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Filed electronically via email (rule-comments@sec.gov)

June 16, 2022

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

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

Dear Ms. Countryman:

T. Rowe Price[1] appreciates the opportunity to comment on the Commission's proposal to enhance and standardize climate-related disclosures for investors. As an institutional investor, we welcome the Commission's recognition of the need to improve reliability, consistency, and comparability of climate-related data from issuers. As a public company that will be subject to the new rules, we recognize that some of these disclosures may be difficult and costly to create. We predominantly support the proposal, and hope that our letter – written from both perspectives – can help the Commission strike the appropriate balance in its rulemaking between these two sometimes competing views.

We acknowledge that, although the EU and the UK have mandated some disclosures, elsewhere these remain mostly voluntary and vary widely in quality and breadth. Therefore, we support the Commission's efforts to promote the convergence of regulatory requirements. As we stated in our June 2021 letter,[2] consistency across jurisdictions and within each regulatory regime is critical for global asset managers, who need comparable sustainability and climate-related disclosures in every country in which they invest. To that end, T. Rowe Price strongly supports the SEC's efforts to build off existing frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol).[3]

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[1] Founded in 1937, T. Rowe Price Group, Inc. (NASDAQ-GS: TROW) is a global investment management organization with approximately $1.40 trillion in assets under management as of May 31, 2022. The organization provides a broad array of mutual funds and actively managed exchange traded funds, sub-advisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries.

[2] Letter from Maria Elena Drew and Gabriela Infante, June 11, 2021, available at https://www.sec.gov/comments/climate-disclosure/cll12-8906961-244220.pdf.

[3] The Greenhouse Gas Protocol (GHG Protocol) is available at https://ghgprotocol.org/corporate-standard.

We also encourage the SEC to continue to actively lead and participate in dialogues around corporate disclosure, including the International Financial Reporting Standards Foundation's (IFRS) work to establish the International Sustainability Standards Board (ISSB) and develop internationally accepted standards.[4] We recognize that achieving international harmonization is challenging, and we encourage the Commission to adopt domestic standards that are substantively aligned with the ISSB. For example, in the case of foreign private issuers (FPIs), our view is that investors' information needs will be better addressed if FPIs can comply with non-U.S. climate reporting regimes recognized by the Commission as equivalent. From an investor perspective, the ability to compare registrants in markets with substantially equivalent disclosure standards should be a priority.

We are encouraged by the level of alignment with the ISSB in the Commission's proposal. The ISSB's proposals set forth requirements for the disclosure of material information about an entity's sustainability-related risks and opportunities that are necessary for investors to assess enterprise value. The proposals build upon the recommendations of the TCFD and incorporate industry-based disclosure requirements derived from SASB standards. Our view is that the ISSB is taking concrete steps toward a global baseline of investor-focused climate disclosure, and that the Commission's proposal appropriately aligns to this baseline.

For these reasons, we support the Commission's proposed rules. As an issuer, however, we also believe some aspects can be adjusted to ensure reliability of disclosures, mitigate costs to registrants, and reduce the reporting burden – all in ways that, as an investor, we would find reasonable. The remainder of our letter addresses specific aspects of the proposal with our recommendations for adjustments.

Executive Summary

To facilitate the review of our comment letter, we have summarized our main arguments in this section:

- We support the SEC's proposal to include Scope 1 and Scope 2 greenhouse gas (GHG) emissions disclosures utilizing the approach set forth in the GHG Protocol, yet we oppose disaggregation by constituent GHG. We recommend instead that registrants be required to provide CO2-equivalent information for Scopes 1 and 2.
- We believe that, in a future state, the SEC should require Scope 3 GHG data for industries where these emissions are material and, for other industries, phase-in this disclosure requirement once sufficient experience has been gained reporting Scope 1 and Scope 2 GHG data consistently and accurately.

[4] On March 31, 2022, the ISSB's first two proposed standards were published: (1) the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (the "ISSB General Requirements Exposure Draft", available at https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf) and (2) the Exposure Draft IFRS S2 Climate-related Disclosures (the "ISSB Climate Exposure Draft", available at https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf).

