March 21, 2025

California Air Resources Board
1001 I Street,
Sacramento, CA 95814

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

Dear California Air Resources Board,

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of, or other engagements related to, public companies.[1] The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views related to the California Air Resources Board, *Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bill 253 and 261, as amended by SB 219* (solicitation). Given our role, our comments are focused on the assurance-related aspects of the solicitation. Our response highlights the benefits of assurance, the benefits of assurance engagements performed by professional accountants, and provides insights into key considerations for CARB in drafting the assurance-related aspects of the upcoming regulation. Where our comments relate to specific questions raised in the solicitation, we have noted the question to which our comments relate.

Benefits of assurance

At the core of a thriving economy is trust—and the assurance provided by the accounting profession is its essential pillar. Independent, quality assurance helps provide the transparency businesses and investors need to navigate complex markets confidently. In fact, of the institutional investors surveyed by the CAQ and KRC Research, nearly all (94%) want public companies to have climate-related disclosures assured by a third party.[2] Accordingly, we believe the requirement in SB 253 for reporting entities to obtain an assurance engagement on their scope 1 and scope 2 greenhouse gas (GHG) emissions will help enhance the reliability of that information. Academic research highlights

[1] Throughout this letter, we use the following terms interchangeably: “U.S. public company auditors”, “U.S. CPAs”, “professional accountants”, “accountants”, and “public accounting firms”.
[2] Center for Audit Quality and KRC Research, *The Center for Audit Quality Institutional Investor Survey - Research Findings Q2 Survey* (April 2024)

additional benefits of assurance over sustainability information, which include improved access to financing and a lower cost of capital.[3]

Benefits of assurance performed by professional accountants

Obtaining any level of assurance by a professional accountant involves the assurance provider obtaining an understanding of processes, systems, and data (as appropriate), considering the risks of material misstatement of the information, and then developing an appropriate approach to obtaining evidence in order to support their opinion or conclusion about the information. Research suggests that assurance over climate-related reporting, specifically when performed by a professional accountant, offers higher quality assurance compared with other forms of third-party assurance or verification. There is also evidence that companies see the value of professional accountants applying independence and objectivity to enhance the reliability of the company's ESG disclosures. Martínez-Ferrero et al. (2018) found that the probability of detecting material errors and omissions in a sustainability report is higher if it is assured by a public accounting firm. It states that the propensity to detect any errors, omissions, or misrepresentations in a sustainability report is greater if the assurance is entrusted to a public accounting firm rather than to an engineering or consultancy firm. According to the authors, this arises from their greater experience in assurance services, their stringent education and training, the strict ethical requirements and control mechanisms they must follow, and their stronger reputational capital.[4] Other academic research shows that the reductions in cost of capital (and other assurance-related benefits) are all amplified when a public accounting firm provides the assurance (versus other assurance providers).[5]

Key considerations for drafting the assurance-related aspects of the upcoming regulation

In order to enable and maximize the benefits of assurance for investors and other stakeholders, certain key elements need to be in place. Fortunately, a well-developed assurance ecosystem already exists which the CARB can leverage to its benefit – saving the CARB time, resources and the related costs that would be associated with developing an entirely new framework from scratch. Below we explain the key elements that need to be in place, noting those that have already been incorporated into SB 253 and SB 219 and providing insight into those that the CARB should incorporate into the regulation as the assurance requirements are drafted.

1. Recognized reporting standards should be specified to enable assurance

Use of recognized sustainability reporting standards that have been subject to due process should be required for reporting by entities, which we believe is an important factor in enabling assurance by assurance providers. Use of recognized reporting standards by entities would also support

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[3] From an economic perspective, García-Sánchez et al. (2019) found that external assurance of corporate social responsibility (CSR) disclosure improves the positive effect of CSR disclosure on the access to financial resources for reporting companies. According to the authors, external assurance increases the credibility of CSR information and favors access to financing with lower capital constraints.
Also see Journal of Accountancy, *Save Money by Having Your Sustainability Report Assured* which notes that companies that obtain sustainability assurance enjoy a reduction in their cost of capital of 0.7% while companies that do not obtain assurance have essentially no change in their cost of capital.

[4] Martínez-Ferrero, Jennifer and Isabel-María García-Sánchez. "The Level of Sustainability Assurance: The Effects of Brand Reputation and Industry Specialisation of Assurance Providers." *Journal of Business Ethics* Vol. 150 (4) (2018). 971-990

[5] Journal of Accountancy, *Save Money by Having Your Sustainability Report Assured*

consistency and comparability in disclosures from entity to entity, streamline the reporting process for entities complying with existing and proposed laws and regulations, and ultimately enhance the degree of confidence decision-makers have in the integrity and reliability of the information being reported. Recognized sustainability reporting standards include, among others, the GHG Protocol, the IFRS® Sustainability Disclosure Standards (which now incorporate the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations and the Sustainability Accounting Standards Board (SASB) Standards) and the European Sustainability Reporting Standards (ESRS).

