Via e-filing: nrr_comments@sasb.org

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Subject: Public Comments from the American Exploration & Production Council ("AXPC") and the Independent Petroleum Association of America ("IPAA") in response to the Sustainability Accounting Standards Board ("SASB") release of proposed sustainability accounting standards for the Oil and Gas – Exploration and Production ("E&P") sector

Dear Dr. Rodgers:

On January 14, 2014, the Sustainability Accounting Standards Board ("SASB") released a proposed sustainability accounting standard for the Non-Renewable Resources sector (including Oil & Gas – Exploration & Production) for public review and comment ("Exposure Draft"). The following reflects the response of the American Exploration & Production Council ("AXPC") and the Independent Petroleum Association of America ("IPAA") (collectively referred to as "the Associations") to the Exposure Draft.

AXPC is a national trade association representing 32 of America's largest and most active independent natural gas and crude oil exploration and production companies. AXPC's members are "independent" in that their operations are limited to the exploration for and production of natural gas and crude oil. Moreover, our members operate autonomously, unlike their fully integrated counterparts, which operate in additional segments of the energy business, such as midstream and downstream refining and marketing. AXPC's members are leaders in developing and applying the innovative and advanced technologies necessary to explore for and produce crude oil and natural gas, and that allow our nation to add reasonably priced domestic energy reserves in environmentally responsible ways.

IPAA is a national trade association representing thousands of independent oil and natural gas exploration and production companies as well as the service and supply industries that support them. Independents operate roughly 95 percent of the nation's oil and natural gas wells, producing 54 percent of America's oil and 85 percent of America's natural gas.

The Associations support sustainability reporting frameworks that emphasize flexibility and prioritize the identification of sustainability topics that are deemed material by each company and their stakeholders. We believe that by reporting performance through the application of voluntary, flexible frameworks, we will increase transparency and continue to improve accuracy in reporting across our industry. We do not support SASB's efforts to establish a reporting standard for disclosure in mandatory filings to the SEC, such as the Form 10-K and 20-F. Companies listed on U.S. stock exchanges are already required to report in their regulatory filings on material environmental issues and risks. However, SASB introduces concepts such as "may" or "could" to the materiality formulation. The Supreme Court has been clear on a definition of materiality, and the Associations are concerned that SASB appears to seek to lower the threshold by requiring companies to speculate about potential financial impacts in which investors may or may not be interested. Furthermore, the Associations are not aware of sufficient evidence of investors supporting these disclosures in mandatory filings.

The Associations assert that SASB's approach to reporting does not lead to or provide additional benefits beyond existing, voluntary reporting frameworks such as the IPIECA, API and OGP *Oil and gas industry guidance on voluntary sustainability reporting* ("IPIECA *Guidance*") or the Global Reporting Initiative ("GRI") *Sustainability Reporting Guidelines* and *Oil and Gas Sector Supplement*. In addition, we maintain there is a real and significant cost burden associated with collecting and analyzing data to meet the SASB standard that is not commensurate with the insight these disclosures would provide on companies' sustainability performance.

The following comments detail our opposition to the Exposure Draft:

1. **A reporting framework should adopt metrics used in already-established, well thought-out reporting frameworks.**

The Associations' member companies do not believe that many of the topics covered in the Exposure Draft represent material information or risk to investors. The Exposure Draft also fails to meet SASB's aim of informing investors about the most material impacts a company faces. Current industry guidance provides mature and tested approaches. These frameworks have been developed, and continue to be improved, with material impacts, stakeholder needs and company performance in mind.

> **Example:** Accounting metric NR0101-26 requests *"Estimated greenhouse gas emissions potential (in metrics tons $C0_2e$), embedded in proved hydrocarbon reserves."* Separate from the Associations' challenge to the accounting metric guidance (.126 and .127) stating that, *"registrant shall make reasonable assumptions about the downstream use of hydrocarbon products,"* and *"in the absence of primary data, the registrant should refer to sources such as the U.S EIA or the IEA for assumptions about downstream disposition of crude oil, petroleum distillates, and natural gas,"* the lack of comparability and a defined process for these calculations renders this disclosure meaningless to investors. Additionally, the cost associated with obtaining this information would be substantial without providing a clear benefit to investors and shareholders. Such "metrics" represent poorly developed disclosures that do not capture material industry information better than what is already reported through existing frameworks.

2. **Companies are in the best position to determine their own material risks.**

This stands in contrast to the prescriptive nature of the numerous accounting metrics and references to multiple third-party guidelines suggested in the SASB standards. The cumbersome nature of collecting and reporting poorly-defined data will force many companies to focus on reporting at the expense of performance.