- We express concern that registrants will not have sufficient time to gather and validate GHG emissions data in a state fit for inclusion in Form 10-K. We recommended that such requirements only apply prospectively, and that Scope 1 and 2 GHG emissions be disclosed in a furnished form due within 120 days of the fiscal year end, aligning with the timing of proxy statements.
- We request that the Commission reconsider whether it is feasible for auditing firms to develop the necessary expertise in the timeframe set forth in the proposed rules to provide assurance of sustainability disclosures.
- Although we support the requirement for enhanced transparency around climate risk governance, we recommend eliminating the requirement that registrants identify if a board member has climate-related expertise and the requirement to describe the process and frequency of board-level discussions.
- We echo concerns about the SEC's proposed definition of materiality and related guidance and encourage the Commission to utilize a standard of materiality that investors and registrants understand and are familiar applying.

Scope 1 and 2 Greenhouse Gas (GHG) Emissions Disclosure

T. Rowe Price is supportive of the inclusion of Scope 1 and Scope 2 greenhouse gas (GHG) emissions disclosures utilizing the approach set forth in the GHG Protocol. As stated in our June 2021 letter, our recommendation is for this data to be accompanied by a qualitative narrative explaining related risks, in a manner consistent with the TCFD. We believe requiring companies to disclose total Scope 1 and Scope 2 GHG emissions, calculated from all sources included in the registrant's organizational and operational boundaries, will provide investors with comparable information. We are particularly encouraged by this provision in the Commission's proposed rules, as it is our expectation that it will not only bring about much needed comparability of disclosures at a reasonable cost, but it will also eliminate the practice of providing estimated data of poor quality.

We question, however, the proposed rule on disaggregation by constituent GHG.[5] We do not believe that the quality of the data obtained would justify the cost and effort involved in gathering it, and whether this incremental disclosure will in fact be useful for investors. In our view, disaggregation by constituent GHG should be mandated only if it is material to the reporting entity. We recommend instead that registrants be required to provide CO_2-equivalent information for Scopes 1 and 2, as is common practice, alongside GHG intensity metrics for each scope (expressed in GHG ton(s) / per unit of physical or economic output).

Scope 3 GHG Emissions Disclosure

The Commission's proposed rules require disclosure of Scope 3 GHG emissions data in Form 10-K if Scope 3 GHG emissions are material to the registrant, or if the company has set an emissions

[5] Release No. 33-11042 (the "Proposing Release"), at 151.

reduction target that includes Scope 3 GHG emissions. Our concern with this approach, on one hand, is that methodologies for calculating emissions and collecting data are still under development.

We recognize that Scope 3 GHG emissions data is important to assessing investments, but the reality is that methodologies continue to be under development and, in its current state, Scope 3 GHG data is of limited reliability. There is no uniform methodology or approach, making it highly unlikely that Scope 3 GHG disclosure will provide comparable, useful, material, climate-related information. Data collection and quality assurance processes, along with timely access to this data, need to improve to increase investor confidence.

The Commission itself has recognized the challenges associated with calculating Scope 3 GHG emissions, providing a safe harbor from certain kinds of liability for Scope 3 GHG emission disclosures if companies reasonably explain their process and methodology and have not made these statements in bad faith. While the TCFD believes Scope 3 GHG emissions are an important metric reflecting an organization's exposure to climate-related risks and opportunities, it also recognizes the data and methodological challenges associated with calculating such emissions.[6]

We also recommend that the Commission not base any mandate to disclose Scope 3 GHG data on aggregated emissions. As proposed, the forty percent threshold would include virtually all companies, in consideration of the broad swath of Scope 3 GHG emissions sources in an entity's supply chain.

