

SEC DRAFT REGULATION COMMENTS

June 16th, 2022

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Sent Via Email to: rule-comments@sec.gov

File Number: S7-10-22

RE: **Comments on the Securities and Exchange Commission Draft Regulation – The Enhancement and Standardization of Climate-Related Disclosures for Investors, 17 CFR 210, 229, 232, 239, and 249**

Anthesis Group (Anthesis) appreciates the opportunity to submit these written comments on the Securities and Exchange Commission’s (SEC) Draft Regulation released on March 21st, 2022.

Proud to be a certified B Corp, Anthesis is the Sustainability Activator. We exist to shape a more productive and resilient world by helping organizations transition to new models of sustainable performance. We provide consulting expertise to develop strategies that drive our clients—many of whom are listed at regulated exchanges—to sustainable performance. The largest group of sustainability experts globally, Anthesis provides technical expertise delivered by more than 900 staff members located across 40+ countries in North America, Asia-Pacific, Latin America, the Middle East, Europe, the UK, and Africa. Headquartered in Boulder, CO, we have some 100 employees located throughout the U.S., with teams in NYC, the San Francisco Bay Area, Seattle, Denver, and Boston, and over 30 employees in Canada, with teams in Toronto, Vancouver, Montreal, and Ottawa.

We work with clients from across industry sectors in the areas of ESG & Sustainability Strategy, Carbon Management & Net Zero, Sustainable Products, Packaging & Circular Economy, and Supply Chain & Operations. In the ESG & Sustainability service area, we have a service line dedicated to Communications and Reporting, supporting clients in developing external-facing materials. We have performed numerous climate analyses for financial risk and managed GHG (greenhouse gas) inventories. Anthesis delivered approximately 450 carbon footprints and climate risk analyses worldwide in the last 12 months. Our clients represent 53% of the 30 firms listed on the Dow Jones Industrial Average.

These comments are Anthesis’ own and were developed based on our professional experience providing consulting support to our clients for GHG inventories and climate risk analyses (physical and financial).

Overview of Comments

Anthesis commends the SEC for taking leadership in requiring climate-related risk disclosures and their associated GHG emissions. This leadership ensures that investors and stakeholders have comparable, consistent, and reliable information from public companies.

For your consideration, we offer the following comments on specific provisions of the proposed rule in areas we believe could benefit from additional refinement. We commit to continuing to

work constructively with the SEC in ensuring that the primary objectives of the rule are met. If the SEC convenes a working group to discuss this rule and its implementation, Anthesis kindly asks to be invited to participate and provide our perspectives on lessons learned and best practices.

Key staff are available to answer any questions or to further discuss these issues with you at your request: [REDACTED] Director Climate & Net Zero Solutions, North America; and [REDACTED] GHG Accounting Lead.

Sincerely,
Chantelle Ludski, CEO (Chief Executive Officer), Anthesis North America & Asia Pacific

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ATTACHMENT

Comments from Anthesis Group on the Securities and Exchange Commission's Draft Regulation – Climate-Related Disclosures for Investors

Introduction

In this Comments document, we share our views on the core principles of the draft rule, as well as input on technical aspects in relation to the appropriate disclosure of climate-related information. First, detailed comments are provided in the order of subject of the Draft Regulation. At the end, we share our insights based on our experience with the UK disclosure rules¹.

- Section 1 – Content of the Proposed Disclosures
- Section 2 – Attestation for Scope 1 and Scope 2 Emissions Disclosure
- Section 3 – Presentation of the Proposed Disclosures
- Section 4 – Phase-In Periods, and Accommodations for the Proposed Disclosures
- Additional Comments – Insights from TCFD Reporting in the UK

While these comments are organized by the general SEC topic areas shown in the draft rule (with the relevant SEC question numbers noted as Q#), we recognize several specific topics in the rule are cited more than once.

1 Content of the Proposed Disclosures

1.1 Climate Risk

1.1.1 Carbon Offsets or RECs. Support the definition of carbon offsets or RECs and disclosures on their role in a registrant's overall strategy (Q24)

We propose that the definitions of carbon offsets or RECs be defined by the SEC to provide comparability and consistency among disclosures. We also propose the SEC require all registrants to disclose the level of verifiability and quality of carbon offsets or RECs. Disclosures may include the role that carbon offsets or RECs play in a registrant's overall strategy to reduce its net carbon emissions.

Doing so helps investors to understand whether, and to what extent, a registrant relies on carbon offsets as the most critical element of a credible net-zero plan. We propose that a registrant disclose why and how carbon offsets or RECs were used and their reliance on future carbon offsets or RECs to meet net-zero goals.

1.1.2 TCFD-Aligned Disclosures. Support the requirements for aligning disclosures with the TCFD recommendations (Q2, Q3, Q4)

We propose that disclosures by registrants be fully aligned with the TCFD (Taskforce for Climate-Related Financial Disclosures) framework to (1) ensure consistency, comparability, and reliability, and (2) reduce the compliance burden for issuers. The TCFD framework is widely used across the globe and many other jurisdictions are mandating climate disclosures based on this framework. The TCFD framework was specifically designed to improve transparency and communication between issuers and investors on climate-related risk, a factor that is increasingly being integrated into investment decisions. The TCFD framework can play a pivotal role in aiding companies to produce relevant and useful data to inform appropriate investment decisions and contribute to an efficient market. If the SEC believes that deviation from the TCFD framework is warranted, then it

¹ <https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law>

could collaborate with the TCFD to amend the framework. Regulators elsewhere in the world could do the same. Investors and issuers would benefit tremendously from a globally consistent framework.

TCFD-aligned disclosures allow comparability of information by investors and enable them to understand their exposure to climate-related risks and opportunities through their portfolios. Investors and other stakeholders need to understand how climate-related issues may affect an organization's business, strategy, and financial planning over the short, medium, and long term. Such information is used to inform expectations about the future performance of an organization and helps investors to develop strategies (e.g., divestment, engagement, etc.) to reduce their exposure to climate risks and set targets to align their portfolio with net-zero pathways.

