

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via email: rule-comments@sec.gov

10th June 2022

Dear Secretary Countryman,

FILE NUMBER: S7-10-22. THE ENHANCEMENT AND STANDARDISATION OF CLIMATE-RELATED DISCLOSURE FOR INVESTORS

We are writing to offer our perspectives as long-term investors on the above Proposed Rule published by the SEC on 21st March 2022. Sarasin and Partners LLP is a London-based investment manager serving charities, private clients and other institutions. We invest globally. Our goal is to deliver sustained investment returns through an active long-term and thematic investment approach, which emphasises responsible stewardship.

We welcome the SEC's detailed proposals to increase required disclosures relating to material climate-related factors in registrants' statutory filings, including both qualitative and quantitative information. We particularly welcome the attention given to financial statement disclosures, which has been a topic that we have long sought greater visibility on for investors¹. For this reason, our submission will focus on this element.

In our view, despite clear existing requirements in regulation that all material climate considerations should be incorporated in company accounts, this is not being consistently applied². A continued failure to incorporate material climate impacts in financial statements raises the risks of misrepresentation of more carbon-intensive and climate-exposed companies' financial position. This will not only increasingly undermine trust in capital markets, but will set the scene for a potential misallocation of capital, resulting in investor and societal harm.

¹ Sarasin & Partners chairs the Accounting and Audit working group at the Institutional Investor Group on Climate Change (IIGCC); was lead author for IIGCC's publication "Investor expectations for Paris-aligned accounting" (Nov 2020); and has continued to lead several engagements with publicly listed companies seeking climate-related disclosures in accounting and audit. Please see our website for more recent public statements on companies and for policy-makers: <https://sarasinandpartners.com/stewardship/policy-and-engagement-library/>

² Carbon Tracker Initiative, [Flying blind: The glaring absence of climate risks in financial reporting](https://carbontracker.org/wp-content/uploads/2022/05/), September 16, 2021; 2022 updates here: <https://carbontracker.org/wp-content/uploads/2022/05/>



The damage of ignoring climate-related impacts is likely to be systemic in nature, and is already a matter for prudential regulatory supervision³. Moreover, the potentially irreversible and catastrophic consequences of climate change for society, as documented in detail by the Inter-governmental Panel on Climate Change, should make greater disclosure – particularly in the financial statements – a public-interest priority in the US as well as globally.

We, therefore, applaud the SEC's leadership on this matter. It is our hope that where the SEC leads, other regulators will follow.

We would also like to draw out the express investor demand for visibility of how a 1.5°C or well-below 2°C scenario could impact companies' financial position. Here, investors point to global commitment to achieve this target as a reasonable basis for seeking disclosure⁴. While the SEC proposed rule is silent on this matter, it would appear to pass the 'materiality' test – namely that it is important to investor decision-making. We would, therefore, welcome guidance by the SEC that these disclosures are needed to meet the materiality requirements.

In the attached pages, we provide both summary comments and specific responses to the questions set out in Section F of the proposed Rule. As noted above, we are supportive of other non-financial climate-related disclosures but believe that it is the financial statement disclosures that are particularly vital to translate commitments and promises into real action. After all, executive remuneration tends to be based on the numbers presented in company accounts, not promises made. Until the numbers reflect climate considerations, we cannot expect executive behaviour to do so.

We hope this submission is helpful and would be happy to respond to questions or points of clarification.

Yours sincerely,

Natasha Landell-Mills, CFA
Partner, Head of Stewardship

³ European Central Bank and Bank of England climate stress testing is underway, alongside other jurisdictions; the US Financial Stability Oversight Council and the Federal Reserve are increasing their efforts to track climate risks embedded in the financial sector ([Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability | U.S. Department of the Treasury](#); [Speech by Governor Brainard -- Building Climate Scenario Analysis on the Foundations of Economic Research \(federalreserve.gov\)](#)). We have also seen other accounting and audit regulators make clear the importance for the inclusion of material climate risks under existing accounting regulations and standards: [European enforcers target COVID-19 and climate-related disclosures \(europa.eu\)](#); [FRC CRR Year End Key Matters October 2021](#)

⁴ See investor statements referred to under point 2 in summary comments below.

Summary comments

1. We support all the core elements of the proposals in Section F regarding financial statement disclosures put forward by the SEC, including the need to ensure existing financial statements incorporate material climate risks in accordance with existing principles.
2. Investors desire to have these disclosures has been made clear through several public statements, such as the global investor association statement published in September 2020⁵; Institutional Investor Group on Climate Change paper “Investor expectations for Paris-aligned accounting”⁶; and Ceres paper “Lifting the Veil”⁷. Prior to the climate conference (COP26) in Glasgow in November 2021, a group of investors published a call for policy-makers to require net zero accounting disclosures⁸. Building on these expectations, in 2022 the CA100+ initiative, representing over \$60 trillion in AUM, added metrics on accounting and audit to their benchmark for assessing company performance on climate change⁹. This is increasingly a basis for company engagement and voting. In May 2022, 52% of Exxon’s shareholders supported a resolution at their Annual General Meeting asking the Board to publish an audited account of how its financial position would be impacted by a 1.5C pathway¹⁰.
3. In addition to investor calls for improved visibility, as the SEC highlights in its proposals, **US and international standard setters and regulators have also released guidance underscoring the importance of disclosures on material climate risks under existing requirements.** In November 2020 the International Accounting Standards Board (IASB) published guidance on including climate considerations in financial statements, in line with existing standards¹¹. They highlighted that the materiality of this information, and thus requirement to cover it under existing rules, was determined by investor demand rather than the opinion of management. The Federal Accounting Standards Board published its own Staff Paper covering climate in March 2021¹², and the International Audit and Assurance Standards Board (IAASB) issued guidance reminding auditors of their responsibilities to cover material climate risks, just as they would other material factors¹³.