Additional Scope 3 GHG data challenges are a result of institutions adopting different approaches to measure financed emissions, and existing standards do not cover all asset classes. For example, on November 18, 2020, the Partnership for Carbon Accounting Financials (PCAF)[7] published the Global GHG Accounting and Reporting Standard for the Financial Industry. This new standard set forth a methodology for financial institutions to measure financed emissions across six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, and motor vehicle loans.[8]

While the PCAF and its standard aim to homogenize the method with which financial institutions measure and disclose financed emissions, certain limitations still prevail (e.g., each asset class method currently covers only those financial products that are on the balance sheet of a financial institution at the end of the fiscal year).[9] Moreover, the PCAF's standard does not provide guidance on methods to calculate financed emissions for every financial product, such as private equity that refers

[6] The TCFD, in its 2020 Status Report, recognized that engaging on Scope 3 emissions was complex. See *Task Force on Climate-related Financial Disclosures 2020 Status Report* at page 65, available at https://www.fsb.org/wp-content/uploads/P291020-1.pdf. See also the TCFD's 2021 publication, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* at note 139, available at https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

[7] The PCAF is a partnership of financial institutions that have committed to measure and disclose financed emissions in a harmonized way to help financial institutions align their portfolios with the Paris climate accord,

[8] Partnership for Carbon Accounting Financials, "The Global GHG Accounting and Reporting Standard for the Financial Industry," p. 8, available at https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

[9] Ibid, p. 44

to investment funds, green bonds, sovereign bonds, loans for securitization, exchange traded funds, derivatives (e.g., futures, options, swaps), and initial public offering (IPO) underwriting.[10]

For all these reasons, we recommend that the Commission revisit the question of mandatory Scope 3 GHG data disclosure in the future, rather than adopting mandatory requirements now. This does not mean that we have changed our view. As we said in our June 2021 letter, we believe that, in a future state, the SEC should require Scope 3 GHG data for industries where these emissions are material. For other industries, we reiterate our recommendation that the Commission phase-in this disclosure requirement once sufficient experience has been gained reporting Scope 1 and Scope 2 GHG data consistently and accurately.

Assurance and Timing of Disclosures

While T. Rowe Price supports the Commission's advocacy for timely and accurate disclosure of GHG emissions data, we are concerned that registrants will not have sufficient time to gather and validate GHG emissions data in a state fit for inclusion in Form 10-K. The Commission's proposed disclosure periods may result in rushed disclosure more likely to contain errors. It is also our opinion that this compressed timeframe to disclose GHG data will force registrants to rely too heavily on estimations and assumptions, ultimately reducing the usefulness and comparability of the data. For example, it is unlikely that Scopes 2 and 3 GHG emissions data would be available by the Form 10-K due date, given that the source of this data typically resides with third parties (e.g., consulting firms).

Auditing GHG data obtained from third parties and consultants represents a separate series of challenges. We request that the Commission reconsider whether it is feasible for auditing firms to develop the necessary expertise in the timeframe set forth in the proposed rules to provide assurance of sustainability disclosures.

As with the quality of the GHG data itself, the expertise to audit or assure climate-related metrics, targets, and other related disclosures is still at a nascent stage,[11] and we can foresee the adoption of different attestation standards applied by providers with varying levels of expertise. This will likely hinder investors' ability to assess the level of comfort they should derive from an attestation report. In addition to the fees paid to the attestation provider, the development of processes and procedures to support the attestation provider's work will impose substantial costs and burdens on registrants, which are ultimately borne by investors.

We support the proposed approach of providing limited assurance for Scope 1 and 2 GHG data, at least in this first stage. In our view, this proposal would already significantly improve the reliability of disclosures and investors' confidence in these disclosures. As the Commission notes in the Proposing Release, quantitative information included outside of the financial statements is typically not subject to external assurance.[12] However, T. Rowe Price currently obtains limited assurance in connection with

[10] Idem

[11] The Commission itself has noted in the Proposing Release, at 226, that attestation standards for GHG emissions are still evolving.

[12] Proposing Release at 220.

voluntary GHG emissions disclosures. In our view, limited assurance is sufficient to provide investors with a degree of comfort that the GHG emissions data is accurate.

