

June 15, 2022

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission (SEC)
100 F Street N.E.
Washington, D.C. 20549

Re: File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman:

Christian Brothers investment Services, Inc. (“CBIS”) submits this public comment in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (“Proposed Rule”).

With \$10.4 billion in assets under management, CBIS serves Catholic institutions and religious communities looking to transform the world. We believe the accelerating threat of climate change poses serious risks and costs to companies, communities, and society. For decades, CBIS has engaged portfolio companies, urging them to address the material and systemic risks of climate change. Based on our longstanding work, we deeply understand how comparable, consistent, and reliable mandatory corporate reporting can improve dialogue outcomes, allow for more effective analysis, and aid the investment decision-making process.

As current voluntary climate disclosure frameworks are insufficient to meet the needs of investors, we applaud the Proposed Rule and appreciate the critical role the SEC has played to *foster* full, fair, standardized and timely climate-related disclosure to *investors* that would allow both companies and investors to better understand, address, price, and manage climate risks and opportunities. To that end, in June 2021, CBIS submitted individual comments¹ in response to the SEC’s request for input on its regulation of climate change disclosures and joined a collective statement on essential principles the SEC should incorporate into a climate change disclosure rulemaking.²

CBIS is highly supportive of the Proposed Rule and the various components that would help to establish a baseline of climate risk information and on an ongoing basis to assess progress that would be accessible to all investors. Below we highlight select aspects of the Rule we believe would be particularly useful to investors to ascertain whether and how companies would be resilient to accelerating decarbonization. In addition, we provide several ways to strengthen the Proposed Rule as well as responses to questions posed.

¹ CBIS comments to SEC, June 11, 2021: <https://www.sec.gov/comments/climate-disclosure/cll12-8911739-244388.htm>

² See <https://www.sec.gov/comments/climate-disclosure/cll12-8911752-244393.pdf>

CBIS' COMMENTS ON SPECIFIC COMPONENTS OF THE PROPOSED RULE:

1. Financial Statement Disclosures.

CBIS strongly supports § 210.14-02, "Climate-related metrics", in the Proposed Rule and applauds the request for mandatory reporting by companies on their use of scenario analysis. However, we urge that the rule be amended to require companies to assess financial statements and strategies against a rapid decarbonization scenario, such as IPCC 1.5° or International Energy Agency Net Zero 2050 scenario (the IEA NZE), or equivalents. This would clarify for investors how a significant reduction in fossil fuel demand envisioned in a truly rapid global response could alter a company's assumptions, such as future commodity prices, useful lives, and asset retirement obligations, critical components to aid the investment decision-making process.

There is a groundswell of support from investors for this information. In late 2020, the Principles for Responsible Investment (PRI), the UN Environment Programme Finance Initiative (UNEP FI), the UN-convened Net-Zero Asset Owner Alliance initiative, the Institutional Investors Group on Climate Change (IIGCC), and other investor groups representing \$100 trillion in global assets under management, called on companies and their auditors to follow relevant requirements to consider climate change risks in the 2020 audited financial statements and audit reports, and to use assumptions and estimates compatible with Paris Agreement goals.³ This was further emphasized with engagements from leading global investors in carbon intensive companies through the Institutional Investors Group on Climate Change (IIGCC).⁴

In addition, to address the lack of corporate disclosure, Climate Action 100+ (CA100+), a group of 615 investors with \$68 trillion in assets under management, released in March 2022 a provisional Climate Accounting Alignment Assessment to complement the CA100+ Disclosure Framework.⁵ It assesses if corporate accounting practices and related disclosures, including the corresponding auditor's report, reflect the effects of climate risk, the global move towards a 2050 (or sooner) net zero emissions pathway, and the Paris goal to limit global warming to no more than 1.5°C.⁶

³ Principles For Responsible Investment (PRI), "Investor groups call on companies to reflect climate-related risks in financial reporting," September 16, 2020. <https://www.unpri.org/accounting-for-climate-change/investor-groups-call-on-companies-to-reflect-climate-related-risks-in-financial-reporting/6432.article>

⁴ Institutional Investors Group on Climate (IIGCC), "Leading investors call on Europe's largest companies to address missing climate change costs in financial accounts," November 16, 2020 <https://www.iigcc.org/news/leading-investors-call-on-europes-largest-companies-to-address-missing-climate-change-costs-in-financial-accounts/>; <https://www.iigcc.org/download/iigcc-letter-to-european-companies-on-paris-aligned-accounts/?wpdmdl=4006&masterkey=5fab9c5af24f>

