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Sustainability assurance provider participation in standard setting

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ABSTRACT

This paper examines the participation of accounting firms in the development of sustainability standards by the Securities and Exchange Commission (SEC) and the Sustainability Accounting Standards Board (SASB). This study shows that the Big Four accounting firms have an active role in both the submission of comment letters on sustainability to the SEC and participation in the industry working groups (IWG) for the SASB. The SASB participation reveals that individuals located within the US and at international affiliates are participating at earlier career stages. In addition, this paper leverages LinkedIn data, identifying the career path of the individuals subsequent to their participation with the IWG, to determine how large accounting firms are retaining the skills and knowledge necessary for this field. Since the Big Four firms are market leaders in sustainability assurance, the finding that Big Four firms can retain individuals with financial assurance backgrounds differently than individuals with other backgrounds speaks to the unique skill set that financial assurance develops. This suggests that the career opportunities for interested financial assurance individuals within the sustainability sphere remain robust within the Big Four environment.

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1. Introduction

Sustainability accounting and auditing is a growing area of client service among the Big Four firms and the certified public accounting (CPA) profession in general (e.g., Parker, 2016; Schneider, 2013; Wallage, 2000). The recent Governance & Accountability Institute (GAI) survey reports that 82% of S&P 500 companies voluntarily issue reports concerning their environmental, social, and corporate governance (ESG) activities (Verschoor, 2017). In Europe, the European Union (EU) mandates these additional ESG disclosures without endorsing a specific framework. Thus, companies use existing sustainability frameworks, developed by the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB), to structure their disclosures. Unlike the former two organizations that have a global perspective, the SASB focuses primarily on the United States (US) capital market. The accounting profession is integral in auditing the sustainability assertions of the majority of the largest public companies (Manetti & Becatti, 2009) under any of these frameworks and standards.

As sustainability standards continue to evolve, this paper explores the assurance providers' participation beyond the traditional audit and accounting standard setting venues and examines potential career implications of participation in the sustainability standards. Specifically, this study examines three important questions: (a) Are accounting firms participating with the US Securities and Exchange Commission (SEC) and SASB in the development of sustainability standards for the US financial markets? (b) Who, within the Big Four firms, participates in specific sustainability accounting framework development? and (c) How do CPA firms make investments in staff to respond to the growing assurance market?

Answering these questions allows for unique insight into sustainability assurance and makes several contributions to the regulatory literature. First, it expands the literature for standard setting to an important but not traditionally accounting-focused topic. Second, the results provide insight into the individuals involved in standard setting beyond firm names. Finally, this paper provides support for an interest in early career involvement in standard setting ventures and the reality that financial assurance skills can transfer into a viable second-phase career within a Big Four firm.

2. Background and motivation

2.1. Audit firm participation in comment letters

Prior literature has examined the important role audit firms have in the development of accounting and auditing standards (e.g., Anantharaman, 2015; Larson, 2008; Larson & Herz, 2011;

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Yen, Hirst, & Hopkins, 2007). The largest audit firms are the most active accounting firm participants in standard setting (e.g., Jorissen, Lybaert, Orens, & van der Tas, 2012, 2013). For example, Anantharaman (2015) finds that each of the largest audit firms, along with 23 other audit firms, entered a comment letter into the record for business combination accounting standards. Moreover, she highlights that auditors feel that subjective, specialized areas may be difficult to opine upon and present difficulties when disagreements arise with other stakeholders concerning their underlying assumptions. Finally, the position taken, for or against a particular standard, in the comment letter often follows the economic interests of the participants (Anantharaman, 2015). Similarly, this study implicitly relies upon the assumption that assurance providers for sustainability reports have a vested interest in ensuring a demand for their services.

2.2. SEC and sustainability

The SEC is responsible for creating and enforcing the rules concerning disclosure of sustainability information for organizations to follow, ensuring that investors have access to relevant information. The SEC has formally examined the issue of sustainability on three separate occasions. First, in 1975, the SEC explored sustainability-related disclosures and published the Sommer Report, which concluded that disclosure would be required for specific cases where sustainability information had a material impact on the financial disclosures, but that there would be no blanket policy for all companies (SEC, 2016). Furthermore, the Sommer Report did include the minority viewpoint, which reflected that financial materiality may not be the best criterion for judging the importance of sustainability information. The minority opinion also highlighted that social and environmental disclosures might reflect qualitative characteristics of management (SEC, 2016). Second, in 2010, the SEC disseminated an interpretive release addressing climate change matters that subsequently generated comment letters during their Disclosure Effectiveness Initiative project. However, these letters did not result in any formal change in SEC position. Finally, in 2016, the SEC requested information to determine whether sustainability information is important to investors and whether changes to the current voluntary disclosure regime are necessary. Higgins, White, Beller, and Schapiro (2017) examine the information the SEC received from the concept release comment period and allude to the status quo remaining the same.