We are also concerned with the proposed implementation deadlines. The Commission proposes that GHG emissions data be disclosed for the most recently completed fiscal year, and for the historical fiscal years included in the consolidated financial statements in the filing, to the extent the data is reasonably available. As proposed by the Commission, and assuming the proposed rules are adopted in December 2022, large accelerated filers would be required to provide Scopes 1 and 2 emissions disclosures in the fiscal year immediately following rule adoption (i.e., fiscal year 2023 filed in 2024). They would then be required to obtain limited assurance over these disclosures in fiscal years 2 and 3 after adoption (i.e., fiscal year 2024 filed in 2025). Next, they would be required to obtain reasonable assurance over these disclosures in fiscal year 4 after adoption and going forward (i.e., fiscal year 2026 filed in 2027). Accelerated filers would follow the same timeline but with a delay of one fiscal year. Accelerated filers would be required to provide Scopes 1 and 2 emissions disclosures in fiscal year 2 after adoption (i.e., fiscal year 2024 filed in 2025). Next, they would be required to obtain limited assurance over these disclosures in fiscal years 3 and 4 after adoption (i.e., fiscal year 2025 filed in 2026). They would then be required to obtain reasonable assurance over these disclosures in fiscal year 5 after adoption and going forward (i.e., fiscal year 2027 in 2028).[13]

Our view is that the proposed annual deadlines for GHG emissions disclosures do not provide suitable timeframes for registrants to design and implement data collection processes and procedures, which would have to be in place at the start of the first reportable fiscal year. For these reasons, given the likelihood that the resulting data may be incomplete, we recommend that such requirements only apply prospectively.

To allow registrants the opportunity to provide accurate and reliable data, which will be more useful for investors, we recommend that Scope 1 and 2 GHG emissions be disclosed in a furnished form due within 120 days of the fiscal year end, aligning with the timing of proxy statements. We believe the information would then be useful to investors because it would be provided before a company's general annual meeting.

As stated in the preceding section, our recommendation is that the Commission revisit the question of mandatory Scope 3 GHG data disclosure in the future, rather than adopting mandatory requirements now. However, should the Commission adopt the mandatory disclosure requirement for Scope 3 GHG data, our view is that it should also extend the proposed compliance dates for initially providing Scope 3 data. As currently written, the first reporting of Scope 3 data required for large-accelerated filers would occur in fiscal year 2024 (filed in 2025). Accelerated filers would be required to do so in 2026 for fiscal year 2025. We therefore propose that the Commission postpone Scope 3 emissions data until the Form 10-K for the subsequent fiscal year.

[13] Proposing Release at 44, 215, 216.

Climate Risk Governance

The Commission's proposed rules, as currently drafted, require disclosure of board and management processes relating to the consideration of climate-related risks, including the frequency of discussions.[14] Although we support the requirement for enhanced transparency around climate risk governance, we recommend eliminating the requirement that registrants identify if a board member has climate-related expertise and the process and frequency of board-level discussions. Single-issue expertise is not a quality that we have traditionally sought in board members, preferring instead well-rounded candidates who are able to contribute in multiple ways to a company's governance.

This is particularly true here, as we believe it is more important for investors to have boards build and demonstrate meaningful climate competence than it is to have any director with specialized expertise. Following TCFD, most boards already provide oversight on climate goals and targets, relying on in-house knowledge for such matters. By shifting the focus from identifying specific directors with climate expertise to educating directors on climate-related issues, it is more likely that climate expertise will be disseminated among the full board of directors, rather than relying on one or two individuals. We think that climate risks are broad and can impact multiple areas and operations of companies. As such, it is something the entire board should consider and develop the requisite understanding. Additionally, requiring disclosure around the frequency of board discussions is ultimately not useful information, as it shifts the focus of disclosure to the number of discussions, instead of the quality thereof. We believe a more targeted approach to help encourage the board to focus on climate risk, is the revision of Item 407 of Regulation S-K, explaining that disclosure of the board's role in risk management should include a discussion of how the board addresses climate-related risks that are material to the registrant.