⁵ Climate Action 100+ Net Zero Company Benchmark Summary of company assessments, Climate Accounting and Audit, p. 53, March 2022. https://www.climateaction100.org/wp-content/uploads/2022/04/March-2022_Benchmark-assessments_public-summary_Final.pdf; CLIMATE ACTION 100+ FLAGGED SHAREHOLDER VOTES <https://www.climateaction100.org/approach/proxy-season>

⁶ Climate Action 100+ Net-Zero Company Benchmark, Structure And Methodologies, March 2022. <https://www.climateaction100.org/net-zero-company-benchmark/methodology/>

To challenge boards to address climate-related financial risk in financial statements and audits using a scenario reflecting the potential for a steep decline in fossil fuel demand, investors are also using the proxy ballot. For the first time, a shareholder proposal⁷ filed by CBIS at ExxonMobil calling on the board to issue an audited report assessing the impact of the on the assumptions, costs, estimates, and valuations underlying its financial statements received a majority vote (51% in favor) at the company's 2022 annual shareholder meeting.⁸ Resolutions were also filed this proxy season at Chevron, Marathon and Valero, reflecting strong investor demand for information concerning how scenarios like the IEA NZE would alter the assumptions and estimates companies use to prepare their financial statements.

A. Notes To The Financial Statements:

CBIS strongly supports the SEC's effort to require that climate risks be reflected in the financial statements. Through this integration, investors would better understand the estimated effects on specific financial statement items, including such things as long-term commodity and carbon prices, and changes to expected demand. These are important because they can impact the remaining lives and values of existing productive assets (including potential impairments), the timing of current and future asset retirement obligations, and how existing capital expenditures might change in the face of the transition to a low-carbon economy. Based on recent analysis⁹ of corporate disclosures, it is evident that requiring companies to share details on whether and how severe weather events and other natural conditions and transition activities affect estimates and assumptions reflected in financial statements is necessary. Identifying a dedicated location where required disclosures will appear will provide investors with easy access to this information, give companies clarity on where to place it, and make clear to auditors the information that requires their attention and review.

B. Recommendations:

i. Additional Language (*Italics*) Proposed for § 210.14-02 Climate-related metrics.

“(h) Financial estimates and assumptions impacted by transition activities. Disclose whether the estimates and assumptions the registrant used to produce the consolidated financial statements were impacted by risks and uncertainties associated with, or known impacts from, a potential *rapid* transition to a lower carbon economy or any climate-related targets disclosed by the registrant. If yes, provide a qualitative *and quantitative* description of how the development of such estimates and assumptions were impacted by such a potential transition or the registrant's disclosed climate-related targets”.

⁷ CBIS proxy exempt solicitation: <https://www.sec.gov/Archives/edgar/data/34088/000121465922005292/o414225px14a6g.pdf>

⁸ ExxonMobil Corporation Form 8-K, May 25, 2022.

<https://www.sec.gov/ix?doc=/Archives/edgar/data/34088/000003408822000034/xom-20220525.htm>

⁹ Carbon Tracker and The Climate Accounting Project, “Flying blind: The glaring absence of climate risks in financial reporting,” September 2021. <https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/>

- ii. **Enforcement of Current Requirements.**
We wholeheartedly support the draft new rules on financial statement disclosures, but there is concern that companies will use the Proposed Rule as a reason to not comply with applicable accounting and disclosure requirements that exist today. For example, current SEC rules require companies to disclose how the use of estimates, proved oil and gas reserves, asset impairments, and the useful life of an asset may all be affected by climate-related risks and strategies. The Proposed Rule will reinforce such provisions. Thus, it must be emphasized that our support of what is proposed also includes enforcement of what is now required.
- iii. As it relates to the **Taskforce on Climate Related Financial Disclosures** (TCFD), CBIS supports the SEC's integration of nearly all of the TCFD's recommendations into its rulemaking as the recommendations cover the essential elements of climate risk disclosure, and are broadly supported and used by companies, investors and securities regulators worldwide.
- iv. **Implementation dates.** Due to the lack of publicly disclosed standardized climate-related information, CBIS encourages the SEC to call on companies to accelerate their implementation of the Proposed Rules and strongly suggest companies comply more quickly with the requirements.