Accordingly, we support SB 253 and SB 261 requiring the use of recognized reporting standards, which will enable assurance for SB-253 by assurance providers. We further recommend that the CARB explicitly state that the reporting of scope 1, scope 2, and scope 3 GHG emissions prepared in accordance with the ESRS or the IFRS Sustainability Disclosure Standards meet the requirements of SB 253. Identifying these alternatives would allow entities to continue to meet the objectives of SB 253 to ensure GHG emissions reporting transparency while limiting duplicative reporting burdens for entities subject to multiple jurisdictions.

Regarding Question 3.c., reporting entities should be required to pick a specific reporting method and consistently use it year-to-year. Such an approach is critical for consistency and comparability and would align with the approach taken in financial reporting where entities are required to select a specific reporting method and consistently apply it. Further, entities should be required to disclose which method they have selected. In situations where a change in method is necessary, entities should be required to make certain disclosures that enable the users of the information to understand the nature of and reason for the change along with the impact of the change.

2. Acceptable assurance standards should be specified

The regulation should require assurance providers to perform assurance engagements in accordance with recognized assurance standards, such as the American Institute of Certified Public Accountants (AICPA) attestation standards and the international assurance standards promulgated by the International Auditing and Assurance Standards Board (IAASB). Use of recognized assurance standards by assurance providers will increase the quality of the assurance engagements and result in greater consistency in how the assurance engagements are performed.

Overall, two main assurance standards are used in the US for assurance over GHG emissions and other sustainability-related metrics: the AICPA attestation standards and the IAASB assurance standards. The ISO 14064-3 verification standard is also widely used. Below we provide an overview of each, along with further matters for consideration.

- AICPA attestation standards
    - U.S. Certified Public Accountants (CPAs) are required to use the AICPA attestation standards to perform assurance engagements. Other assurance providers (i.e., non-CPAs) are not permitted to use the AICPA standards.
    - U.S. CPAs performing assurance engagements in accordance with the AICPA attestation standards are also required to comply with
        - the AICPA Code of Professional Conduct (the AICPA Code) (which covers ethics and independence requirements, among other things) and
        - the AICPA Statements on Quality Management Standards (AICPA quality management standards).

- U.S. CPAs must participate in a peer review monitoring program, which is an oversight inspection program that promotes and enhances quality in assurance services.
- According to the CAQs *S&P 500 ESG Reporting and Assurance Analysis*, all U.S. CPAs (and no other assurance providers) made use of the AICPA attestation standards when performing assurance over GHG emissions and other sustainability-related metrics. This is not surprising given that U.S. CPAs are required to use the AICPA attestation standards as noted in the bullets above.

- IAASB assurance standards
  - Professional accountants and non-accountant assurance providers ('other assurance providers') can make use of the IAASB assurance standards.
  - Assurance providers performing assurance engagements in accordance with the IAASB assurance standards are also required to comply with
    - the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) or professional requirements, or requirements in law or regulation, that are at least as demanding and
    - the IAASB's International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (the IAASB quality management standards) or professional requirements, or requirements in law or regulation, that are at least as demanding.
  - While assurance providers using the IAASB assurance standards are subject to ethics and quality management requirements similar to those required by the AICPA standards, accountability and oversight of assurance providers is outside the purview of the IAASB (unlike with the United States, where oversight of CPAs is within the remit of the AICPA and state boards of accountancy).
  - Assurance providers performing assurance engagements in accordance with the IAASB assurance standards are required to have appropriate sustainability competence, and competence and capabilities in assurance skills and techniques.
  - According to the CAQs *S&P 500 ESG Reporting and Assurance Analysis*
    - A large portion of other assurance providers made use of IAASB assurance standards when performing assurance over GHG and other sustainability-related metrics.
    - In our most recent analysis, use of the IAASB assurance standards by other assurance providers increased by 64% from the prior year.
    - Non-U.S. based professional accountants that performed assurance services mostly used the IAASB assurance standards with a few using the national assurance standard applicable in their respective country, which may be based on IAASB assurance standards.

- ISO 14064-3
  - Other assurance providers (i.e., non-accountant assurance providers) make use of ISO 14064-3.

- These standards do not appear to require other assurance providers to follow a professional code of conduct or to implement any form of quality management system.[6]
- Other assurance providers using ISO 14064-3 may not be subject to oversight inspection programs unless a program body or other organization imposes such requirements.
- According to the CAQs *S&P 500 ESG Reporting and Assurance Analysis*
  - A large portion of other assurance providers made use of the ISO 14064-3 verification standard when performing verification over GHG emissions related metrics.
  - U.S. CPAs and non-U.S. based professional accountants did not make use of ISO 14064-3.