⁵ [Investor groups call on companies to reflect climate-related risks in financial reporting | PRI Web Page | PRI \(unpri.org\)](#)

⁶ [Investor Expectations for Paris-aligned Accounts – IIGCC](#)

⁷ [Lifting the Veil: Investor Expectations for Paris-aligned Financial Reporting at Oil and Gas Companies](#)

⁸ [Net-zero accounting is essential for net-zero emissions - Sarasin & Partners UK \(sarasinandpartners.com\)](#)

⁹ [Net Zero Company Benchmark | Climate Action 100+](#)

¹⁰ [ExxonMobil investors back push for fossil fuel transition audit | Financial Times \(ft.com\)](#)

¹¹ [IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards](#)

¹² [FASB Staff Educational Paper-Intersection of Environmental,...](#)

¹³ [IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC](#)

4. **Accounting regulators in the UK and Europe have reinforced the message to preparers and auditors** in 2021 that they must, under existing rules, ensure they cover material climate risks¹⁴.
5. We support the explicit requirements for both contextual and specific information that disclose how climate-related impacts are accounted for within the financial statements (assumptions, estimates, policies as well as key line items), including the physical and transition impacts. It is important that registrants disclose specific information relating to how key assumptions have been changed (which is already required under FASB ASC Topic 250- 10-50-4, including if a change in estimate does not have a material effect in the period of change, but is reasonably certain to have a material effect in later periods). We view the SEC's guidance in Sections II.F.2 and II.F.3 as helpful but non-exhaustive. We would also welcome disclosures at segment level and geographic areas for the latest reported time periods. All disclosures in the financial statements should be consistent with other climate-related disclosures in statutory filings, including any climate commitments and targets [Q52-58, 71, 81, 86].
6. In addition to the clear requirements set out in the SEC's proposed rule, additional steps the SEC could consider include 1) directing the FASB to initiate a time bound project to develop standards to reflect climate risk in the financial statements, which the SEC vets; 2) issuing a Staff Accounting Bulletin to provide additional guidance, and 3) updating relevant industry guides, such as for the oil and gas, and mining industry.
7. We are supportive of separate and specific, rather than aggregated, disclosure of the physical and transition impacts (whether expenditure related or otherwise) to facilitate interpretation of the information in investment and voting decisions, and enable a better understanding of cross-cutting portfolio risks by ensuring these are not hidden. Where a registrant cannot disaggregate these impacts, it would be useful to investors to understand why. If possible, it would also be helpful to have a reasonable estimate, with disclosure of associated assumptions to facilitate interpretation. We would welcome explicit disclosure for how the cost of capital estimates have reflected climate risks and opportunities. [Q59-61, 65, 68-69, 73, 83]
8. We agree that while risk/negative impact disclosure should be required, disclosure of opportunities should be optional but consistently applied. This approach would be consistent with a prudent accounting mindset that seeks to prevent executives from presenting an over-optimistic view of their financial position. Future potential opportunities should be highlighted in narrative disclosures but not incorporated into the financial statements until they are probable. Also, where a registrant is identifying expected climate-related opportunities as part of their narrative disclosures, e.g. their discussion of strategy, then the associated costs should be considered in the forward-looking elements of the financial statements to ensure consistency. For example, where a carbon-intensive company expects to make use of Carbon Capture and Storage to

¹⁴ [European enforcers target COVID-19 and climate-related disclosures \(europa.eu\)](#); [FRC CRR Year End Key Matters, October 2021](#)