1.1.3 Climate-Related Risks and Opportunities Definitions and Drivers. Support the definition of climate-related risks and opportunities (Q9, Q10, Q16, Q17, Q18)

We propose that the SEC define physical and transition risks based on the TCFD framework and require organizations to disclose both risk types where they are found to be material over the short, medium, and long term. TCFD guidance provides a comprehensive list of all transition and physical risks (both acute and chronic) and their drivers that can be used by organizations to inform their risk assessment process. It is important to note that physical risk scenarios identify extreme weather threats ranging from moderate to high risk before 2030, and a larger number and range of physical threats between 2030 and 2050. To align the SEC requirements with the TCFD recommendations, even if it is beyond an assessment horizon, the SEC may encourage organizations to extend their assessment horizons to 2050 so they can prepare well in advance for the potential consequences of physical risks.

Transition risks may include those related to technology and the transition to a low-carbon economy, such as the cost of energy/fuel and carbon pricing. Transition risks related to the market are also important to consider, including shifting consumer demands and behaviors, as well as impacts of climate change that affect supply and therefore cause market risk (such as the concentration of electronic component manufacturers in one geographic location that is impacted by physical or transitional risk, limiting the supply of a key component to the wider market, driving up prices and potentially impacting output). Alignment with CDP risks and terminology, where possible, would streamline corporate reporting and reduce the administrative burden. It would be beneficial for the SEC to provide detailed examples and context around each risk to help companies envision how transition risks may impact their business.

We suggest using the examples provided in the TCFD guidance. Registrants may explain how particular climate-related risks could materially impact a registrant's operations or financial condition and how the materiality threshold was established.

We propose that the SEC (a) define "value chain" to mean the upstream and downstream activities related to a registrant's business as proposed, and (b) include the negative impacts on a registrant's value chain in the definition of climate-related risks as proposed. This is particularly important for the oil and gas sector. The upstream and downstream activities should be sector-specific and should be aligned with the sector's specific NAICS code. However, the SEC can outline the activities specific to NAICS codes.

We propose defining climate-related opportunities and permitting a registrant, at its option, to disclose information about any climate-related opportunities that it is pursuing, such as the actual or potential impacts of those opportunities on the registrant, including its business or consolidated financial statements, as proposed. We add that this is valuable information from an investor perspective. We propose that the SEC suggest that registrants provide disclosure about any climate-related opportunities that have materially impacted or are likely to materially impact the registrant, including its business or consolidated financial statements. Requiring disclosure

opportunities may cause competitive concerns, so the SEC may make it optional to disclose opportunities. There is always a greenwashing risk around climate-related opportunities, but if this information is filed with the SEC, it would be subject to the liability provisions under the Exchange Act, and registrants could be required to disclose assumptions, methodologies, etc.

1.1.4 Compounding Physical Risks. Support disclosures on physical risks' financial impacts (Q11)

We propose that registrants assess the magnitude of the financial impact that each of the acute and chronic physical risks could have on their operations. This exercise can be accomplished through science-based scenario analysis, where data for physical scenarios takes dynamics and correlations into account. For example, data from increased temperature scenarios already considers the impacts of droughts and other climate variables that would exacerbate the rise in temperature. Similarly, the probability of wildfire data integrates consideration of drought conditions.

1.1.5 Disclosure of Geographical Distribution of Physical Assets. Support disclosure on geographic distribution (Q12)

Location information for business operations, properties, and processes is an important context in understanding an organization's exposure to physical risks.

We acknowledge that expecting organizations to list every ZIP code where a risk is identified would not be practical for most organizations with hundreds of locations of operation. Disclosure of geographical distribution specifically related to the line-by-line disclosures of actual financial implications of climate change could be more achievable for acute physical risk impacts, but not for chronic or transition risk impacts. There could be more clarity on how the rule intends to use ZIP codes. The latitude and longitude can be used in risk analysis but disclosing that information could be unwieldy.

1.1.6 Flood Risk. Support detailed disclosure on flood risk (Q13)

We propose that if a registrant determines that the flooding of its buildings, facilities, or properties is a material risk, the SEC may require it to disclose the percentage of those assets that are in flood hazard areas in addition to their location, as proposed. We believe such disclosure helps investors evaluate the registrant's exposure to physical risks related to floods. We also propose the SEC require this disclosure from all registrants, including those that do not currently consider exposure to flooding to be a material physical risk. The SEC can also make a recommendation for registrants that do not currently consider exposure to flooding to be a material physical risk, recommending that they go beyond their assessment horizons and understand their potential material exposure and disclose it. We think this could apply to all registrants.

Flood hazard area may be defined, and examples of such areas could be provided. The Federal Emergency Management Agency's (FEMA) definition², "Special Flood Hazard Areas are defined as an area that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year," is helpful from a relevance and comparability perspective. Registrants could disclose how they have defined "flood hazard area" or whether it has used maps or software tools when determining whether their buildings, facilities, or properties are in flood hazard areas and propose that certain maps be used to promote comparability. Disclosure of

² <https://www.fema.gov/glossary/flood-zones#:~:text=Flood%20hazard%20areas%20identified%20on,exceeded%20in%20any%20given%20year>

whether a registrant's assets are in zones that are subject to other physical risks, such as in locations subject to wildfire risk, could also be required.

Overall, a phase-in timeline could be considered here as this could be onerous for most registrants. It is important that flood risk or water stress are not given detailed requirements over and above other physical risks.

1.1.7 Water Stressed Regions. Support detailed disclosure on water consumption and conservation in water stressed regions (Q14)

Registrants may qualify and quantify assets (e.g., book value and as a percentage of total assets) in those regions, in addition to their location, if material risk concerns the location of assets in regions of high or extremely high-water stress. The percentage of registrants' water usage withdrawn from high or extremely high water stressed regions could be disclosed. Using the World Resources Institute's definition³ of a water stressed area as "a region where 40-80 percent of water available to agricultural, domestic, and industrial users is withdrawn annually" would assist with comparability.

"Extremely high water stressed area" as a region where more than 80 percent of the water available to agricultural, domestic, and industrial users is withdrawn annually could be used as its definition. This information could help investors assess a registrant's exposure to climate-related risks impacting water availability. Water stress is a critical climate-related risk that is often not identified/recognized as material. All registrants could be required to make these disclosures. The SEC may consider a slightly longer implementation/phase-in timeline if the requirement is considered to be onerous.