Given the above overview of each of the standards, we recommend that the regulation require assurance providers to perform assurance engagements in accordance with their choice of either the AICPA attestation standards or the IAASB assurance standards to promote the quality and comparability of the assurance services provided over GHG emissions. While the AICPA attestation standards and the IAASB assurance standards are two separate standards, a strategic objective of the AICPA's Auditing Standards Board is to converge its standards (which include the AICPA attestation standards) with those of the IAASB, as appropriate, which promotes consistency in quality and performance of assurance engagements and transparency on any significant differences.[7]

Specifying and allowing use of either of these standards would not only enable all assurance providers to perform the assurance services (i.e., U.S. CPAs, non-U.S. based professional accountants and other assurance providers) but importantly, also subject all assurance providers to quality management requirements and use of a robust code of conduct (which, among others, covers matters like ethics and independence). Such an approach would drive greater consistency over the quality of service provided by assurance providers.

Both the AICPA's attestation standards and the IAASB's assurance standards are developed through a transparent due process, which includes public input. Additionally, both the AICPA attestation standards and the IAASB assurance standards are principles-based and have been supplemented with additional guidance specifically for GHG and other sustainability-related assurance engagements that helps support consistent application of the standards to promote the performance of quality assurance engagements.

Other assurance standard related considerations

- SB 219 allows reports to be consolidated at the parent company level. When entities select this approach, it's possible that the entity may have obtained assurance from an assurance provider based abroad. Globally, almost 60% of assurance engagements are performed by

[6] Based on a review of a sample of assurance reports issued in accordance with ISO 14064-3, the reviewed assurance reports did not indicate use of a code of conduct or quality management standards developed by an accredited body by the assurance provider. As a result, it appears that the ISO standard does not require compliance with these elements.
[7] See the "Strategic Initiatives of the Auditing Standards Board" within the American Institute of Certified Public Accountants, Auditing Standards Board – Auditing, Attestation, and Quality Control Standards Setting Activities - Operating Policies: https://www.aicpa-cima.com/resources/download/aicpa-auditing-standards-board-operating-policies

professional accountants who primarily use the IAASB assurance standards.[8] Thirty-eight percent of non-accountant assurance providers globally also make use of the IAASB assurance standards.[9] As a result, allowing use of the IAASB standards would be important.

- Market practice among other assurance providers includes the performance of engagements "based on" standards, implying that such standards may be used as a guideline or reference point and the engagements may not be performed to the same level or with the same consistency and transparency.[10] This inconsistency could result in varying levels of, and potentially insufficient, evidence and assurance report users making decisions based on inaccurate or incomplete information. U.S. CPAs and non-U.S. based professional accountants perform sustainability assurance engagements "in accordance with" standards, meaning the engagements are performed by following all the applicable prescribed requirements, procedures, and principles of the standards. Accordingly, it is important that the regulation require assurance providers to perform engagements "in accordance" with recognized assurance standards to help enhance the quality and consistency of such engagements.

3. Levels of assurance should be specified

Recognized assurance standards (like the AICPA attestation standards and the IAASB assurance standards) provide for services with limited assurance and reasonable assurance. Accordingly, we support SB 253 establishing requirements for the level of assurance (starting with limited assurance over scope 1 and 2 GHG emissions and potentially moving to reasonable assurance).

Question 8.b. *Definition of limited and reasonable assurance*

Recognized assurance standards define concepts and terms that are well understood by assurance providers and assurance report users. Concepts or terms introduced in proposed regulations that do not align with this recognized language could cause confusion and challenges for assurance providers when applying recognized assurance standards, for entities seeking to engage appropriate professionals to provide the required service, and for report users. Instead, regulators should use language grounded in recognized assurance standards to promote consistency, comparability, and reliability in assurance engagements and reporting.

As such, for the purpose of implementing SB 253, if the assurance standards specified are restricted to those issued by the AICPA, and the IAASB (as suggested above), we do not believe that it would be necessary for the terms limited and reasonable assurance to be defined given that the objectives of each type of engagement are outlined in those standards. However, if the assurance standards were not limited to those of the AICPA and the IAASB we believe the CARB should define the objectives of each type of engagement by reference to the assurance standards of the AICPA and the IAASB, rather than developing or using alternative definitions of the terms. Accordingly, we do not believe that the definition for reasonable assurance in MRR should be utilized.

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[8] International Federation of Accountants, *The State of Play: Sustainability Disclosure and Assurance* (Feb 2024), p3 and p21

[9] International Federation of Accountants, *The State of Play: Sustainability Disclosure and Assurance* (Feb 2024), p21

[10] Center for Audit Quality, S&P 500 ESG Reporting and Assurance Analysis, (June 2024), see the *Assurance/Verification by Other Providers* section under the sub-heading, *A closer look at the use of the IAASB assurance standards*.