- fulfil their net zero commitment, then the costs of delivering this should be explicitly incorporated into the financial statements. [Q62, 75, 85]
9. While we agree with the proposed threshold of 1% of the total line item (including for expenditure items), additional disclosure would be appropriate where the aggregate impact is less than this, but investors have expressed a clear interest in understanding this impact (thus making it material). We are not in favour of netting positive and negative impacts due to the dangers that this hides large and material absolute impacts. We also believe it will be important to both ensure individual impacts are disclosed separately, but the rules should prevent disparate reporting of the climate impacts which could result in each impact falling below the disclosure threshold, such that the understanding of climate impacts is hidden (e.g. separate disclosure of capitalised costs and expenses linked to climate impacts). Given the estimation risks inherent in these forward-looking exercises, it is better to break out the impacts to permit investors to evaluate the underlying impacts. [Q52,66-67, 68, 73-79].
 10. We would welcome an explicit requirement for the registrants in high-impact companies to provide sensitivity analysis for reasonable alternative assumptions associated with a 1.5C and well below 2C pathways envisaged under the Paris Climate Agreement. These sensitivity analyses should be provided in the Notes to the Financial Statements to provide investors with visibility of how the registrants' financial position would be impacted. This is material for a large and growing number of investors that are committed to investing in alignment with these goals¹⁵. Finally, to support market efficiency, investors need to understand what their exposures are to climate risks whether or not they are themselves committed to a 2050 net zero goal. [Q90]
 11. While we can support a separate climate report that brings together all the material climate-related financial impacts, this should not replace the disclosures within the financial statements (including in the Notes) that appropriately reflect the financial consequences of these climate factors. Aside from ensuring more reliable accounts, this will ensure that investment decision-making as well as other corporate decisions based on financial statement, e.g. compensation, incorporate the climate impacts. Were a separate climate statement created, this could send a perverse message that climate impacts are not financial or material for corporate earnings and financial condition, which would, in our view, be misleading. All these disclosures should be audited in keeping with existing requirements for financial statements. [Q87-89]
 12. We believe that auditors have an important role to play in ensuring the reliability of the climate-related financial disclosures. As investors, we look to auditors to provide robustly independent challenge to ensure the assumptions and estimates underpinning the financial statements are sound, and the statements themselves provide a fair representation of the entity's economic health. Recent guidance by the IAASB affirms that material climate risks need to be considered in the same manner as any other

¹⁵ See for instance the growing membership of the Net Zero Asset Managers (NZAM) initiative, which currently stands at over \$60 trillion in assets.

material factor in the audit process. We believe, however, that it is the regulator – the PCAOB – that should provide explicit guidance to auditors on what is expected, and then undertake reviews to ensure proper implementation. We furthermore note a gap between European auditor disclosures relating to climate factors versus their US counterparts, which offer no or little commentary, including from the same company (e.g. for Rio Tinto plc, KPMG has removed all reference to climate in its US Audit Report under its Critical Audit Matters, whereas it includes a discussion on climate risks in its UK Auditor Report). [Q91]

13. We have also noted that Audit and Risk Committees provide little commentary on how they have considered climate risks in their US filings versus their peers in Europe. We would welcome guidance from the PCAOB/SEC to Audit Committees to ensure they offer greater visibility of how they have considered climate risks, the entity’s climate commitments and the global commitment to achieve a 1.5C outcome in their oversight of financial reporting. [Q91]
14. We would underline that these disclosures are sought by investors to ensure appropriate consideration as part of investment and other stewardship (e.g. voting) decision-making, and thus to underpin market efficiency and capital allocation. Without these disclosures, we would anticipate rising levels of uncertainty over hidden climate risks, which could result in system-wide inefficiencies and potentially harmful economic dislocation. [throughout]

Specific requests for comment (Section F on financial statement disclosures)

Overview

52. Should we require a registrant to provide contextual information, including a description of significant inputs and assumptions used, and if applicable, policy decisions made by the registrant to calculate the specified metrics, as proposed? Should we revise the proposed requirement to provide contextual information to require specific information instead? We provide some examples of contextual information disclosure in Sections II.F.2 and II.F.3 below. Would providing additional examples or guidance assist registrants in preparing this disclosure?

Yes, we are supportive of an explicit requirement for registrants to provide contextual information relating to how climate has been considered in drawing up significant inputs and assumptions used in financial statements, and relevant policy decisions. We are also supportive of requirements to disclose specific information relating to how the assumptions themselves have been changed, as well as sensitivity analysis for reasonable alternative assumptions to provide investors with visibility of how the registrants’ financial position would be impacted by, in particular, accelerated decarbonisation pathways consistent with a well below 2C and 1.5C, to which the US and other governments have committed under the Paris Climate Agreement. We believe it would also be helpful for the

SEC to include examples or guidance (such as those provided in Sections II.F.2 and II.F.3) to assist registrants in preparing this disclosure.

53. The proposed rules would specify the basis of calculation for the climate-related financial statement metrics. Is it clear how to apply these accounting principles when calculating the proposed climate-related financial statement metrics, or should we provide additional guidance? Should we require a registrant to report these metrics with reference to its consolidated financial statements, as proposed? If not, how should registrants report these metrics? If we were to establish accounting principles (e.g., the basis for reporting these metrics) in a manner that differs from the principles applicable to the rest of the consolidated financial statements, would the application of those principles to the proposed metrics make climate-related disclosures less clear, helpful, or comparable for investors?

We agree that the proposed rule makes clear that accounting principles under US GAAP or IFRS must be consistently applied for climate-related metrics. It is important that the climate-related metrics are rooted in the consolidated financial statements.

54. Should we also require such metrics to be calculated at a reportable segment level when a registrant has more than one reportable segment (as defined by the FASB ASC Topic 280 Segment Reporting)? In addition, should we require such metrics to be presented by geographic areas that are consistent with the registrant's reporting pursuant to FASB ASC Topic 280-10-50-41? How would investors use such information?