We also note that climate risk encompasses a broad swath of risks and impacts across multiple areas of a company, and expertise applicable to any given company will be difficult to define. As currently written, the proposed rule appears to leave the definition of climate expertise to the discretion of each company, which seems contrary to the Commission's intent. We do not believe defining climate expertise in subjective terms will be a helpful approach to attain standardization.

Materiality

We expect that the Commission will receive numerous comments on the proposed definition of materiality and related guidance, many of which may highlight potential inconsistencies with traditional standards of materiality. We share some of these concerns and believe that the use of different materiality standards for climate and other disclosures will be confusing and difficult to apply. We encourage the Commission to utilize a standard of materiality that investors and registrants understand and are familiar applying.

Our recommendation is that a consistent definition of materiality be adopted across standards and throughout the course of the Commission's rule. The proposed rule states that the definition of materiality used by a registrant should be consistent with the Supreme Court's definition; that is, where

[14] Proposing Release at 344–45.

there is a substantial likelihood that a reasonable shareholder would consider it important in making an investment or voting decision, or if disclosure would have significantly altered the total mix of information made available. The proposed rule emphasizes that materiality is based on facts and circumstances and considers qualitative and quantitative factors, as well as the probability and magnitude of future events.

The ISSB's consultation draft on climate-related disclosure requirements states that information is material if "it could reasonably be expected to influence" investors. Under ISSB, all disclosure requirements are subject to issuer determination of materiality; in contrast, under the Commission's proposed rule, certain disclosures are required regardless of materiality, such as Scope 1 and Scope 2 GHG emissions data, risk management, and governance disclosures.

The contrast shown above, between the proposed rule and the ISSB's draft, highlights the need for a common definition of materiality. To require disclosure of immaterial information will be detrimental to investors, making it difficult for them to determine exactly what information, of the wealth of data presented, is in fact useful, relevant, and comparable across registrants. From an issuer perspective, preparing immaterial information will increase costs and divert attention and time from data that is material.

Another example of the need for a congruent and consistent definition of materiality is the Commission's proposed Article 14 of Regulation S-X, which would require certain climate-related financial statement metrics and related disclosure to be included in a note to a registrant's audited financial statements. We do not believe such proposal would result in meaningful or comparable climate disclosures and instead recommend that these disclosures be part of MD&A, where they would be presented in context with other quantitative and qualitative information describing year-over-year impacts on financial results. To us, MD&A disclosures concerning impacts and costs relating to severe weather events and transition activities will be more useful to investors.

In our view, disaggregating the impact of weather or transition events to demonstrate the impacts on specific line-items, and then aggregating the impacts of those events together at the line-item level for all severe weather events or transition activities will not allow investors to easily understand the significance of any single event or activity. The Commission's proposal, as currently drafted, would thus hinder the development of a well-rounded understanding of the impact of climate-related events and activities on a registrant's operating results and financial condition.

Should the Commission proceed with its proposed Article 14 of Regulation S-X, we recommend a few revisions to the proposal. The proposed rules would require registrants to model what reported amounts would have been, inclusive or absent physical or transition risks. Given the level of interpretation this analysis would require, we expect that the outcome would be disclosure of large amounts of extremely granular data that is unlikely to be comparable or that would add value for investors. In our view, such information would not be consistent or indicative of how registrants monitor or manage climate risk.

Specifically, we recommend replacing the proposed 1% financial impact threshold with a more typical materiality threshold. The proposed requirement that companies disclose climate-related events and transition costs that amount to 1% of a line-item in their financial statements seems problematic for several reasons. It will require companies to aggregate unrelated weather events to determine if they satisfy the 1% threshold, and we question whether the effort is ultimately commensurate with the usefulness of the information provided. We are also concerned that the requirement that registrants disclose impacts on estimates and assumptions used to produce financial statements from “exposures to risks and uncertainties associated with, or known impacts from, severe weather events and other natural conditions” and “risks and uncertainties associated with, or known impacts from, a potential transition to a lower carbon economy or any climate-related targets disclosed by the registrant” is not appropriately qualified by materiality.[15] As proposed, this requirement will mostly result in large volumes of immaterial disclosures of small changes to estimates and assumptions that do not meaningfully impact financial statements, diluting significant changes.

