CFA Institute

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California Air Resources Board
1001 I Street
Sacramento, CA 95814
climatedisclosure@arb.ca.gov

Dear Sir/Madam:

Re: *Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219*

CFA Institute[1] appreciates the opportunity to comment on the California Air Resources Board (CARB) *Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bills 253[2] and 261[3], as amended by SB 219*[4] (CARB Consultation).

CFA Institute is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate reporting and disclosures – and the related audits – provided to investors are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

Our Previous Commentary on Climate Disclosures

Over the last five years we have commented extensively regarding the information investors need to make decisions regarding climate risk. Below are several documents which highlight our perspectives in the context of various consultations on this topic.

In our 2020 comment letter to Accountancy Europe, we set forth our foundational principles related to sustainability disclosures including understanding the audience, communication objective, location and materiality being used to create such disclosures.

CFA Institute was a long-time supporter of the Sustainability Accounting Standards Board (SASB) because of its focus on sector specific sustainability disclosures focused on topics of greatest relevance to the risks and opportunities associated with the valuation of companies. In our 2021 comment letter to the IFRS Foundation we supported the formation of the International Sustainability Standards Board (ISSB) [5] noting that our support depended upon the retention of the SASB standards and a continued focus on value relevant information for investors.

In our 2022 comment letter to the SEC we – in the opening section – explain the perspective we bring to the response. That perspective being that climate is a financially value relevant risk investors seek to price. We provide an extensive response to that very extensive

[1] CFA Institute is a global, not-for-profit professional association of more than 200,000 members who hold the Chartered Financial Analyst® (CFA®) designation and who are investment analysts, advisers, portfolio managers, and other investment professionals across 160 markets. CFA Institute has 10 offices and 160-member societies in over 75 countries and territories. Find us at www.cfainstitute.org or follow us on LinkedIn and X at @CFAInstitute.

[2] ***https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB253***

[3] ***https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB261***

[4] ***https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240SB219***

[5] https://www.ifrs.org/groups/international-sustainability-standards-board/

consultation. Tables 1 to 5 on pages 13 to 27 of the letter summarize the detailed perspectives we provide in the pages which follow.

Immediately upon completion of the SEC consultation we responded to the IFRS Foundation's consultations on IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* (letter) and IFRS S2, *Climate-related Disclosures* (letter). While our comment letter to IFRS S2 on climate is most applicable to this consultation, our response to IFRS S1 provides views on important overarching concepts.

We provided a very limited response to the European Financial Reporting Advisory Group (EFRAG), related to their development of the European Sustainability Reporting Standards (ESRS) for use under the European Corporate Sustainability Disclosure Reporting Directive (CSRD). There we highlight that greater due process was necessary and that such disclosures are not being developed for the benefit of investors. We expressed in that letter that we were concerned with the due process in their development.

Key Overarching Considerations

We don't respond to each of the questions in the CARB Consultation. Rather, we offer key overarching considerations which we believe should guide CARB's actions. These are focused on making the information useful to stakeholders and decision-useful to those making capital allocation decisions which advance the appropriate assessment and pricing of climate risks and opportunities.

1) ***Consider Investor Needs as They Assess Risk, Drive Capital Allocation and Assess Investor Priorities Given Their Fiduciary Duty*** – Investors – because they assess risk and drive capital allocation decisions across the global economy – are an important audience that should be considered when developing requirements to support SBs 253 and 261.

   Some investors seek to invest not only based upon long-term value creation but also based upon their values. While many times these objectives operate in concert, this is not always the case. CFA Institute members have a fiduciary responsibility to their clients. As such, we need and seek information that is sufficiently disciplined that allows us to discern value-relevant information and to make a distinction, when important, between values-relevant information such that we have the ability to advise investors when there may be a trade-off between value and values in their investment decision-making. As such, our views are not developed from a public policy or civil society objective, but rather with the desire for investors to have the information they need to make value relevant investment decisions.

   As a part of our 2020 report, *Climate Change Analysis in the Investment Process*, we specifically asked about incorporation of climate change into the investment analysis process. About 76% of C-level investment executives we surveyed said that climate change was an important or very important issue, yet the same survey finds that only about 40% of our members are integrating climate change analysis into the investment process. The biggest reason they give for not performing such integration is a "lack of measurement tools". To be able to incorporate climate change into their financial analysis and investment decision-making process – and in order to efficiently allocate capital – investors need accurate, timely and comparable data on climate change from the issuer community. It is important for CARB to require that climate disclosures be reported that will provide investors with the information they need to make informed investment decisions, and to do so in a manner that maximizes the utility of the data reported.

2) ***Adopt Standards Used Globally That Are Comparable & Focused on Value Relevant Information: The ISSB Standards*** – Investors, amongst others, are calling for convergence and a single framework for making climate risk disclosures. Standardization of metrics and disclosures on the effects of sustainability issues on a company's present and future results is needed to bring consistency and comparability in climate disclosures and sustainability reporting more broadly. As an organization, CFA Institute has long supported global convergence[6] of accounting and auditing standards given that investing, like our membership, is global, and comparability is the lifeblood of investment analysis. Similarly, we have supported[7] ISSB for these same reasons. The ISSB is an independent standard-setting body operating under the governance structure of the IFRS Foundation. We support the IFRS Foundation as the appropriate organization to address the fragmentation that has historically existed in the sustainability reporting landscape and to focus on financially value relevant information for investors.