We would welcome climate-related metrics at segment level and by geographic area to enable easier interpretation of the information and thus facilitate a better understanding of the nature and location of the climate risks.

55. The proposed rules would require disclosure for the registrant's most recently completed fiscal year and for the corresponding historical fiscal years included in the registrant's consolidated financial statements in the filing. Should disclosure of the climate-related financial statement metrics be required for the fiscal years presented in the registrant's financial statements, as proposed? Instead, should we require the financial statement metrics to be calculated only for the most recently completed fiscal year presented in the relevant filing? Would requiring historical disclosure provide important or material information to investors, such as information allowing them to analyze trends? Are there other approaches we should consider?

We support proposal on time-frame for disclosures to enable tracking of these metrics over time. Longer historical records would be welcome but we expect would be difficult to accurately report given the lack of historical information as well as the rising materiality of these factors in recent periods. Instead of historical data, we would welcome narrative commentary by the registrant on how they understand these metrics to have changed over recent history.

56. Should information for all periods in the consolidated financial statements be required for registrants that are filing an initial registration statement or providing climate-related financial statement metrics disclosure for historical periods prior to the effective date or compliance date of the rules? Would the existing accommodation in Rules 409 and 12b-21 be sufficient to address any potential difficulties in providing the proposed disclosures in such situations?

See response to Q55

57. Should we provide additional guidance as to when a registrant may exclude a historical metric for a fiscal year preceding the current fiscal year?

We believe the guidance is sufficiently clear.

58. In several instances, the proposed rules specifically point to existing GAAP and, in this release, we provide guidance with respect to the application of existing GAAP. Are there other existing GAAP requirements that we should reference? Are there instances where it would be preferable to require an approach based on TCFD guidance or some other framework, rather than requiring the application of existing GAAP?

We view it as appropriate to reference existing GAAP as the basis for drawing up financial statements, and to provide the guidance as proposed in this document. The proposed rule rightly makes clear that this guidance is non-exhaustive. It would also be useful to underline the importance that the financial statements are consistent with other disclosures included in the statutory reports, including where relevant TCFD or other climate-related disclosures.

Financial impact metrics

59. Should we require registrants to disclose the financial impact metrics, as proposed? Would presenting climate-specific financial information on a separate basis based on climate-related events (severe weather events and other natural conditions and identified physical risks) and transition activities (including identified transition risks) elicit decision-useful or material information for investors? Are there different metrics that would result in disclosure of more useful information about the impact of climate-related risks and climate-related opportunities on the registrant's financial performance and position?

We are supportive of the proposed disclosures of the financial impacts of climate risks. Specifically, separate disclosure of the physical and transition impacts would be important to facilitate interpretation of the information in investment and voting decisions, and enable a better understanding of cross-cutting portfolio risks by ensuring these are brought out rather than hidden behind aggregate numbers.

60. Would the impact from climate-related events and transition activities yield decision-useful information for investors? Would the climate-related events (including the examples provided) and transition activities result in impacts that are easier to quantify or disaggregate than climate-related risks more generally? Would a registrant be able to quantify and provide the proposed disclosure when the impact may be the result of a mixture of factors (e.g., a factory shutdown due to an employee strike that occurs simultaneously with a severe weather event)? If there are situations where disaggregation would not be practicable, should we require a registrant to disclose that it was unable to make the required determination and why, or to make a reasonable estimate and provide disclosure about the assumptions and information that resulted in the estimate?

Please see response to Q59 above – we support separate disclosures for specific climate factors. Where a registrant cannot disaggregate these impacts, it would be useful to investors to understand why. If possible, it would also be helpful to have a reasonable estimate, with disclosure of associated assumptions to facilitate interpretation.

61. Alternatively, should we not require disclosure of the impacts of identified climate-related risks and only require disclosure of impacts from severe weather events and other natural conditions? Should we require a registrant to disclose the impact on its consolidated financial statements of only certain examples of severe weather events and other natural conditions? If so, should we specify which severe weather events and other natural conditions the registrant must include? Would requiring disclosure of the impact of a smaller subset of climate-related risks be easier for a registrant to quantify without sacrificing information that would be material to investors? 130

We would not support a requirement that only required a narrow set of disclosures limited to severe weather events as this would mean other material climate risks could remain hidden to investors and prevent an accurate understanding of the risks, and limit investors ability to identify cross-sector risks. This in turn would lead to less efficient investment decision-making and less well-informed voting.

62. Should impact from climate-related opportunities be required, instead of optional, as proposed? We are proposing to require a registrant that elects to disclose the impact of an opportunity to do so consistently (e.g., for each fiscal year presented in the consolidated financial statements, for each financial statement line item, and for all relevant opportunities identified by the registrant). Are there any other requirements that we should include to enhance consistency? Should we only require consistency between the first fiscal period in which opportunities were disclosed and subsequent periods?

We agree that while risk/negative impact disclosure should be required, disclosure of opportunities should be optional but consistently applied. This approach would be consistent with a prudent accounting mindset that seeks to prevent executives from presenting an over-optimistic view of their financial position. Future potential opportunities

should be highlighted in narrative disclosures but not incorporated into the financial statements until they are relatively certain to transpire.