> **Example:** Accounting metric NR0101-15 requests "*Estimated value at risk (in U.S. dollars) to capital expenditure projects due to country, regional, and/or community risks, including a description of the valuation model or risk approach used."* The Associations question SASB's Evidence-Based Determination of Materiality[1] when offering guidance and using terms without clear and well-understood definitions, which may result in information that is not decision-useful for corporate management and investors. This compromises the quality and

[1] http://www.sasb.org/wp-content/uploads/2013/10/SASB-Conceptual-Framework-Final-Formatted-10-22-13.pdf

comparability of data and increases the likelihood that real impacts and issues would be overlooked. A broad and vaguely-defined metric has no utility to investors or other stakeholders.

In support of these examples, we concur with public comments filed by members of the Society of Corporate Secretaries and Governance Professionals on the SASB Conceptual Framework that:

> *"The assumption by SASB that 'information about material issues' automatically rises to the level of itself being 'material information' is not valid. If a particular fact is not material to a company, it does not suddenly rise to the level of being considered material merely because it relates to a topic 'of interest' to certain investors. Instead, the appropriate standard is 'material information about material issues,' or simply 'material information.' The proposal to create an 'industry materiality' standard is similarly flawed. Materiality (or the lack thereof) is determined based upon the specific facts and circumstances facing a particular company."*

3. **A reporting framework should guide companies on the issues stakeholders increasingly expect companies to report.**

Companies collect data to inform their risk management and to improve their performance. The Associations do not agree with SASB's inclusion of several metrics in the Exposure Draft as *Evidence-Based* measures of risk and performance.

> **Example:** Accounting metric NR0101-10 requests *"Percentage of proved reserves: (1) in sites with high conservation value, (2) in the Arctic."* This metric fails to provide investors with valuable information that could guide decision-making. First, the accounting metric guidance on determination of *"high conservation value"* (.43) does not account for many other ecologically sensitive areas in which companies may operate and focus on only the Arctic will result in narrow and incomplete disclosures. Further, and perhaps more importantly, NR0101-10 does not take into consideration all the mitigation measures and best management practices that companies are often required to implement if they are allowed to operate in these areas at all. Finally, calling out a specific area of "high conservation value" to report on, such as the Arctic, seems somewhat arbitrary. For these reasons, we believe that these "metrics" do not provide a measure of risk or performance for investors.

4. **A reporting framework designed for disclosure in mandatory filings must be actionable by companies.**

SASB does not provide well defined processes or sufficient guidance on the preparation of disclosures to ensure auditability at the level required by financial accounting standards. Based on the Associations' analysis and review of public comments filed on the SASB Conceptual Framework regarding this topic, we recognize the standard, as proposed, will not meet the American Institute of Certified Public Accountants ("AICPA") definition of suitable criteria[2]. Therefore, the Exposure Draft does not provide sufficient guidance on how to prepare disclosures to ensure companies use the same criteria to obtain materially similar results.

In support of this point, the Associations are also not satisfied by SASB's public response to suggestions and concerns raised by stakeholders regarding auditability, as stated by SASB in its Conceptual Framework Record of Public Comment:

> *"Suggestion to make sure that standards are suitable criteria for AICPA will be considered as an <u>additional duty</u> of the [SASB] Standards Council* [emphasis added]*."*

[2] http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00101.pdf

Entrusting the SASB Standards Council to the *"additional duty"* of ensuring the standard contains suitable criteria renders the current standard not actionable by companies and, if adopted, may result in information that is not decision-useful for corporate management and investors.

> **Example:** Accounting metric NR0101-06 requests *"Total fresh water withdrawn (m^3), returned (m^3), recycled (m^3); and percentage withdrawn in water-stressed regions, evaluated as High or Extremely High Baseline Water Stress, as defined by the WRI Water Risk Atlas."* While the Associations agree with SASB's inclusion of this topic as generally material, we do not agree that the accounting metric guidance (.26-.29) employs criteria that are actionable by companies.

In contrast, the IPIECA *Guidance* is the outcome of over ten years of sharing, assessing and debating among industry experts and represents consensus on the most prevalent sustainability issues, indicators and criteria for the oil and gas industry, at the same time as supporting continuous improvement of sustainability reporting and performance across the sector.

While we support the reporting of non-financial performance through the application of voluntary, flexible frameworks, we do not agree that the Exposure Draft, including a specific set of accounting metrics, is an effective means of meeting SASB's stated objectives to "assess sustainability risks" and a "complement to financial accounting." The Exposure Draft falls short of its proposed "relationship with financial accounting," and the Associations concur with public comments filed by PricewaterhouseCoopers ("PwC") that:

> *"The SASB's emphasis on prescribing material non-financial topics at an industry level may lead to different outcomes than a company-specific process. Given that the FASB has recently consciously moved away from industry level standards, SASB's approach represents a diversion from that used in traditional financial reporting."*

Thank you for the opportunity to comment on the proposed Exposure Draft for the Oil & Gas – Exploration & Production sector. Please let us know if you would appreciate further discussion on any of the points raised in this letter.

Sincerely,

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