1.1.8 Strategy Resiliency. Support disclosures of material climate-related impacts on business and strategy (Q19, Q20, Q22, Q23)

Registrants could describe the actual and potential impacts of their material climate-related risks on their strategy, business model, and outlook, as proposed. Registrants could disclose impacts from climate-related risks on, or any resulting significant changes made to, business operations, including the types and locations of their operations, as proposed.

Registrants could disclose climate-related impacts on, or any resulting significant changes made to, their products or services, supply chain or value chain, activities to mitigate or adapt to climate-related risks, including the adoption of new technologies or processes, expenditure for research and development, and any other significant changes or impacts, as proposed.

Registrants could discuss whether and how they consider any of the impacts described as part of their business strategy, financial planning, and capital allocation, as proposed. Registrants could provide both current and forward-looking disclosures to facilitate an understanding of whether the implications of the identified climate-related risks have been integrated into the registrant's business model or strategy, as proposed.

Disclosures could include how the registrant is using resources to mitigate climate-related risks, as proposed. The required disclosure could also include how the registrant's metrics or targets referenced in the proposed climate-related disclosure subpart of Regulation S-K or Article 14 of Regulation S-X relate to the registrant's business model or business strategy, as proposed. Additional disclosures could be required if a registrant leverages climate-related financing instruments, such as green bonds, or other forms of sustainable finance such as "sustainability-linked bonds," "transition bonds," or other financial instruments linked to climate change. These

³ <https://www.wri.org/data/water-stress-country>

instruments are sometimes used for greenwashing activities and do not always have the intended impact. Additional disclosure by the registrant around the use of these instruments will be valuable for investors. Registrants can quantify GHGs avoided through their low-carbon financing. Also, climate-related projects could be evaluated through a taxonomy-based procedure to avoid greenwashing. This procedure could be disclosed. Disclosure of key performance metrics tied to such financing instruments could be required.

1.1.9 Internal Carbon Prices. Support disclosures on internal carbon prices (Q26, Q27, Q29)

We propose the SEC require registrants to disclose detailed information about their internal carbon pricing (ICP), and that the SEC could mandate all registrants adopt an ICP if they do not already maintain one.

Registrants could disclose the following:

- The price in units of the registrant's reporting currency per metric ton of CO₂e;
- The type of carbon pricing scheme (e.g., carbon fee, shadow pricing, implicit carbon pricing) being followed;
- The scope of application (e.g., applied only to business travel, or to Scope 1&2)
- The boundaries for measurement of overall CO₂e on which the total price is based, if different from the GHG emission organizational boundary required pursuant to 17 CFR 210.14-03(d)(4);
- The rationale for selecting the carbon pricing scheme, and intended main use applied, and
- The methodology used to calculate its ICP.

A properly designed ICP is one of the most powerful tools available to prepare the business of a registrant for a low-carbon economy. It is also one of the most robust financial signals for business planning to change the behavior and align the entire workforce of the registrant to work towards a low-carbon business model.

It is important to note there are three ICP schemes used by businesses to drive carbon reduction: carbon fee, shadow pricing, and implicit carbon pricing⁴:

- 1) Carbon Fee - \$t/CO₂ assigned to emissions from normal business activity
 - a. A charge for typical business emissions, revenue would stay in the registrant's company to reinvest into carbon reduction projects
 - b. Usually around \$5-\$20 per metric ton
 - c. This works for Scope 1, Scope 2, and some Scope 3
- 2) Shadow Pricing - Theoretical price of carbon used as a strategic assessment tool
 - a. Tests investments to guide strategic decisions
 - b. Often linked to forecasting regulation like EU ETS, or offsetting leading to higher fees \$50-100 per metric ton
- 3) Implicit Carbon Pricing - Cost of company carbon reductions
 - a. Total cost of any measures/initiatives (renewables, energy efficiency, offsets) implemented to reduce GHG emissions
 - b. Retroactive calculation, implicit prices are organization-specific so they can have large variations depending on the technologies and interventions that are appropriate to the sector

⁴ <https://www.c2es.org/content/internal-carbon-pricing/#:~:text=The%20observed%20price%20range%20for,business%20planning%20and%20investment%20strategies>

- c. Useful for communication on activity, understanding cost of carbon management, can be used in combination with either of the other two models

Registrants could disclose which carbon pricing scheme they have chosen and how they use the described ICP to evaluate and manage climate-related risks. Registrants who use more than one ICP could provide the above disclosures for each price, and disclose their reasons for using different prices, as proposed. This is particularly important for registrants who consider different carbon price scenarios in their transition policy risk analysis.

The methodology and rationale behind the analysis as well as the detailed assumptions are key in disclosures. Disclosure regarding any ICP maintained by a registrant would elicit important or material information for investors. Disclosures regarding ICP inform investors' decisions because such disclosure provides insights into a registrant's potential exposure to carbon policy risk and the mitigation measures that they put in place. Disclosure of the registrant's use of an ICP should not raise competitive harm concerns that would act as a disincentive from the use of an ICP. Using and disclosing ICPs is a best practice in managing climate transition risk and is used by industry leaders, such as Unilever and Microsoft, without any competitive disadvantages.

We propose that the SEC consider recommending methods for developing an ICP based on the TCFD guidance. We propose that the SEC could require registrants to describe their methodology and data sources used to develop their ICPs. If internal carbon pricing disclosure is made mandatory, the SEC should support registrants in the development of structures and frameworks to provide transparency and standardization for the purposes of disclosure.

1.1.10 Governance of climate issues. Support disclosures on board oversight and management role (Q34, Q35, Q36, Q37, Q38, Q39, Q40, Q41)

Registrants should describe, as applicable, the board's oversight of climate-related risks, and include whether any board member has expertise in climate-related risks and, if applicable, a description of the nature of the expertise, as proposed. The SEC should also require a registrant to identify the board members or board committee responsible for the oversight of climate-related risks, as proposed. The SEC should require a registrant to disclose the processes and frequency by which the board or board committee discusses climate-related risks, as proposed.

The SEC should require a registrant to disclose whether and how the board or board committee considers climate-related risks as part of its business strategy, risk management, and financial oversight, as proposed. The proposed disclosure would not raise competitive harm concerns.