63. Is it clear which climate-related events would be covered by “severe weather events and other natural conditions”? If not, should we provide additional guidance or examples about what events would be covered? Should we clarify that what is considered “severe weather” in one region may differ from another region? For example, high levels of rainfall may be considered “severe weather” in a typically arid region.

No need to be too prescriptive.

64. Are the proposed requirements for calculating and presenting the financial impact metrics clear? Should the analysis be performed and disclosed in a manner other than on a line-by-line basis referring to the line items of the registrant’s consolidated financial statements?

The proposed requirements for line-by-line impacts are clear.

65. We are proposing to allow a registrant to aggregate the absolute value of negative and positive impacts of all climate-related events and, separately, transition activities on a financial statement line item. Should we instead require separate quantitative disclosure of the impact of each climate-related event or transition activity? Should we require separate disclosure of the impact of climate-related opportunities that a registrant chooses to disclose?

Separate disclosure for negative impacts and opportunities is preferable for more material impacts to enable more meaningful interpretation and also enhance investors ability to compare these impacts across entities.

66. The proposed financial impact metrics would not require disclosure if the absolute value of the total impact is less than one percent of the total line item for the relevant fiscal year. Is the proposed threshold appropriate? Should we use a different percentage threshold (e.g., three percent, five percent) or use a dollar threshold (e.g., less than or greater than \$1 million)? Should we use a combination of a percentage threshold and a dollar threshold? Should we only require disclosure when the financial impact exceeds the threshold, as proposed, or should we also require a determination of whether an impact that falls below the proposed quantitative threshold would be material and should be disclosed?

We agree with the proposed threshold of 1% of the total line item. Where the impact is less than this, but investors have expressed a clear interest in understanding this impact, registrants should be required to offer commentary on how the impact was assessed.

67. For purposes of determining whether the disclosure threshold has been met, should impacts on a line item from climate-related events and transition activities be permitted to

offset (netting of positive and negative impacts), instead of aggregating on an absolute value basis as proposed? Should we prescribe how to analyze positive and negative impacts on a line item resulting from the same climate-related event or the same transition activity (e.g., whether or not netting is permitted at an event or activity level)? Should we permit registrants to determine whether or not to offset as a policy decision (netting of the positive and negative impact within an event or activity) and provide relevant contextual information? Should we require the disclosure threshold to be calculated separately for the climate-related events and transition activities, rather than requiring all of the impacts to be aggregated as proposed?

We would not favour netting due to the dangers that this hides large and material absolute impacts. Given the estimation risks inherent in these forward-looking exercises, it is better to break out the impacts to permit investors to evaluate the underlying impacts.

68. Instead of including a quantitative threshold, as proposed, should we require disaggregated disclosure of any impact of climate-related risks on a particular line item of the registrant's consolidated financial statements? Alternatively, should we just use a materiality standard?

As noted under Q66 and 67, we favour disaggregated impacts to be disclosed, with additional commentary for investors where there is an express desire to understand how climate-related risks could impact the business. We would also favour the disclosure of disaggregated impacts associated with 1.5-well below 2C pathways as highlighted elsewhere.

69. Should we require a registrant to disclose changes to the cost of capital resulting from the climate-related events? If so, should we require a registrant to disclose its weighted average cost of capital or any internal cost of capital metrics? Would such disclosure elicit decision-useful or material information for investors? 132

Yes, we would welcome explicit disclosure for how the cost of capital estimates have reflected climate risks and opportunities.

71. Are the proposed examples in the financial impact metrics helpful for understanding the types of disclosure that would be required? Should we provide different or additional examples or guidance?

The examples are helpful, and we agree that these should not be view as exhaustive.
Expenditure metrics

72. Should we require registrants to disclose the expenditure metrics, as proposed? Would presenting the expenditure metrics separately in one location provide decision-useful information to investors? Is there a different type of metric that would result in more useful

disclosure of the expense or capitalized costs incurred toward climate-related events and transition activities or toward climate-related risks more generally?

Requiring registrants to disclose the expenditure metrics separately and in one location will help to ensure investors are informed of the expenditure-related impacts from climate change and the energy transition. In determining whether the materiality threshold has been reached for disclosure, it will be important to prevent against gaming these disclosure rules, e.g. by classifying costs as expenditure rather than capitalising the costs where this would push the expenditure over the threshold.

73. Would the disclosure required by the expenditure metrics overlap with the disclosure required by the financial impact metrics? If so, should we require the disclosure to be provided pursuant to only one of these types of metrics?

The central principle guiding inclusion into the financial statements is that the impacts are properly captured. These may be expenditure related or associated with other line items. It will be important to ensure all these impacts are captured but also that there is no double counting. It will also be important to ensure registrants do not split the classification to keep costs below the disclosure threshold and thereby avoid disclosure. The proposal to require disclosure under just one of these types of metrics could be one solution. Another could be to require all the impacts and expenditure-related impacts to be combined into a single disclosure, and for disclosure thresholds to be set accordingly.

