by many registrants is the GHG Protocol. As shown in Table 2 three accounting firms' comment letters discuss that this protocol and framework should be used more in the SEC's finalized rule. The firms that commented on this were KPMG, Deloitte, and EY. This inclusion could help resolve confusion and issues with how to calculate and record Scope 3 emissions. Collaboration with the GHG Protocol could assist registrants who already utilize this framework rather than requiring those companies to shift to a brand-new system of measuring and reporting.

The last topic that was discussed by three accounting firms' comment letters was the concern about the definition of materiality. Deloitte, EY, and BDO discuss how materiality for Scope 3 carbon emissions is much more arbitrary than materiality for financial statements, which will make it much more difficult for registrants to know if their emissions would be material. Companies may need to know their total amount of GHG emissions to know if their Scope 3 emissions are material, but this would be extremely difficult for companies to know if they have never measured their emissions before. These firms suggest that the SEC further define materiality in a finalized rule for registrants to be able to report their emissions properly and to the best of their ability.

Table 1

Topic	KPMG	Deloitte	PwC	EY	BDO	RSM	Grant Thornton
1. More collaboration with GHG-P would be helpful	✓	✓		✓			
2. Further clarifications or recommendations for how to record Scope 3 emissions	✓	✓		✓	✓	✓	✓
3. Definition of material for Scope 3 emissions needs to be further defined		✓		✓	✓		
4. Timeline for Scope 3 disclosures should be further examined	✓	✓	✓	✓	✓	✓	✓
5. Scope 3 recording requirements should be narrower			✓	✓			
6. SRCs should disclose Scope 3 emissions when a goal is made			✓				✓
7. Definition of climate-related target or goal needs to be further defined				✓			

Table 2



V. CONCLUSION

Even though some companies already track their Scope 3 GHG emissions, requiring disclosure about these can be very impactful and expensive for registrants. The accounting firms are concerned that registrants will not have enough time and the correct resources to report emissions in a way that will be useful to investors. The SEC is most concerned with protecting investors and ensuring registrants provide truthful and useful information. Therefore, if all registrants are unable to report Scope 3 GHG emissions uniformly, then the information may no longer be useful to investors. The SEC must consider whether making the Proposed Rule into a finalized rule would be reasonable for registrants and understandable to investors. Even though the Proposed Rule may have room for improvement, this is the first step the SEC has made for major ESG reporting. Many stakeholders in companies seek to have standards and rules on sustainability reporting, including GHG emissions, for comparability and uniformity purposes, and those stakeholders would commend the SEC for beginning this process. ESG reporting standards would also hold companies more accountable for recording and disclosing their own and their value chain's GHG emissions. It may take time to understand how to measure GHG emissions properly or create a reasonable timeline for companies to be able to report ESG disclosures, but the SEC recognizes that there is a need to address these concerns and has begun to take action. The SEC will release a finalized ruling after contemplating comment letters from these accounting firms examined in this study as well as from a wide variety of other stakeholders.

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