The SEC should require a registrant to disclose whether and how the board sets climate-related targets or goals, as proposed. Required disclosure should include how the board oversees progress against those targets or goals, including whether it establishes any interim targets or goals, as proposed. The proposed disclosure would not raise competitive harm concerns.

Registrants should describe, as applicable, management's role in assessing and managing climate-related risks, as proposed. The required disclosure should include whether certain management positions or committees are responsible for assessing and managing climate-related risks and the identity of such positions or committees, and the relevant expertise of the position holders or members in such detail as necessary to fully describe the nature of the expertise, as proposed. The SEC should require a registrant to identify the executive officer(s) occupying such position(s).

The SEC should require registrants to describe the processes by which the management positions or committees responsible for climate-related risks are informed about and monitor climate-related risks and require registrants to disclose whether and how frequently such positions or committees report to the board or a committee of the board on climate-related risks, as proposed.

The SEC should require a registrant to disclose any connection between executive remuneration and the achievement of climate-related targets and goals. There is a need for such a requirement in addition to the executive compensation disclosure required by 17 CFR 229.402(b), as evidenced by the oil and gas industry.

Registrants could disclose the board's oversight of, and management's role in, the assessment and management of climate-related opportunities.

1.1.11 Climate Scenario Analysis. Support the disclosure on climate scenario analysis to inform strategy

The SEC could require a registrant to disclose analytical tools, such as scenario analysis, that it uses to assess the impact of climate-related risks on its business and consolidated financial statements, and to support the resilience of its strategy and business model, as proposed. If they use other analytical tools, they could disclose those as well.

All registrants should provide scenario analysis in their disclosure. Scenario analysis provides the best insights into the plausible impacts of climate change on businesses of registrants in the short, medium, and long term. To understand the possible impact of climate change on the businesses of registrants, registrants could be required to use stochastic - as opposed to deterministic - scenario analysis tools.

To facilitate comparability of scenario analysis results for investors, registrants could use publicly available, widely used scenario analysis models, such as the ones developed by the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA), and the Network for Greening the Financial System (NGFS), or a combination of these scenario analysis models. All assumptions around climate scenario analysis could be disclosed in detail.

The SEC could require a registrant providing scenario analysis disclosure to include the scenarios considered (e.g., an increase of global temperature of no greater than 3°, 2°, or 1.5°C above pre-industrial levels), the parameters, assumptions, and analytical choices, and the projected principal financial impacts.

In this context, we would like to highlight that many multinational registrants will also have to meet climate-related disclosure requirements in the EU that go a lot further than the climate-related disclosure requirements currently proposed by the SEC. For example, under the EU's – soon to be passed – Corporate Sustainability Reporting Directive (CSRD) companies will have to provide robust disclosures around company transition plans and net-zero commitments, including disclosure of the scenarios used for these plans and the key assumptions underpinning them. The CSRD will mandate companies to report using the European Sustainability Reporting Standards (ESRS) currently being developed by the European Financial Reporting Advisory Group (EFRAG). The ESRS standard for climate-related disclosures explicitly and extensively addresses transition plans and details of any emission reduction targets: “[Disclosure Requirement 1] – Transition plan in line with the Paris Agreement: The undertaking shall disclose its plans to ensure that its business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement.” There are 23 disclosure requirements in total: 19 mandatory and 4 optional. Investors support the adoption of these standards.

1.1.12 Time Horizon for Scenario Analysis. Support disclosure of time horizons (Q8, Q21)

Suggested timescales should be provided in the final rulemaking to help guide companies in thinking about expanding time horizons. Companies are used to thinking in typical business planning cycles which do not reflect the onset of climate impacts. If the SEC provides guidance as to how companies should think about, and approach, short, medium, and long term in the context

of climate change, it will help establish consistency in the market while contributing to the necessary mindset shift away from short business planning cycles. Since these timescales are unique to each business sector, it is appropriate to leave the exact timescales undefined to allow companies to frame short, medium, and long term in a way that applies to their business context and informs their climate-related strategy and financial planning.

The SEC should require all registrants to specify the time horizon applied when assessing their climate-related impacts (i.e., in the short, medium, and long term), as proposed. The time horizon is critical for investors to understand. Mark Carney (UN Special Envoy on Climate Action and Finance) calls this "the tragedy of the horizon." Registrants are typically only thinking in the short term.

1.1.13 Climate Risk Management. Support disclosures on climate issues identification, assessment, and management (Q42, Q43, Q44, Q45, Q10)

The SEC should require a registrant to describe its processes for identifying, assessing, and managing climate-related risks and opportunities. As recommended by TCFD, this should include how the registrant determines the relative significance of climate-related risks compared to other risks, how it determines the materiality of climate-related risks, and how it considers factors such as existing or prospective regulatory requirements or policies, shifts in customer or counterparty preferences, technological changes, and changes in market prices in assessing potential transition risks.

The SEC should require the registrant to disclose how the identified material risks are integrated into its company-wide enterprise risk management framework to allow for comparability of climate risks with other financial and non-financial risks. Disclosures should include any interaction between, and corresponding roles of, the board or any management committee responsible for assessing climate-related risks. Disclosures should also include whether there is a separate and distinct committee of the board or management in charge of risk assessment and management.

The SEC should require the registrant to disclose its process for identifying climate risks with the highest materiality and explain its adaptation/mitigation plan to build resiliency. In addition, the SEC should require the registrant to disclose the definition of risk materiality and how the materiality assessment criteria are determined.

This process applies to both physical and transition risks. The SEC should require a registrant to disclose how it assesses and manages material transition risks including legal liability, litigation, or reputational risks that may arise from a registrant's business operations, climate mitigation efforts, and/or transition activities.

1.1.14 Climate Transition Plan. Support the disclosure of transition risks and opportunities and mitigation/adaptation plans (Q47, Q48, Q49, Q50)

If a registrant has adopted a transition plan, the SEC should require it to disclose, as applicable, how it plans to mitigate or adapt to any identified physical risks, including but not limited to those concerning energy, land, or water use and management, as proposed.

