

# ESG Reporting and Assurance of Greenhouse Gas Emissions

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## What is Environmental Social Governance (ESG) and Corporate Responsibility (CR)?

ESG and CR are frameworks that capture the overall sustainability efforts of a company. They provide an overview of metrics including corporate structure and diversity, impact on the community, environmental initiatives, and human resources. Businesses assemble these reports on behalf of stakeholders, to show their global impact, and provide guidance and background on certain risk factors. By providing third-party attestation and assurance on these issues, companies achieve transparency and reliability.

## What is attestation and assurance?

Attestation is a form of auditing in which a third party (accounting firm or other organization) reviews reported data and provides a statement of verification. This verification, also known as assurance, provides confidence to stakeholders that reported data is correct.

## Issue:

The Securities and Exchange Commission (SEC) finalized a rule in March of 2024, setting additional requirements for company disclosures of ESG data. It will be mandatory for greenhouse gas (GHG) emissions to be reported and assured by compliance dates on a rolling basis over the next 10 years. Currently, companies lack standardization when reporting this data, providing various levels of assurance, focusing on certain scopes, and utilizing a multitude of different third-party verifiers. Some companies have not disclosed and/or have assured this data at all. The goal of this research is to examine the lack of uniformity and describe the resulting implications of this recent ruling.

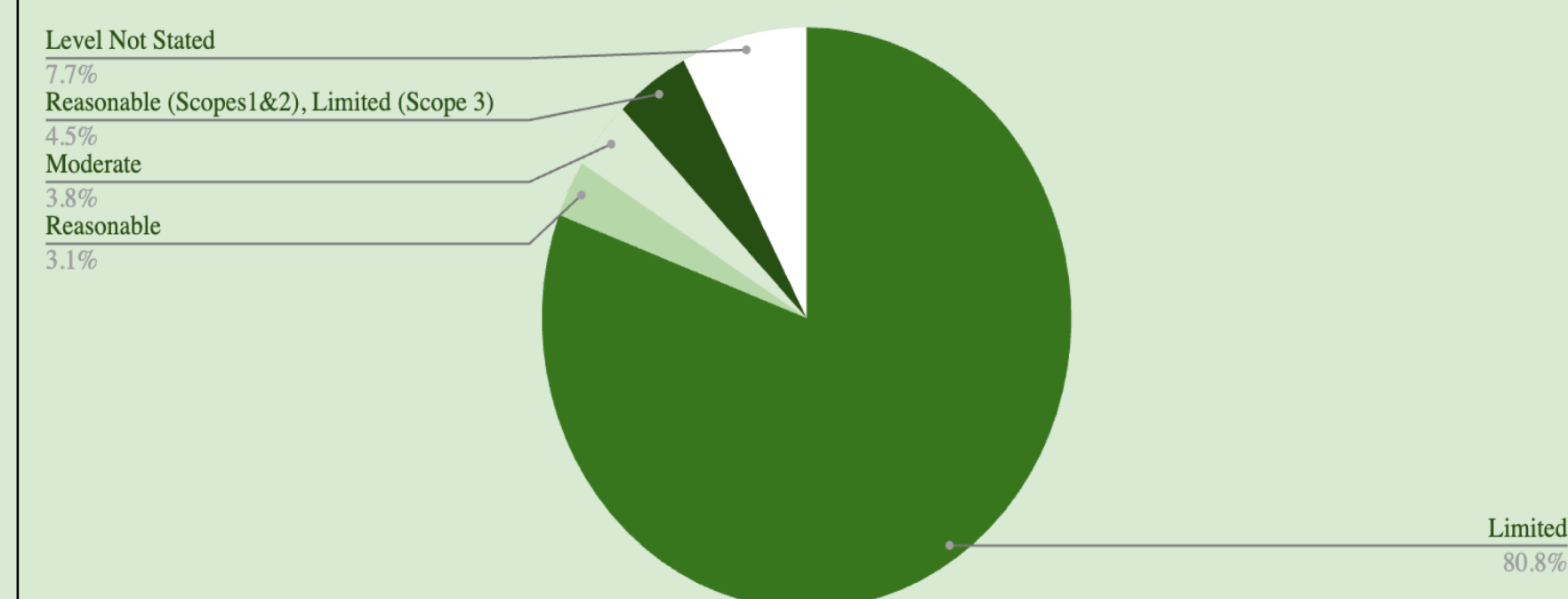
## Research background:

Data regarding ESG reporting and GHG assurance were collected from S&P 500 Companies for the year 2022. These are the top 500 leading companies that are publicly traded in the United States. The following was recorded for each company:

- Existence of ESG or Corporate Responsibility reporting
- GHG assurance and attestation
  - level and scope of assurance
  - firms utilized
  - standards for assurance

## Levels of Assurance:

When attesting to data, third-parties assign a level of assurance to identify the depth in which they verified data. “Limited” assurance refers to a simple review of data, and is similar to “Moderate” assurance. “Reasonable” assurance is a more in-depth examination. Not all companies disclosed a level of assurance, and some utilized a mixture of levels to assure different scopes. This chart visualizes levels of assurance out of the total S&P 500 companies using assurance (286).