   Furthermore, in 2023, the IFRS Foundation took over the work of the Task Force on Climate-Related Disclosure (TCFD) after the TCFD disbanded; and in 2024, the IFRS Foundation and the GHG Protocol announced a partnership[8], stating:

   > *The framework for measuring greenhouse gas emissions developed by GHG Protocol has become embedded in capital markets infrastructure through the use of the GHG Protocol Corporate Standard (2004) in the measurement and disclosure requirements of IFRS S2 Climate-related Disclosures. IFRS S2, and other IFRS Sustainability Disclosure Standards, are set by the ISSB, which falls under the broader banner of the IFRS Foundation.*

   By adhering to the ISSB, CARB will be in alignment with the GHG Protocol and TCFD, standards that are named in SBs 253 and 261, and that are considered industry norm. They will also be producing information focused on investors using such information.

3) ***Disclosures Should be Required in Standardized Format & Digitally Tagged*** – As best practice, we support the creation of all disclosures, financial as well as climate-related, in tagged (digital) format. Digital tagging of data using the open eXtensible Business Reporting Language (XBRL) standard is now common practice for financial data, both in the U.S. and in non-U.S. markets. XBRL has been adopted for climate-related disclosures

6 See CFA Institute support for global convergence of accounting standards: "IFRS: International Financial Reporting Standards" (https://www.cfainstitute.org/advocacy/issues/international-finance-reportingstds#sort=%40pubbrowsedate%20descending).

7 See the CFA Institute Comment Letter to IFRS Foundation with respect to its Consultation Paper on Sustainability Reporting (January 2021) (https://www.cfainstitute.org/-/media/documents/comment-letter/2020- 2024/20210210-1.pdf).

8 https://ghgprotocol.org/blog/release-ghg-protocol-launches-official-partnership-ifrs-foundation#:~:text=Title&text=LONDON%20(June%2024%2C%202024),Sustainability%20Standards%20Board%20(ISSB).

in the European Union, through the CSRD; and is being adopted by IFRS reporting countries as well, with over 30[9] countries working towards adoption today.

Users consume digitally tagged disclosures in different ways, for different reasons and with different appetites. Some do so directly. Some use specialist XBRL-aware tools. Others rely on the digital ingestion capabilities of long-established data providers. Some are only interested in a few quantitative metrics, for example the amount of Scope 1, 2 and 3 GHG emissions.

We know that more sophisticated investors – those most likely to utilize these disclosures – are increasingly relying on digital disclosures to an ever-greater degree. This includes a range of text analytics, semantic comparators, behavioral clustering, and sentiment analysis that are used in examining company narratives. This will continue and no doubt get more sophisticated as time moves on and corporate reporting expands to include climate disclosures.

Let's consider even the simplest use of tagged qualitative disclosures: comparing the range of disclosures made by a peer group of issuers about their strategy to reduce corporate net carbon emissions. If these narratives are specifically tagged, then it is quick work to make comparisons across a large peer group. The alternative involves manually scanning through each and every filing, hoping that the readers capture the relevant text. The marginal cost of this type of markup for issuers (who have expended, we trust, significant time in developing their disclosures) is insignificant compared to the benefits that these types of searches provide. The use of narrative markup (acknowledging the still large variations in user habits) is likely to greatly improve investor understanding of issuer activities, facilitating more focused and more flexible examination of the very significant work that goes into the preparation of these reports.

In April 2024, the ISSB published the IFRS Sustainability Disclosure Taxonomy[10] which expresses disclosure requirements for IFRS S1 and IFRS S2. The ISSB conducted multiple public review periods to gather input and has made the taxonomy freely and publicly available. Given that SBs 253 and 261 reference TCFD and the GHG Protocol, and the availability of this open-source taxonomy, it would make sense for CARB to use this resource to ensure the greatest efficiency and lowest costs for its own purposes and for the entities required to report. We would welcome an approach by CARB to establish its regulations in adherence to the ISSB standard, leveraging the XBRL Taxonomy developed and maintained by the ISSB.

[9] IFRS, New report sets out global progress towards both mandated and voluntary corporate climate-related disclosures: https://www.ifrs.org/news-and-events/news/2024/11/new-report-global-progress-corporate-climate-related-disclosures/

[10] IFRS Sustainability Disclosure Taxonomy 2024: https://www.ifrs.org/issued-standards/ifrs-sustainability-taxonomy/ifrs-sustainability-disclosure-taxonomy-2024/

Response to Specific Questions within the CARB Consultation
General: Standards in Regulation

Response to a: *How do we ensure that CARB's regulations address California-specific needs and are also kept current and stay in alignment with standards incorporated into the statute as these external standards and protocols evolve?*

The approach outlined above would ensure that CARB regulations stay aligned with standards established under the GHG Protocol and the TCFD.

Response to b: *How could CARB ensure reporting under the laws minimizes a duplication of effort for entities that are required to report GHG emissions or financial risk under other mandatory programs and under SB 253 or 261 reporting requirements?*

Given the expected overlap between disclosure requirements in Europe through the CSRD and in countries that follow IFRS reporting standards, the approach described above would allow them to prepare a single report that could be repurposed for use by multiple regulators and eliminate reporting duplication.

4) ***Build a Data Repository That Allows Electronic Access*** – In addition to using ISSB standards and tagging with XBRL, we believe it is important for a data repository for the various filings be developed by the State of California to allow large scale and consistent access to the information (i.e., similar to, but obviously less sophisticated than, the SEC's EDGAR Database).

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org.

Sincerely,

/s/ Sandra J. Peters

Sandra J. Peters, CPA, CFA
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Global Advocacy
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