74. Should the same climate-related events (including severe weather events and other natural conditions and identified physical risks) and transition activities (including identified transition risks) that we are proposing to use for the financial impact metrics apply to the expenditure metrics, as proposed? Alternatively, should we not require a registrant to disclose expenditure incurred towards identified climate-related risks and only require disclosure of expenditure relating to severe weather events and other natural conditions? Should we require a registrant to disclose the expenditure incurred toward only certain examples of severe weather events and other natural conditions? If so, should we specify which severe weather events and other natural conditions the registrant must include? Would requiring disclosure of the expenditure relating to a smaller subset of climate-related risks be easier for a registrant to quantify without sacrificing information that would be material to investors?

We favour the proposed inclusive approach that ensures all the climate-related expenditures are captured, and pulled together to ensure investors are fully informed of the associated costs, whether linked to physical or transition impacts.

75. Should the proposed rules instead require a registrant to disclose the aggregate amounts of expensed and capitalized costs incurred toward any climate-related risks? Should expenditures incurred towards climate-related opportunities be optional based on a registrant's election to disclose such opportunities, as proposed?

We support the aggregation of expensed and capitalised costs in determining whether a disclosure threshold has been met. Where the costs come below the disclosure threshold we would like registrants to be required to disclose this fact.

Where a registrant is identifying expected climate-related opportunities as part of their narrative disclosures, e.g. their discussion of strategy, then the associated costs should be considered in the forward-looking elements of the financial statements to ensure consistency. For example, where a carbon-intensive company expects to make use of Carbon Capture and Storage to fulfil their net zero commitment, then the costs of delivering this should be explicitly incorporated into the financial statements.

76. Should we apply the same disclosure threshold to the expenditure metrics and the financial impact metrics? Is the proposed threshold for expenditure metrics appropriate? Should we use a different percentage threshold (e.g., three percent, five percent) or use a dollar threshold (e.g., less than or greater than \$1 million)? Should we use a combination of a percentage threshold and a dollar threshold? Should we only require disclosure when the amount of climate-related expenditure exceeds the threshold, as proposed, or should we also require a determination of whether an amount of expenditure that falls below the proposed quantitative threshold would be material and should be disclosed? Should we require separate aggregation of the amount of expense and capitalized costs for purposes of the threshold, as proposed? Should we require separate aggregation of expenditure relating to the climate-related events and transition activities, as proposed?

The same disclosure threshold of 1% is acceptable for expenditure items as for financial impact items. We favour the aggregation of the expensed costs and capitalised costs in determining whether the threshold has been met. We also believe that disclosures should be required even below this threshold for carbon-intensive entities or where investors have articulated a desire to understand these costs for a registrant, or registrants in a sector/industry.

77. Instead of including a quantitative threshold, as proposed, should we require disaggregated disclosure of any amount of expense and capitalized costs incurred toward the climate-related events and transition activities, during the periods presented? Alternatively, should we just use a materiality standard?

As per our response to Q76, for carbon-intensive entities investors would welcome disclosure, even where the expenditure falls below the threshold to provide clarity on how this has been achieved. This could provide an indication of potential for future increases, where the current expenditure seems unexpectedly low.

78. Are the proposed requirements for calculating and presenting the expenditure metrics clear? Should the analysis be performed and disclosed in a different manner, other than separately based on capitalized costs and amount of expenditure expensed and separately

based on the climate-related events and transition activities? Should disclosure of expenditure incurred be required for both the amount of capitalized costs and the amount of expenditure expensed if only one of the two types of expenditure meets the disclosure threshold? Should we require separate disclosure of expenditure incurred toward each climate-related event and transition activity?

We would welcome separate disclosure of capitalised costs and expenses linked to climate impacts. We believe there is a risk of gaming to keep totals below disclosure thresholds, so ideally all the relevant expenditures are disclosed linked to specific climate events and transition activity. This would also enhance investor understanding of these risks and associated costs for companies, better equipping them to allocate capital for the future.

79. The proposed rule does not specifically address expensed or capitalized costs that are partially incurred towards the climate-related events and transition activities (e.g., the expenditure relates to research and development expenses that are meant to address both the risks associated with the climate-related events and other risks). Should we prescribe a particular approach to disclosure in such situations? Should we require a registrant to provide a reasonable estimate of the amount of expense or capitalized costs incurred toward the climate-related events and transition activities and to provide disclosure about the assumptions and information that resulted in the estimate?

In the event that expenditure is linked to both climate and other factors, then these should also be included in the climate-related expenditure. It may be that the entity can accurately apportion the expense to each objective but this may be highly judgemental, so it may be better to include the entire expense and provide contextual disclosures to aid interpretation.

80. Are the proposed terms and examples used in the expenditure metrics helpful for understanding the types of disclosures that would be required? Should we provide different or additional examples?

The examples are helpful.

Financial estimates and assumptions

81. Should we require disclosure of financial estimates and assumptions impacted by the climate-related events and transition activities (including disclosed targets), as proposed? How would investors use this information?