There are no identified transition risks that the SEC should exclude from the plan description. If a registrant has adopted a transition plan, the SEC could require it to disclose, if applicable:

- Plans to mitigate or adapt to any identified transition risks, including, laws, regulations, or policies that:
 - Restrict GHG emissions or products with high GHG footprints, including emissions caps; or
 - Require the protection of high conservation value land or natural assets
- Impacts of imposing a carbon price

- Changing demands or preferences of consumers, investors, employees, and business counterparts

If a registrant has adopted a transition plan, the SEC could permit the registrant to also discuss how it plans to achieve any identified climate-related opportunities, including, as proposed:

- The production of products that facilitate the transition to a lower-carbon economy, such as low emission modes of transportation and supporting infrastructure
- The generation or use of renewable power
- The production or use of low waste, recycled, or environmentally friendly consumer products that require less carbon-intensive production methods
- The setting of conservation goals and targets that would help reduce GHG emissions
- The provision of services related to any transition to a lower-carbon economy

If a registrant has disclosed its transition plan in an SEC filing, the SEC could require it to update its transition plan disclosure each fiscal year by describing the actions taken during the year to achieve the plan's targets or goals, as proposed. The proposed updating requirement would not act as a disincentive to the adoption of a transition plan by the registrant. The ISSB proposal includes 5-year plans and annual updates.

1.1.15 Metrics and Targets. Support comparable, consistent metrics and targets for managing physical and transition risks and opportunities (Q46, Q15, Q23)

If a registrant has adopted a transition plan, the SEC could require the registrant to describe the plan, including the relevant metrics and targets used to identify and manage physical and transition risks, as proposed. Disclosing climate change risk transition plans - as opposed to climate change opportunity plans - does not raise competitiveness concerns. Also, in the EU, companies are currently required to adopt and disclose such climate change risk transition plans.

We suggest using the cross-industry, climate-related metric categories and examples provided by the TCFD guidance on metrics, targets, and transition plans. Using this guideline promotes consistency and comparability among disclosures.

1.1.16 Financial Impact Metrics. Support disclosure on financial impact metrics (Q 25, Q 59, Q 60, Q 61, Q 63, Q 64, Q 65)

The SEC should require registrants to disclose the financial impact metrics, as proposed. Presenting climate-specific financial information separately based on climate-related events (severe weather events and other natural conditions and identified physical risks) and transition activities (including identified transition risks) would elicit decision-useful or material information for investors.

We believe it is best practice to separate climate-related events and transition activities. This helps investors understand where the impact is coming from. Registrants could also have the option to be more specific in linking impacts more directly to events (e.g., \$80K negative impact from storm damage and \$20K negative impact from a wildfire on the cost of revenue versus \$100K climate-related negative physical impact on revenue). If there are situations where disaggregation would not be practicable, the SEC could require a registrant to make a reasonable estimate and provide disclosure about the assumptions and information that resulted in the estimate.

The SEC could require the disclosure of all identified climate-related risks including severe weather events with material impacts on the registrant. Other natural conditions, if linked to climate change, could also be considered. The best way for the SEC to do this is by using the TCFD's list of acute and chronic physical risks as examples. Registrants should disclose all their material climate-related risks. The SEC can highlight some sector-based examples as key risks. However, requiring

disclosure of the impact of a smaller subset of climate-related risks for a registrant to quantify would potentially sacrifice information that would be material to investors.

It is not clear what is meant by severe weather events and other natural conditions. To capture all possibilities, this could change to all physical climate-related events broken out into these categories: sea-level rise, cyclones, flood events, chronic changes (heatwaves), water stress and drought, wildfires, severe precipitation, severe wind, and storm-related damage. Regional differences are less important than exposure and vulnerability. We propose registrants disclose their exposure and vulnerability to each risk.

The proposed requirements for calculating and presenting the financial impact metrics are clear and should stay the same. They could also be updated as TCFD releases its updates to its guidance on metrics and targets. The analysis will need to consider adjustments to climate-related impacts, as financial statements do not have backward adjustments, and climate impacts may be subject to revisions. There could be a guide on how to disclose climate-related adjustment impacts.

The SEC could require separate quantitative disclosure of the impact of each climate-related event or transition activity. Separate quantitative disclosure could be required, as not all assets and operations are subject to all risks that the registrant has identified. This could better inform investors about their exposure to different risks through their investment. Having all disclosures in one document helps the users of the disclosures find information faster and save search time, which increases transparency.

The SEC could require registrants to provide a narrative discussion of whether and how any of its identified climate-related risks have affected or are likely to affect its consolidated financial statements, as proposed. The discussion could include any of the financial statement metrics in proposed 17 CFR 210.14-02 (14-02 of Regulation S-X) that demonstrate that the identified climate-related risks have had a material impact on reported operations, as proposed, and the discussion could include a tabular representation of such metrics.

1.1.17 Location of Climate Disclosure. Support proposed location of climate disclosure (Q5, Q6, Q7, Q61)

Climate disclosure should be integrated into financial reporting, and at minimum in the annual report. All required disclosures should be included in the same location, ideally an annual report, or registration statement. We propose that nothing should be included by reference only. The registrant should be able to provide more details about methodologies, results, and analysis in a separate report, but this should not sacrifice the inclusion of the required disclosures in a single and filed report. A separate report can be a filing that is strictly climate-focused and addresses all elements of the proposed rules and climate-related financial impacts.

1.1.18 Inclusion in Audited Financial Statements. Support the inclusion of climate-related financial impact metrics in the notes of audited financial statements (Q87, Q88)

If there are metrics to be disclosed as part of the financial statements, it would be appropriate to include them as a note to the financial statements, which would therefore require the data disclosed to be audited and for there to be an internal control framework and processes in place over the data presented (like that required by SOX).

We propose to not include climate metrics in the main financial statements. However, we propose guidance is required for all to understand how estimates and calculations for these financial impacts may differ from other metrics and a phase-in period could be allowed for the robustness of these lines.

1.1.19 Competitive Concerns. Support the voluntary disclosure of climate-related opportunities (Q18, Q22, Q33, Q62)

The SEC could permit a registrant, at its option, to disclose information about any climate-related opportunities that it is pursuing, such as the actual or potential impacts of those opportunities on the registrant, including its business or consolidated financial statements, as proposed. This is valuable information from an investor perspective.