4. Minimum requirements for assurance providers should be specified

Independent third-party assurance over GHG emissions and other sustainability-related information can enhance confidence in a company's reporting. To help maximize the impact of the upcoming regulation, there should be minimum requirements for third-party assurance providers related to independence, competency, ethics, oversight, and quality management to promote consistency, comparability, and reliability of the assurance on the reporting. Because U.S. CPAs are experts in assurance, they have been called upon to broaden their assurance services beyond audits of financial statements and to bring confidence to information relied upon by decision makers across a wide range of subject matters, including climate-related information. The paragraphs below outline some of the qualifications that U.S. CPAs are required to have and could help inform the regulatory drafting process.

Independent assurance obtained by a CPA firm is a process whereby the independent CPA, who acts with integrity and exercises objectivity and professional skepticism, performs procedures to obtain evidence to express an opinion or conclusion about the subject matter (e.g., the GHG emissions information) in the assurance report, which enhances the degree of confidence for users of the information. Independent assurance services performed by CPAs are performed according to standards that are set by accredited bodies, developed and maintained through a transparent and public process. Independent assurance provides an objective and impartial opinion or conclusion on the reported information.

In the U.S., CPAs are licensed by state boards of accountancy after completing rigorous education, passing a comprehensive exam, and gaining practical experience under the supervision of an experienced CPA. They must also follow comprehensive independence rules, a professional code of conduct, and maintain their knowledge, skills and experience, including staying updated on complex laws, standards, and industry trends through required continuing professional education, helping to ensure their work can be trusted by the public.

Many CPA firms have professionals with in-depth knowledge of GHG emissions and other sustainability-related rules and regulations, a globally recognized sustainability practice that has access to subject matter expertise, and an existing methodology that complies with the AICPA attestation standards and/or IAASB assurance standards. These factors contribute to the effective and efficient execution of GHG emissions and other sustainability-related assurance engagements, resulting in consistent, comparable, and reliable assurance reporting.

U.S. CPAs are subject to ongoing monitoring and quality control measures to protect the public interest. They are required to establish a system of quality management, which enables firms and personnel to fulfill their responsibilities in accordance with professional standards while emphasizing quality. They must participate in a peer review monitoring program, which is an oversight inspection program that promotes and enhances quality in assurance services.

5. The importance of oversight of assurance providers

As noted in 4. above, U.S. CPAs using the AICPA attestation standards must participate in a peer review monitoring program, which is an oversight inspection program that promotes and enhances quality in accounting and assurance services.[11] In contrast, market practice with respect to this oversight among other assurance providers is less formalized and may vary or may be non-existent. The effect of this difference in oversight is visible in the extent to which professional accountants and other assurance providers disclose compliance with the assurance standards applied. Since the IAASB assurance standards are used by both professional accountants and other assurance providers, it is possible to compare the stated compliance with these standards by each of these assurance providers. U.S and global studies making such comparisons revealed that professional accountants had very high levels of stated compliance while non-accountants had significantly lower levels of stated compliance.[12,13]

With no current oversight mechanism in place for other assurance providers and the demonstrated lack of stated compliance with the assurance standards by such assurance providers it is even more critical that the upcoming regulation specifies the minimum requirements for assurance providers (as noted in item 4 above).

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We are pleased that certain key elements that help enable and maximize the benefits of assurance are already included in SB 253 (i.e., specifying use of a recognized reporting standard and specifying the levels of assurance required). To promote consistent, comparable, and reliable assurance, we encourage the CARB to incorporate the remaining elements discussed in this letter, leveraging the existing assurance ecosystem, to enable assurance and to help maximize the benefits that can be derived from assurance engagements. The CAQ appreciates the opportunity to comment on the solicitation and would be pleased to discuss our comments or answer any questions that the CARB may have regarding the views expressed in this letter. Please address questions to Desiré Carroll (dcarroll@thecaq.org) or Dennis McGowan (dmgowan@thecaq.org).

Sincerely,

Desiré Carroll
Senior Director, Professional Practice
Center for Audit Quality

[11] Information about the AICPA's peer review program can be found here: https://www.aicpa-cima.com/resources/article/for-the-public

[12] International Federation of Accountants, *The State of Play: Sustainability Disclosure and Assurance* (Feb 2024), p21

[13] Center for Audit Quality, S&P 500 ESG Reporting and Assurance Analysis, (June 2024), see the

- *Assurance Standards Used by Public Company Auditors* section under the sub-heading, *A closer look at the use of the IAASB assurance standards* and
- *Assurance/Verification by Other Providers* section under the sub-heading, *A closer look at the use of the IAASB assurance standards*.