ICGN supports explicit disclosure of financial estimates and assumptions impacted by climate-related factors as this is vital to 1) ensure that climate factors are considered in setting critical assumptions/estimates; and 2) provide important visibility to investors on how climate is being integrated into the financial statements. Where there is no such disclosure there can be a danger that investors perceive greater risks of material

misrepresentation, and hidden climate-related losses/liabilities, which can threaten market efficiency and, in the extreme, market stability. Investors desire to have these disclosures was made clear in the IIGCC paper “Investor expectations for Paris-aligned accounting”¹⁶.

82. Should we instead require disclosure of only significant or material estimates and assumptions that were impacted by the climate-related events and transition activities? Alternatively, should we require disclosure of only estimates and assumptions that were materially impacted by the climate-related events and transition activities?

Please see response to Q81.

83. Should we instead require disclosure of financial estimates and assumptions impacts by a subset of climate-related events and transition activities, such as not requiring disclosure related to identified climate-related risks or only requiring disclosure with respect to a subset of severe weather events and natural conditions? If so, how should the subset be defined?

The specific climate and/or transition factor that is impacting an accounting assumption or estimate should be made clear. The less specific the disclosure, the less useful it will be for investors that are seeking to understand the economics of these factors.

84. Should we instead utilize terminology and thresholds consistent with the critical accounting estimate disclosure requirement in 17 CFR 229.303(b)(3), such as “estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant”? If so, should we only require disclosures of whether and how the climate-related events and transition activities impacted such critical accounting estimates? Should we require only a qualitative description of how the estimates and assumptions were impacted by the climate-related events and transition activities, as proposed? Should we require quantitative disclosures as well? If so, should we require such disclosure only if practicable or subject to another qualifier?

We believe the critical accounting estimate disclosure requirement terminology is appropriate to capture the need for climate-related disclosures, but should not limit the disclosure needed to understand fully how climate considerations have been incorporated into the critical assumptions and estimates.

It is important that the disclosures are both qualitative and quantitative so investors can understand both how climate factors have been considered and what the impact is for the key assumptions. Without quantitative disclosures, investors will be left uncertain as to how climate factors have been integrated. Also, these disclosures will complement the financial impact and expenditure disclosures proposed previously.

¹⁶ [Investor Expectations for Paris-aligned Accounts – IIGCC](#)

85. Should the disclosure of financial estimates and assumptions impacted by climate-related opportunities be optional, as proposed?

We believe the disclosure of financial estimates and assumptions impacted by climate related opportunities should be required only where these are highly likely, a core element of the entity's stated strategy and thus the baseline scenario for drawing up the financial statements. However, where the climate related opportunity is uncertain, then it would be more prudent to leave these opportunities out. Appropriate commentary could be provided to make clear how the assumptions/ estimates would be impacted in the event that the opportunity materialises. Sensitivity analysis could also be presented in the Notes.

86. For the proposed financial statement metrics, should we require a registrant to disclose material changes in estimates, assumptions, or methodology among fiscal years and the reasons for those changes? If so, should we require the material changes disclosure to occur on a quarterly, or some other, basis? Should we require disclosure beyond a discussion of the material changes in assumptions or methodology and the reasons for those changes? Do existing required disclosures already elicit such information? What other approaches should we consider?

Any material changes to critical estimates and assumptions should be disclosed and explained, climate-related or not. This is already a requirement, as highlighted in the SEC's proposed rule [FASB ASC Topic 250- 10-50-4 for disclosures of changes in accounting estimates, including the requirement that if a change in estimate does not have a material effect in the period of change, but is reasonably certain to have a material effect in later periods, a description of that change in estimate must be disclosed whenever the financial statements of the period of change are presented]. This is vital if investors are to understand these changes and interpret the resulting accounts. It is also important to underpin cross-company comparisons. We would welcome an explicit requirement to ensure these disclosures are implemented, as we believe they are not always evident in company reporting.

Inclusion of Climate-Related Metrics in the Financial Statements

87. We are proposing to require the financial statement metrics to be disclosed in a note to the registrant's audited financial statements. Should we require or permit the proposed financial statement metrics to be disclosed in a schedule to the financial statements? If so, should the metrics be disclosed in a schedule to the financial statements, similar to the schedules required under Article 12 of Regulation S-X, which would subject the disclosure to audit and ICFR requirements? Should we instead require the metrics to be disclosed as supplemental financial information, similar to the disclosure requirements under FASB ASC Topic 932-235-50-2 for registrants that have significant oil- and gas-producing activities? If so, should such supplemental schedule be subject to assurance or ICFR requirements?

We support a requirement to disclose climate-related financial metrics in an audited note to the financial statements. These disclosures are relevant to the interpretation of the financial statements, and material to investors investment and voting decision making, so we believe it is important they are subject to third party independent audit, as is the case for other financial statement disclosures. These disclosures are, moreover, not just pertinent to the oil and gas sector, but to all entities that face impacts from both physical and transition factors.

88. Instead of requiring the financial statement metrics to be disclosed in a note to the registrant's audited financial statements, should we require a new financial statement for such metrics? For example, should a "consolidated climate statement" be created in addition to the consolidated balance sheets, statements of comprehensive income, cash flows, and other traditional financial statements? Would including the proposed metrics in a new financial statement provide more clarity to investors given that the metrics are intended to follow the structure of the existing financial statements (including the line items)? What complications or unintended consequences may arise in practice if such a climate statement is created?