C. SEC's Request for Comment

- i. **#81 (Financial Estimates and Assumptions):** In light of the sustained calls from investors, CBIS encourages required disclosure of financial estimates and assumptions impacted by the climate-related events and transition activities, including disclosed targets. We believe that the rule's financial statement requirements on the impact on financial estimates and assumptions should include not only the requirement for an assessment of whether those estimates and assumptions were impacted by a potential transition to a lower carbon economy, but, whether the assessment was impacted by potential for a rapid decarbonization scenario. Further, we encourage the background document accompanying the SEC's release of the Final Rule to clarify that consideration be given to conducting a scenario analysis that anticipates the potential for a significant decline in demand for fossil fuel. That release should also make clear that investors can continue to engage (and file proposals) with companies whose disclosures contain gaps in data, such as failure to identify and assess a rapid decarbonization pathway.
- ii. **#84 (Financial Estimates and Assumptions):** In response to the SEC's Request for Comment #84 (Financial Estimates and Assumptions), CBIS asserts that such disclosures regarding impact on assumptions should be required to include quantitative as well as the proposed qualitative description of impact on assumptions. Investors should know how climate change and transition activities are having quantitative impacts on issuers' financial statements, and these should be analyzed as part of the traditional audit process.

CBIS praises that, in many instances, the Proposed Rule already recognizes that materiality determinations are largely fact specific and requires both quantitative and qualitative considerations. Specifying such an application within financial statements is essential. Whether a company's business plan is based on a high or low carbon future can materially impact its accounts. Asking companies to provide a quantifiable sensitivity analysis of how changes to key assumptions and estimates in a low carbon scenario would impact the current accounts can help to verify company claims the financial impacts, and therefore risks, are minimal even in a low carbon scenario.

2. Support for Other Aspects of the Proposed Rule

- A. Just Transition.** Transition risks relate to matters of fundamental fairness in our society, the unequal burdening of certain populations and communities with the accelerating and disruptive costs of accommodating climate change. Responding to the SEC's Request for Comment #48 (Transition Plan Disclosure), CBIS would affirm that if a registrant has adopted a transition plan, it should be required to disclose how it plans to mitigate or adapt to any identified transition risks. Yet the associated risks in this provision which may pose material risks to the company and the pace of the climate transition should be modified to read, "Changing ~~demands~~ needs and preferences of consumers, investors, the workforce, and business counterparts".

As to comment #48's request for other transition risks to be specifically identified for disclosure in a transition plan, CBIS recommends referencing: Retention rather than displacement of worker; Job quality in new energy economy; and Impacts on and engagement with adjacent neighboring and surrounding local communities as well as Indigenous Peoples.

- B. Scope 3 Emissions.** We are grateful to the SEC on its Request for Comment #98 (GHG Emissions Disclosure Requirement) as to whether a registrant should be required to disclose Scope 3 emissions each fiscal year, to which CBIS affirmatively responds "Yes". We support mandatory disclosure of full Scope 3 emissions (upstream and downstream emissions including supply chain and users) but recommend that the SEC require Scope 3 disclosures for all registrants, regardless of materiality. The Proposed Rule only requires disclosure of "material" Scope 3 emissions for larger filers and exempts smaller reporting companies entirely.

Responding to the SEC's Request for Comment #43 (Disclosure of Processes for Identifying, Assessing, and Managing Climate-Related Risks), to the extent that an issuer does not find Scope 3 emissions to be material, CBIS believes the company should be required to disclose the basis for that determination. For example, the company could disclose that Scope 3 emissions are less than 5% of the company's greenhouse gas footprint, or that the company's sector is a minimal Scope 3 contributor.

The SEC should further provide additional guidance regarding how companies are to determine materiality of their Scope 3 emissions including consideration of the demands of their investors, asset owners and asset managers for such information to fulfill portfolio-wide net zero commitments.

We appreciate the opportunity to participate in the SEC's request for comment and appreciate its extensive work to help ensure that standardized, comprehensive, and material climate-related information gets into the markets in a timely manner. Thank you for your consideration of our perspectives.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "John W. Geissinger".

John W. Geissinger, CFA

Chief Investment Officer

Christian Brothers Investment Services, Inc.