Furthermore, setting a 1% threshold for certain financial statement disclosures is well below what is considered material in most cases. For example, the SEC rules provide in Regulation S-X Section 3-05 that an issuer is not required to provide financial statements of a business acquired if none of the specified conditions exceed 20%. In some instances, the SEC has seen fit to make it clear when information should be disclosed, which helps issuers clarify their reporting requirements. For such a new disclosure topic, setting clear standards would be beneficial to issuers and to investors, and would limit confusion among all parties.

Liability and Use of Safe Harbors; Filed vs. Furnished

We appreciate the Commission’s consideration of a temporary safe harbor for issuers working in good faith to comply with the proposed requirements. While the proposed rule includes a safe harbor for liability from Scope 3 disclosure, due to third-party reliance to obtain this data, we believe the safe harbor should be extended to other climate-related disclosures that rely on third party data and estimates made in good faith – such as Scope 2 GHG data-, as these may present the same liability concerns as Scope 3 emissions data.

Regarding the requirement to file climate-related disclosures, our opinion is that we should steer clear from overly prescriptive disclosure requirements at this early stage. Given the complexity of the subject matter, compressed timeframes and heightened scrutiny in financial filings will likely increase the margin of error. We believe the right balance should be struck between providing useful climate-related information to investors and exposure to liability from filing these disclosures in a Form 10-K or Securities Act registration statements. Heightened liability may encourage frivolous litigation and a narrow reading of disclosure requirements.

The Commission should require Scope 1 and Scope 2 emissions data to be disclosed on a furnished rather than filed basis. Scope 1 and Scope 2 emissions data that is material to the registrant should be required to be incorporated by reference in the registrant’s annual report and Securities Act registration statements.

[15] Proposing Release at 455–56.

Furnished forms, in our view, would apply to Scope 1, 2, 3 GHG emissions, transition plans, climate scenario analysis, carbon pricing, and goals / targets. This approach will allow investors to have access to substantial climate-related data when assessing investments, while also fittingly reducing the potential for frivolous litigation over immaterial mandatory disclosures.

In summary, based on the concerns stated throughout this comment letter, should any GHG emissions data be mandatorily disclosed, this data should be furnished – rather than filed – to mitigate potential liability. Investors would then have access to climate-related information without exposing registrants to the risk of liability for disclosures in annual reports and Securities Act registration statements. We believe this approach will ultimately encourage higher-quality disclosures.

Should Scope 3 GHG emissions be deemed material to a registrant, our view is that these should be incorporated by reference in the registrant's annual report and other Securities Act registration statements. Reiterating a previously stated concern, methodologies for calculating Scope 3 emissions will continue to develop and we believe it is important to allow registrants to adopt and test methodologies for data collection. During this evaluation period, we believe it will be important to encourage voluntary disclosures in furnished forms, which will lead to better disclosure practices in the short-term and reduce the risk of frivolous litigation over immaterial mandatory disclosures.

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Although we see areas where the proposal can and should be improved, we support the Commission's actions to improve climate disclosure and are encouraged by the degree of consistency between the SEC's Proposed Rule, the TCFD framework, SASB standards, and the ISSB climate exposure draft. This level of consistency embodies a tangible step toward a global baseline of investor-focused climate disclosures.

We thank the Commission for its consideration of our perspective and support its efforts to create a comparable, consistent, and reliable framework for climate-related disclosures that will ultimately reduce the reporting burden on preparers. Please do not hesitate to contact us if we can be of further assistance.

Sincerely,

/S/ David Oestreicher
David Oestreicher
General Counsel

/S/ Gabriela Infante
Gabriela Infante
Director, Corporate ESG

Cc: The Honorable Gary Gensler, Chair
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner