



June 17, 2022

U.S. Securities and Exchange Commission  
Vanessa Countryman, Secretary  
100 F Street, N.E.  
Washington, D.C. 20549-1090

RE: The Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22)

Dear Secretary Countryman,

The SEC Professionals Group is a community of in-house professionals who actively prepare and file financial reports with the U.S. Securities and Exchange Commission (the "Commission"). Combined with its sister community, the SOX and Internal Controls Professionals Group, our membership of nearly 10,000 professionals includes accounting, finance, and risk personnel from a significant portion of U.S. public companies in over 40 chapters nationwide. We thank the Commission for the opportunity to share our comments on the proposed rule changes.

As investors become increasingly focused on climate change as posing a significant risk to business sustainability and resiliency, we agree that the proposed rules should aid in standardizing and promoting transparency among public companies so investors can make informed decisions. However, select members of our community believe further evaluation and alignment regarding specific areas of the proposal should be revisited prior to finalization:

*Identification of Climate-Related Risks and Costs to the Company*

Climate-related risks are complex and hard to identify as registrants will need to perform a systematic review of all global activities where they conduct business and to understand the risks posed by climate for each location (at a zip code level) and determine the financial impact. While some risks are easier to identify, such as a blackout caused by a tornado at a manufacturing facility, there are other abstract risks which are complicated to understand and analyze. For example, if the registrant has been impacted by drought during certain years, estimating the potential impact of the climate-related risk based on the "reasonably likely" criteria which may be short-, medium- and long-term involves significant judgment and may not be easily quantifiable. The proposed rules require disclosing the assumptions, the process of calculating the impacts and other detailed disclosures which will require the use of specialists who are conversant with climate change. As every industry and company is different, even engaging a specialist for each location might not provide investors with the right information that may pertain to a company's specific industry.

Further, registrants would incur significant costs to implement the requirements of the proposed rule. Considering the above issues, we request the SEC to (i) keep the disclosures limited to where the company has material operations of business, (ii) provide time for registrants to build their systems and processes after understanding the final rules, and (iii) include explicit list of climate-related risks and illustrations for disclosure.

*Timing of Financial Reporting vs. Greenhouse Gas Emissions ("GHG") Assurance*

We advise the Commission that many publicly traded companies publish ESG or Sustainability Reports, however, these reports are typically published three to five months after the respective companies filed their Annual Report on Form 10-K with the Commission. It will be inherently difficult to accelerate the timeline of Scopes 1 and 2 GHG emissions including external assurance and we believe this will be challenging even for the most sophisticated and mature companies. Further clarity is needed on what will constitute as an acceptable attestation standard given the level of complexity and evolving guidelines related to carbon accounting. Traditional accounting firms and existing independent consulting firms will equally need additional time to react to a final rule, build capacity and training to offer such attestation services and begin working with their clients. As a result, select members of our community

believe an alternative to disclosing such proposed information in their Annual Reports would be to modify or re-purpose the current Commission Form SD (Specialized Disclosure Report) which is currently filed no later than May 31<sup>st</sup> after the end of the issuer's most recent calendar year. This would allow for additional time necessary to collect, quantify, validate and obtain assurance on GHG emissions.

#### Under Development of Carbon Accounting Rules

While critically important, the proposed timeline for Scope 3 GHG emissions quantification and assurance is unreasonable, especially for consumer packaged goods companies that operate in the food and agriculture value chain. As an example, the release of two standards below is necessary prior to a final rule by the Commission:

- In January 2022, the Forest, Land, and Agriculture (“FLAG”) Science Based Target (“SBT”) setting guidance was released. The [FLAG SBTs Guidance](#) was designed to help companies fully account for land-intensive emissions or removals in their targets and disclosures and would apply to companies that have already reported their emissions publicly and have committed to or set targets through the Science Based Targets initiative.
- The GHG Protocol is also developing [Land Sector and Removals Guidance](#). The draft guidance is expected to be available in June 2022. Publication is expected in early 2023.

#### Materiality of Disaggregated Disclosures in the Financial Statements

We advise the Commission that current authoritative guidance, specifically ASC 250-10-S99, Staff Accounting Bulletins (“SAB”) Topic 1.M, Assessing Materiality, indicates that a matter is “material” if there is a substantial likelihood that a reasonable person would consider it important and both qualitative and quantitative factors must be considered. As a result, we believe that the disclosure of climate-related risks if the aggregated absolute value impact of such items is more than 1% on each consolidated financial statement line item is unreasonable, inherently difficult to track and monitor without significant undue effort (e.g., accounting system changes), and in most cases, not material to the consolidated financial statements. We believe a level of judgment greater than 1% should be made related to climate-related risks and/or if management deems such risks “material” and would align to existing financial disclosures made in accordance with U.S. generally accepted accounting principles. Additionally, further clarification is needed on the definition of “climate-related events” prior to a final rule by the Commission.

#### Embedded Disincentives and Proposed Time Horizons

For certain climate-related initiatives outlined in the proposed rules, such as: (i) adopting a transition plan as part of its climate-related risk management strategy, (ii) uses scenario analysis, (iii) uses an internal carbon price and (iv) has publicly set climate-related targets or goals, we believe there is an embedded disincentive for public companies that have completed any or all of these climate-related initiatives versus companies that have not or plan to pause the implementation of these initiatives as a result of the pending proposal. While the Commission currently does not plan to mandate these initiatives, the proposal requires companies to disclose in detail their climate-related initiatives. Alternatively, the Commission should consider optional disclosure of such climate-related initiatives as these represent forward-looking statements and disclosures and may not be covered by a company's safe harbor statement. Additionally, further clarification is needed on the definition (in months or years) of the various time horizons in which a climate-related risk may manifest, specifically, over the short-, medium-, or long-term.

#### Disclosure Compliance Date

The proposed rule requires disclosures relating to climate-related metrics at a very granular level requiring information such as financial impacts from severe weather events, financial impacts from transition activities, expenditures to mitigate risks of severe weather events and other natural conditions, expenditures related to transition activities, etc. These rules, if adopted as is, will be effective to large-accelerated filers from 2024 and would require information for comparative years presented in the filing as applicable. This poses undue hardship on registrants requiring them to track information early on even before the rules are finalized, even as the concept of climate change financial impact itself is largely uncharted territory for many registrants.

We request the SEC to adopt the rules on a prospective basis following the year of finalization, allowing for early adoption should some registrants want to provide the information early on, so companies have time to build the systems in place to track and provide the disclosure information. The provisions in the rule also request information at a segment level and based on geographic areas as required under ASC 280, Segment Reporting. Tracking the information on a segment level or at a geographic level will be complex and extremely complicated as not only will the information need to be provided on a line-item basis but the information will also need to be identified by segments. Therefore, we ask that the proposed rules not require segment level information.

*Global Alignment Between Regulatory Bodies*

We advise the Commission that some public companies may be large enough in other markets outside the U.S. and would need to also abide by other climate-related reporting requirements. We believe it would be in the best interest of public companies if the Commission would work in collaboration with the International Sustainability Standards Board (“ISSB”). In March 2022, the ISSB published two exposure drafts setting out proposed International Financial Reporting Standards (“IFRS”) Sustainability Disclosure Standards: (i) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and (ii) IFRS S2 Climate-related Disclosures. The exposure drafts are open for consultation until July 29, 2022.

While we believe the above comments would be consistent across our community generally, they represent the collective feedback of the individual members who chose to provide it. These comments do not necessarily represent the views of our sponsors.

Again, we thank the Commission for the opportunity to comment on the proposed rule changes.

Sincerely,  
Steve Soter, Executive Advisor