## Companies Using ESG Reporting Already:

| Companies with ESG or Sustainability Reports by Industry | Report | No Report | Unclear |
|--|--------|-----------|---------|
| Communication Services                                   | 17     | 3         | 2       |
| Consumer Discretionary                                   | 52     | 1         | 0       |
| Consumer Staples   | 34     | 2         | 1       |
| Energy   | 23     | 0         | 0       |
| Financials   | 70     | 0         | 0       |
| Health Care  | 61     | 2         | 2       |
| Industrials  | 73     | 1         | 0       |
| Information Technology                                   | 63     | 2         | 0       |
| Materials  | 29     | 0         | 0       |
| Real Estate  | 30     | 0         | 0       |
| Utilities  | 29     | 0         | 0       |

## Companies Using Assurance:

Currently, 286 companies have sought and completed assurance of GHG emissions to some degree.

| How many S&P Companies have assurance on GHG emissions? |     |        |
|---|-----|--------|
| Unclear   | 13  | 2.60%  |
| No assurance  | 201 | 40.20% |
| Have assurance  | 286 | 57.20% |

## Third-Party Firms Utilized:

Verification providers have been a mix of accounting firms, as well as environmental, engineering, and consulting firms.

| Firms Used to Provide Assurance |     |        |
|---------------------------------|-----|--------|
| Accounting Firms                | 56  | 19.58% |
| PWC                             | 19  | 6.64%  |
| KPMG                            | 9   | 3.15%  |
| Deloitte                        | 9   | 3.15%  |
| EY                              | 15  | 5.24%  |
| Other                           | 4   | 1.40%  |
| Other Firms                     | 203 | 70.98% |
| Apex/ Bureau Veritas            | 65  | 22.73% |
| LRQA                            | 34  | 11.89% |
| ERM CVS                         | 29  | 10.14% |
| DNV                             | 9   | 3.15%  |
| CVenture                        | 6   | 2.10%  |
| Cameron Cole                    | 5   | 1.75%  |
| Other Firms                     | 55  | 19.23% |
| Unclear                         | 30  | 10.49% |

## Reporting Standards:

Third-party verification has been completed through different standards. “AICPA” standards are associated with accounting firms. “AA1000AS” standards typically cover a broader range of ESG data, not limited to GHG. “ISAE3000” and “ISO14064-3” are other international forms of standards firms used, and many verification services provide coverage of both.

- 59 (20.63% of assured) companies utilized more than one standard

| Standard Used                   |     | Percent of Assured Companies |
|---------------------------------|-----|------------------------------|
| AA1000AS                        | 12  | 4.20%                        |
| AICPA                           | 55  | 19.23%                       |
| ISAE3000/3410                   | 104 | 36.36%                       |
| ISO14064-3/ISO14065             | 130 | 45.45%                       |
| Assured, standard not disclosed | 47  | 16.43%                       |

## SEC Requirements as of March 2024:

Utilizes existing framework from Task Force on Climate-Related Financial Disclosures (TCFD) and GHG Protocols

Climate related disclosures must include:

- Material climate related risks and impacts, targets and goals (in regards to GHG)
- Governance
- Risk Management
- Scope 1 and 2 disclosure and assurance

**Scope 1:** Covers emissions controlled by the company

**Scope 2:** Covers emissions including electricity, heating/cooling from operations and emissions from transmission and distribution

**Scope 3:** Covers emissions resulting from company activities from outside sources (ex. employees)

## Differences between SEC ruling and E.U. Corporate Sustainability Reporting Directive (CSRD):

- CSRD broadly reviews ESG data, while the SEC has a climate focus
- SEC does not currently recognize alternative standards being used for reporting

**Conclusion:** As the SEC passed their ruling, going forward, companies will need to disclose ESG data, with an emphasis on GHG emissions. Additionally, companies will have to seek attestation from accounting firms or other qualified verification services, with an increased level of assurance over time. As GHG emissions are becoming more of a risk factor for companies, this disclosure will be beneficial to stakeholders and will influence investment activities. This ruling will improve accuracy, reliability, and confidence of climate related data. However, for companies that have no experience with reporting or assurance, this process of meeting requirements will be costly and time consuming. This is why many argue that all reporting should be voluntary, like data within Scope 3.