Historically, the SEC defers to Congress for systematic sustainability disclosure requirements, so public companies have not faced any blanket changes in sustainability requirements through formal SEC filings. For example, Congress passed the Dodd–Frank Wall Street Reform and Consumer Protection Act, which required additional disclosures affecting only conflict minerals (SEC, 2016). The SEC has deemed the costs of collecting sustainability information as unduly burdensome for companies without a corresponding benefit for investors, particularly for companies where sustainability does not appear to be material to the current financial disclosures.

2.3. SASB framework and process

Among several existing and emerging sustainability frameworks, the most common to date are the GRI and the SASB (KPMG, 2015). The GRI framework has a global focus and implements multiple key stakeholders' perspectives. In contrast, the SASB framework focuses on capital market investors and allows companies to provide relevant, material information to the investing public that is auditable and comparable among organizations.

The SASB developed provisional standards for 11 sectors covering over 70 industries through a three-phase process. The initial phase required the gathering of research and information to develop proposed metrics for each sector. The output of this phase was the industry brief that each industry-working group (IWG) used. In the second phase, each IWG developed an exposure draft. The SASB posted the IWG participants' names and their firm affiliations for those who do not choose to be anonymous. The final phase of their standard development process released the exposure draft for public comment and created the final provisional standard.[1] Companies usually submitted the comment letters to the SASB with a few specific individuals identified from the firm.

The SASB structured each IWG to represent the financial statement preparers (corporations/issuers of public stock), market users of information (analysts and investor organizations), and public interest groups (attorneys, consultants, accounting firms, academics, other non-government organizations, etc.) (SASB, 2015a). The SASB required each IWG participant have at least five years of experience in the relevant industry. One key objective of the IWG was to provide information to the SASB based on the knowledge and perspective of the participants. While the SASB targeted a level of participation for each industry group (e.g., 12 representatives for financial statement preparers for each of the eight industries for Consumption 2 (SASB, 2015a)), the resulting final composition of participants varied from the expected levels. The SASB reports reflected the lowest participation level for the healthcare sector and the highest level for the infrastructure sector (SASB, 2015b).

After creating the provisional standards, the SASB made changes to its standard setting process (SASB, 2017) to more closely align with financial accounting standard setting processes that the Financial Accounting Standards Board (FASB) follows. Currently, the SASB is working on creating uniformity among each sector's independently developed provisional standards. During October 2017, the SASB released an exposure draft for public comment addressing their changes to the provisional standards to begin a formal codification process. As of February 2018, Baker Tilly is the sole accounting firm responding to the SASB exposure draft with a formal comment letter focusing on metrics for a specific sector (Baker Tilly, 2017). Thus, the process of changing each standard's content continues.

2.4. Attestation of sustainability disclosures

Due to the lack of a single, required sustainability framework, companies with voluntary sustainability disclosures have used third-party attestation as a signal to the market for the validity of the information (e.g., Bagnoli & Watts, 2017; Perego, 2009; Peters & Romi, 2014). Simnett, Vanstraelen, and Chua (2009) find evidence suggesting that Big Four firms' sustainability attestations are superior to alternative sustainability assurance providers for more financially stable companies supporting the signaling argument. Deegan (2002) details the role that assurance providers play in reducing instances of greenwashing, which occurs when a corporation provides sustainability information to make themselves seem more sustainably responsible than is warranted (e.g., Lyon & Maxwell, 2011; Walker & Wan, 2012).

The Big Four firms are market leaders in sustainability assurance (King, 2013). Within the Big Four firms, the consulting or advisory function typically engages in sustainability attestation rather than the assurance function. The Big Four firms hire additional individuals within these service lines who have no financial or audit experience to enrich the scientific components of sustainability measurement or transfer over individuals from financial audit into sustainability assurance.

[1] Each industry IWG due process report contains an overview of the SASB standard setting overview process (e.g., http://www.sasb.org/wp-content/uploads/2014/08/Services-IWG-Due-Process-Review.pdf).

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