We would prefer the climate impacts to be incorporated into existing financial statements since their impacts will be on the financial statements, whether on the income statement, balance sheet, cash flow statement or statement of comprehensive income and equity. Moreover, this will ensure that investment decision-making as well as other corporate decisions based on financial statement, e.g. compensation, incorporate the climate impacts. Were a separate climate statement created, this could send a perverse message that climate impacts are not financial or material for corporate earnings and financial condition, which would, in our view, be misleading.

While we would not support the climate impacts being reported exclusively in a separate statement, there could be an argument for companies to both 1) incorporate climate impacts into their existing financial statements as proposed by the SEC, as well as 2) publishing a stand-alone audited climate report, which aggregates the climate impacts.

89. Should we require the disclosure to be provided outside of the financial statements? Should we require all of the disclosure to be provided in the proposed separately captioned item in the specified forms?

Please see response to Q88. We are not supportive of providing these climate financial metrics outside of the financial statements.

90. Should we require any additional metrics or disclosure to be included in the financial statements and subject to the auditing and ICFR requirements as described above? For example, should any of the disclosures we are proposing to require outside of the financial statements (such as GHG emissions metrics) be included in the financial statements? If so, should such metrics be disclosed in a note or a schedule to the financial statements? If in a

schedule, should such schedule be similar to the schedules required under Article 12 of Regulation S-X and subject to audit and ICFR requirements? Should we instead require the metrics to be disclosed as supplemental financial information in a supplemental schedule? If so, should such supplemental schedule be subject to assurance or ICFR requirements?

We would support an additional requirement that carbon-intensive companies produce a sensitivity analysis to a 1.5C and/or well-below 2C pathway in the Notes to the financial statements. This is the stated objective of the Paris Climate Agreement supported by governments world-wide, including the United States. A key element of the Paris Agreement is a commitment to align financing with the stated goals.

We view financial statement disclosures that provide visibility for the financial consequences of the 1.5-well below 2C pathways are a core mechanism for delivering on this commitment. In addition, for a growing number of investors that are committed to investing in alignment with these goals, there is a requirement to have this financial statement visibility as a basis for making these investment and voting decisions. Finally, as underscored in this submission, investors need to understand what their exposures are to climate risks whether or not they are themselves committed to a 2050 net zero goal.

The 1.5/well below 2C pathway sensitivity should be provided in the notes to the financial statement and thus be subject to audit.

91. Under the proposed rules, PCAOB auditing standards would be applicable to the financial statement metrics that are included in the audited financial statements, consistent with the rest of the audited financial statements. What, if any, additional guidance or revisions to such standards would be needed in order to apply PCAOB auditing standards to the proposed financial statement metrics? For example, would guidance on how to apply existing requirements, such as materiality, risk assessment, or reporting, be needed? Would revisions to the auditing standards be necessary? What additional guidance or revisions would be helpful to auditors, preparers, audit committee members, investors, and other relevant participants in the audit and financial reporting process?

Auditors have an important role to play in ensuring the reliability of the climate-related financial disclosures. As investors, we look to auditors to provide robustly independent challenge to ensure the assumptions and estimates underpinning the financial statements are sound, and the statements themselves provide a fair representation of the entity's economic health.

Recent guidance by the IAASB affirms that material climate risks need to be considered in the same manner that any other material factor in the audit process. We believe, however, that it is the regulator – the PCAOB – that should provide explicit guidance to auditors on what is expected, and then undertake reviews to ensure proper implementation.

We currently have seen a substantial gap between European auditors' disclosures relating to climate factors versus their US counterparts. We have even seen auditor reports for the same entity remove reference to climate factors when submitted in the US versus the statutory reports in Europe.

We have also noted that Audit and Risk Committees provide little commentary on how they have considered climate risks in their US filings versus their peers in Europe. We would welcome guidance from the regulator to Audit Committees to ensure they offer greater visibility of how they have considered climate risks, the entity's climate commitments and the global commitment to achieve a 1.5C outcome in their oversight of financial reporting.

92. Would it be clear that the climate-related financial statement metrics would be included in the scope of the audit when the registrant files financial statements prepared in accordance with IFRS as issued by the IASB? Would it be clear that the proposed rules would not alter the basis of presentation of the financial statements as referred to in an auditor's report? Should we amend Form 20-F, other forms, or our rules to clarify the scope of the audit or the basis of presentation in this context? For example, should we amend Form 20-F to state specifically that the scope of the audit must include any notes prepared pursuant to Article 14 of Regulation S-X? What are the costs for accounting firms to provide assurance with respect to the financial statement metrics? Would those costs decrease over time?

We would support additional guidance for preparers in completing their statutory filings that they should ensure the climate-related financial statement metrics are subject to independent audit, and the determination of the basis of presentation should consider climate factors. We believe this should be done to ensure compliance with existing rules on financial reporting and audit, and as such are clarifications rather than additional requirements.