There is always a risk that the disclosure of climate-related opportunities could be misleading and lead to greenwashing. However, if this information is filed with the SEC, it would be subject to the liability provisions under the Exchange Act, and registrants would be required to disclose assumptions, methodologies, etc.

We propose the SEC does not require disclosure of climate-related opportunities under any or all of the proposed Item 1502 provisions. Disclosure of opportunities should be voluntary because of potential competitiveness concerns.

The SEC could require a registrant to discuss whether and how it considers any of the described impacts as part of its business strategy, financial planning, and capital allocation, as proposed, and require a registrant to provide both current and forward-looking disclosures to facilitate an understanding of whether the implications of the identified climate-related risks have been integrated into the registrant's business model or strategy, as proposed.

1.1.20 Safe Harbor. Support an all-encompassing safe harbor (Q28, Q31, Q32, Q51)

We propose that the SEC does not adopt a separate safe harbor for transition plan disclosures and internal carbon price disclosures. The PSLRA for forward-looking information provides sufficient protection for transition plans and internal carbon price disclosure. We also do not propose a separate safe harbor for scenario analysis. The PSLRA forward-looking statement safe harbors would provide adequate protection for the proposed scenario analysis disclosures.

1.2 Greenhouse Gas Emissions Reporting

1.2.21 Reporting Time Period. Support allowing a time period for annual reporting that is consistent with financial corporate reporting (Q97)

We propose that a registrant disclose its total Scope 1 and 2 emissions separately from Scope 3 for the same 12-month period that is consistent with financial reporting. Note that this is a departure from mandatory GHG reporting to the USEPA and California ARB that is for emissions by facility, and based upon the 12-month calendar year, January to December.

1.2.22 Metrics. Support a comparable, consistent metric for GHG and carbon intensity (Q96)

Requiring a registrant to express its GHG emissions data in metric tons of CO₂e is critical as CO₂e is the common unit of measurement used globally. We agree with the SEC that it is important to designate a common unit of measurement for GHG emissions reporting, as was proposed, just as local currency is used for financial reporting. Thus, we concur with the use of CO₂e, along with including the provision requiring additional reporting of GHG emissions by species (individual gas) as discussed below (referring to Question 95).

1.2.23 Greenhouse Gas Emissions Definition and Scopes. Support a definition of GHGs consistent with comparable detailed GHG reporting. (Q94, Q95)

To be consistent with other mandatory and voluntary GHG reporting schemes, we agree that the regulations should require a registrant to disclose its GHG emissions – in the aggregate, per scope, and on a disaggregated basis for each type of greenhouse gas that is included in the SEC's proposed definition of "greenhouse gases." GHG emissions by gas should be reported for each of Scopes 1 and 2, and for material Scope 3 categories. We agree that GHG emissions should be

reported on a disaggregated basis and propose this requirement be only for certain greenhouse gases, such as methane (CH₄) or hydrofluorocarbons (HFCs), based upon those greenhouse gases that are deemed material to the registrant. For example, methane would be expected to be material for Oil & Gas Production as well as for the Refining sector. A materiality definition would be provided and follow standard practice for GHG assurance. If a phasing-in of this requirement is desired, registrants who are already obligated to report these individual GHGs separately pursuant to another reporting regime (such as the EPA's GHG reporting regime or any foreign reporting regime) are already enabled to report those individual GHGs; thus, we propose those registrants be in the first cohort to report them to the SEC.

We agree with relying upon a definition of GHGs that aligns with the existing standards that are accepted in widespread use and are science-based. As mentioned in the Draft Rule, these existing standards include the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) GHG Protocol and the US EPA MRR with other standards that could be added, including the California Air Resources Board and the Science-Based Targets Initiative. Appreciating that the SEC expressed a broader view in the draft regulation, additional gases may be identified in the future as having a similar impact on climate change and firmly identified as a GHG. Thus, as additional gases are identified as GHGs, SEC could later amend the regulation on their own initiative or rely upon additions to the lists made to existing standards or by other reporting entities.

1.2.24 Materiality. Recommend setting a materiality limitation on Scope 3 GHG Emissions (Q94)

Scope 3 emissions comprise the majority of most companies' emissions footprints. While Scope 3 GHG emissions accounting is not as comparably precise as Scopes 1 and 2, we still propose that companies disclose their Scope 3 emissions as they still have the responsibility of quantifying and addressing their resultant value chain impacts. We view this requirement as independent of any GHG reduction targets. Further, a quantitative materiality threshold could be established. We propose aligning with the Science-Based Targets Initiative's 40 percent materiality threshold.

Since Scope 3 emissions are comparably more difficult to quantify than Scopes 1 and 2, and often require a combination of approaches that rely on actual and estimated activity data, we would propose a phased approach to roll out Scope 3 disclosure requirements:

- Phase 1: optional Scope 3 disclosure with an explicit incentive or recognition of the leadership that is exemplified by organizations who choose to disclose during Phase 1 – for these companies could be taking significant risks by being the first to disclose Scope 3 on their financial reports.
- Phase 2: require some or all relevant and material Scope 3 emissions if Scope 3 is material >40% of total Scope 1+2+3, and for any Scope 3 categories that are omitted, explanations shall be provided on whether they are relevant and/or will be calculated in subsequent reporting
- Phase 3: require all relevant and material upstream and downstream Scope 3 emissions if Scope 3 is material >40% of total Scope 1, 2, and 3.

We propose that accounting and reporting of Scope 3 GHG emissions could be aligned with guidance from WRI's GHG Protocol *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*. Not mandating alignment to the GHG Protocol allows for flexibility in calculation methodologies but would compromise comparability and consistency between companies. Further, custom methodologies would increase the difficulty of third-party verification.

Where possible, we propose reducing the burden on companies who are already disclosing to CDP and other established reporting frameworks. To facilitate this, we propose a review of, and alignment with, these existing questionnaires and reporting schemes.

Finally, we propose that Scope 3 disclosure requirements are kept as straightforward as possible; most companies and investors (and the whole industry) are still evolving methodological approaches to Scope 3 and are working to understand the nuances around their value chain emissions.

1.2.25 Inventory Management Plan. Provide the basis for effective assurance by adding a provision for development of an Inventory Management Plan (IMP)

To provide a basis and support for effective assurance of GHG inventories by auditors and to reflect current best practices, we suggest that the SEC add a recommendation for the development of an Inventory Management Plan (IMP). An IMP describes an organization's process for completing a verifiable and repeatable corporate-wide GHG inventory. The use of an IMP institutionalizes the process for collecting, calculating, and maintaining a company's GHG data. Considered best practice at this time in GHG accounting, the development of an IMP is consistent with inventory guidance from WRI - GHG Corporate Protocol, the US Environmental Protection Agency (USEPA) for voluntary reporting, and regulations for mandatory GHG reporting by the USEPA and the California Air Resources Board (ARB).

See guidance and regulatory language from WRI, USEPA, and the California ARB, respectively, at these links:

- WRI⁵
- USEPA Voluntary Reporting⁶
- USEPA Mandatory Reporting, recordkeeping 40 CFR Part 98.3 (g)⁷
- ARB - Cal. Code Regs. Tit. 17, § 95105 and at 17 CCR § 95101 provisions at sections (c) *GHG Monitoring Plan* and (d) *GHG Inventory*

1.2.26 Methodologies, emission factors, assumptions & estimates (Q109, Q110, Q111, Q112, Q113, 114, Q213)

We agree that disclosure of assumptions, estimates, and methodologies is essential. This information is critical for understanding whether the impacts of reduction levers can be reflected in the inventory (e.g., if a registrant uses CBECS energy intensities for leased offices, then there is no way to reflect efficiency or operational improvements). We propose that inventory methodologies should align with GHG Protocol and more specific guidance, where applicable. Ideally, third-party guidance relied upon in SEC reporting could seek the "Built on GHG Protocol" designation by the GHGP to ensure alignment and consistency in reporting.

We propose that the SEC should not mandate specific emission factors to be used. Emission factors are continually being developed and vary based on source, level of detail, and geographic region. In addition, appropriate emission factors could be used to reflect the available data (i.e., detailed). Mandating specific emission factor datasets would limit the accuracy of reporting.

Disclosure of methodology and emission factor sources would be helpful in comparing different registrants' inventories. The decision of which emission factor to use is nuanced, and the best

⁵ Chapter 7 of the GHG Protocol Corporate Standard (Managing Inventory Quality) (pdf)

⁶ <https://www.epa.gov/climateleadership/inventory-management-plan-guidance>

⁷ <https://www.ecfr.gov/current/title-40/chapter-I/subchapter-C/part-98/subpart-A>

fitting emission factors may be different from one registrant to the next, given organizational context. Prescribing which emission factors to use may help ease comparability, but disclosure of methodology used, and factor sources should suffice to enable comparability while providing registrants with the opportunity to use the emission factors that best fit their context.

1.2.27 Organizational Boundaries (Q116)

The GHG Protocol allows for either the operational control or the financial control boundary approach to be adopted. While the financial control approach may align more closely with the scope of a company's consolidated financial statements, many companies (in fact in Anthesis' experience, most companies) currently use the operational control approach. Shifting to the financial control approach could mean significant changes to an entity's inventory boundaries, for example in terms of the treatment of leased assets. For companies that are in the mid-target period, it could also mean maintaining two separate emissions accounts through the remainder of the target period, updating/restating emissions inventories back to the baseline year, and/or revision of targets.

We propose that the SEC does require registrants to disclose which organizational boundary approach they are using. While we agree that requiring a specific organizational boundary approach that aligns with consolidated financial statements is desirable for the purpose of consistency and comparability, we would propose that any such requirement be applied in a phased-in way and/or with exemptions so that companies do not have to rescope and/or restate their inventories, keep two sets of emissions accounts, and/or change a target when they are mid-target period.

1.2.28 Purchased or Generated Offsets Disclosure (Q101)

For clarity and consistency reasons, we agree that registrants should exclude any use of purchased or generated offsets when disclosing their total Scope 1, 2, and 3 emissions, as proposed. We also agree that the SEC should require a registrant to disclose both a total amount with the use of offsets for each scope of emissions (Net GHG) and a total amount without the use of offsets for each scope of emissions (Total GHG). Thus, any carbon offsets purchased and applied to the disclosed emissions should be transparently reported, fully disaggregated, and itemized separately from the reported GHG emissions

1.2.29 Reporting historical emissions (Q114)

Reporting historical emissions is crucial for the evaluation of emissions trends, including progress toward corporate and societal emission reduction targets. Inclusion of the historical emissions for periods included in the registrant's financial statements seems appropriate. In addition, registrants could establish a base year, consistent with publicly stated targets (where applicable), and report the base year in all reporting periods.

However, this inclusion of GHG emissions for historic periods requires additional guidance from the SEC, principally with regards to the recalculation of historic periods to accommodate structural and methodological changes as required by the GHG Protocol Corporate Standard. While this is standard practice in GHG accounting and reporting, this practice deviates from financial accounting wherein reporting of historical information is not adjusted for structural changes. Additionally, with ongoing advances in scientific understanding, it is common to see emissions factor methodologies and other GHG accounting approaches evolve with time, and it is considered good GHG accounting practice to restate emissions back to a base year to reflect the latest best practice methodologies and ensure comparability year over year. We propose that this practice could be encouraged by the SEC.

In reporting intensity metrics, as proposed, this would institute an inconsistency between GHG emissions and financial metrics such as revenue. Further, if historical emissions are not adjusted

to reflect such changes, reporting under this rule would deviate from established protocols, best practices, and requirements of target-setting regimes, such as the Science Based Targets Initiative. One recommendation may be to allow for recalculations of historic periods with the caveat that intensity metrics based on financial data (e.g., revenue) remain unadjusted and be appropriately footnoted.

On a similar note, if emissions are estimated for the fourth quarter as proposed, this poses the question as to whether emissions would need to be restated in future disclosures based on the finalized values. We propose that emissions be reported in subsequent disclosures based on the finalized, full-year data.

2 Attestation for Scope 1 and Scope 2 Emissions Disclosure

2.3 Phasing In. Support a reasonable timeframe for ramping up to reporting for attestation.

Our experience working with clients demonstrates that providing a reasonable timeframe for ramping up this type of reporting for attestation is needed and, therefore, is realistic and practical. For these reasons, we agree with the SEC's proposal to provide both accelerated filers and large accelerated filers the time to transition to the minimum attestation requirement (the disclosure of its Scopes 1 and 2 emissions) and to provide certain related disclosures about the service provider.

2.4 Attestation Providers (Q135, Q136, Q137)

Independent third-party assurance can address internal bias in reporting by identifying critical and material issues. This will improve the credibility and robustness of GHG inventories and create accurate reporting, especially against GHG reduction targets.

We propose that Scope 1 and 2 emissions are verified by a third party and on an annual basis. In addition, we propose that Scope 3 emissions verification be phased in over the next 5-10 years.

The GHG Protocol Corporate Accounting and Reporting Standard (WRI) should be the preferred methodology for all registrants in developing their Scope 1 and 2 emissions and, consequently, should be used as the evaluation criteria in attestation of these emissions.

We agree that the attestation provider evaluating the Scope 1 and 2 emissions should be fully independent of the disclosing registrant (i.e., an independent third party). Evaluation of Attestation providers could conform to ANSI ISO 14064-3 (specification with guidance for validation and verification of greenhouse gas assertions) or an accepted equivalent. This will ensure appropriate rigor and consistency with the current practice of third-party verification of corporate GHG emission inventories.

A reasonable assurance will provide greater value to the company in comparison to a limited assurance as the registrant must provide more details. Reasonable assurance will add considerable time and costs and may delay timely disclosure. For these reasons, we propose reasonable assurance for Scope 1 and 2 emissions and limited assurance for material sources of Scope 3 emissions due to the level of complexity of the latter.

3 Presentation of the Proposed Disclosures

3.5 Timing of Disclosure (Q197)

Due to data availability, which in many cases is more cumbersome than in financial reporting (and often relies on having finalized financial data), it is proposed to consider delaying the climate-related disclosure. This may only be considered if the climate-related disclosure remains an integral part of the financial disclosure. Data availability can be an issue as the GHG inventories are comprised of many diverse data sets, often from third-party providers, including utilities. Thus, there is an inherent delay between data provision, data quality assurance, emissions calculations,

and data third-party assurance that may push out the availability of GHG inventory results by 2 to 3 months in Q1 of each fiscal year.

We have included a timeline (*see Appendix*) showing the potential impact of the SEC draft on a company's GHG inventory process. It includes the need to estimate for Q4 and possibly part of Q3, 6 weeks for limited assurance, minimal 2-week lead time prior to publication of Form 10-k, updating estimations to actuals, and reassuring the updated GHG inventory. While some companies already estimate their Q4 and do not update to actuals, material GHG emission events could take place in Q4 that would never be captured (e.g., increased business travel, equipment failures resulting in high refrigerant losses).

4 Phase-In Periods, and Accommodations for the Proposed Disclosures

4.6 Phasing In

Please consider our comments provided in section 2.3 as inserted here.

4.7 Phasing in Newly Listed Companies (Post-IPO) (Q134)

To provide equity and completeness in reporting, we recommend that all publicly listed companies be required to disclose their Scope 1, 2, and 3 emissions, regardless of their status. Rather than providing an exemption, the SEC could consider offering a one-year grace period post-IPO for newly listed companies (as mentioned above, our experience working with clients demonstrates that providing a reasonable timeframe is needed for ramping up this type of reporting).

4.8 Exemption for Scope 3 for Smaller Reporting Company (SRCs) (Q197)

We propose that the SEC does not provide an exemption for Scope 3 GHG emission disclosures for SRCs, for three reasons: (1) SRCs are not that small (public float of less than \$250 million / revenue of \$100 million or less), (2) SRCs make up a large part of all Form 10-K filers (close to 50%), (3) SRCs will be disadvantaged by not knowing, disclosing, and reducing their Scope 3 GHG emissions (e.g., SRCs could be squeezed out of supply chains). However, the SEC may want to consider a longer transition period for SRCs.

4.9 Extent of Disclosure Applicability (Q200)

We propose that registrants be required to disclose their GHG emissions regardless of their SRC or EGC status. We also propose that the SEC provide guidance for less common situations, such as, but not limited to, reverse mergers, recapitalizations, and other acquisition transactions.

Additional Comments: Insights from TCFD Reporting in the UK

Anthesis has experience with the UK's climate disclosure rule, announced in 2020 and effective as of April 6, 2022. We offer a few of their high-level insights and lessons learned that might be of interest to the SEC. The UK's mandatory climate disclosure⁸ is aligned with TCFD⁹.

A1.1 Phasing In

The UK provided a phasing-in by size: the initial requirement is for large firms, "with more than 500 employees and more than £500m annual turnover" to undertake the disclosure. This threshold for size and phasing in the requirement fits with the concept used in state and federal mandatory reporting rules for GHG emissions in the US. This ramp-up has been welcomed by

⁸ <https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law>

⁹ <https://www.anthesisgroup.com/mandatory-tcf-climate-risk-reporting/>

clients in the UK, although many were already disclosing or had acknowledged the TCFD recommendations; it has helped apply some urgency for getting reporting in order and standardized.

A1.2 Governance

We are seeing this phasing-in approach help improve governance for climate-related issues, and drive interest in education and training support to Executive teams and/or Boards.

A1.3 Scenario analysis

Approaches are hugely varied, since the UK rule does not have a requirement specifying the type of scenario. Without a specification for the scenario analysis, we expect this will lead to a similar issue in the US.

A1.4 Climate Costs

The TCFD mandatory rules in the UK do not explicitly require a firm to list line by line their climate-related costs to the bottom line, as does the proposal by SEC. We do believe this SEC approach provides meaningful information. Some clients in the UK are already doing this but there is a lack of guidance on how this should be embedded in financial statements. We propose SEC guidance be provided as to how this might be accomplished.

A1.5 Targets and metrics

These have initially been very carbon-focused in the UK disclosures. As firms gain an understanding of what metrics and KPIs they need to incorporate (and how) for wider climate risks, we fully expect these to expand.

Potential Impact of SEC on Sustainability Reporting

