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MEMORANDUM

To:	Comment File (S7-07-22) – The Enhancement and Standardization of Climate-Related Disclosures for Investors
From:	Tapestry Networks
Date:	June 16, 2022
Re:	File Number S7-10-22: Meeting with members of the Audit Committee Leadership Network

On June 2, 2022, 14 of the 54 members of Tapestry Networks' Audit Committee Leadership Network (ACLN) met virtually with Securities and Exchange Commission (Commission) staff. ACLN brings together the audit committee chairs of large, multi-national North American public companies. The following members were present: Pam Craig (Merck); Pam Daley (BlackRock); Bill Easter (Delta Air Lines); Alan Graf (Nike and Mid-America Apartment Communities); Fritz Henderson (Marriott); David Herzog (MetLife and DXC Technology); Akhil Johri (Boeing and Cardinal Health); Kelly Kramer (Gilead); Lori Lee (Emerson Electric); Brad Martin (FedEx); Ann Marie Petach (Jones Lang LaSalle); Tom Schoewe (General Motors); Leslie Seidman (GE); and Fred Terrell (Bank of New York Mellon). Tapestry Networks representatives included Jonathan Day (CEO) and Erin Dwyer (Partner).

The following Commission representatives were present: Mika Morse, Climate Counsel, Office of the Chair; Erik Gerding, Deputy Director of Legal and Regulatory Policy, Division of Corporation Finance; Luna Bloom, Chief, Office of Rulemaking, Division of Corporation Finance; Anita Chan, Professional Accounting Fellow, Office of the Chief Accountant; Giulio Girardi, Senior Financial Economist, Office of Risk Assessment; and Sarmad Makhdoom, Associate Chief Accountant, Office of the Chief Accountant.

In what follows, "ACLN Members" and "the group" refer only to the audit chairs who joined the meeting. Each spoke individually, not as a representative of any company or for the network or for the participating group. Tapestry Networks has tried to convey the sense of the meeting, but individual participants may dissent from our synthesis. We have not sought consensus from the participating members.

The meeting focused on the Commission's proposed rule, File Number S7-10-22, The Enhancement and Standardization of Climate-Related Disclosures for Investors. The discussion covered three main topics:

1. **Regulation S-X**—ACLN members expressed concern about proposed amendments to Regulation S-X. The group pointed out that the 1% disclosure threshold for climate-related financial statement metrics and related disclosures is inconsistent with how companies prepare their financial statements and would set a problematic precedent of disaggregating line items in financial statements, for which other disclosures are

made based on the longstanding definition of materiality. Members are also concerned that the proposed rule would require companies to account for and record hypothetical events such as lost revenue opportunities, which is not a concept under GAAP or that is captured within general ledger accounts, in the financial statement footnotes.

Recommendation: The group respectfully recommended that the Commission reconsider the Regulation S-X amendments in their entirety. Short of that, members identified potential changes to the proposed rule:

- Allow the disclosures to be furnished, rather than filed, at least during the transition period.
- Require the disclosures as part of Management's Discussion and Analysis (MD&A) instead of in the financial statements. The group emphasized that the proposed climate-related financial metrics involve significant judgment and estimation, which would conflict with the rigor required in the financial statements. Including the disclosures as part of MD&A would allow companies to provide investors with important context and qualifying information.
- Replace the 1% threshold with "materiality" and remove the disaggregated, line-item reporting requirement to be consistent with other financial reporting.
- Involve the Financial Accounting Standards Board (FASB), which the group felt could constructively improve the proposed Regulation S-X amendments through its standard-setting process.

ACLN members believe that such changes will further the goal of providing climate-related risk disclosures that promote consistency, comparability, and reliability in financial reporting.

2. **Implementation timeline**—Should the Commission decide to proceed with the proposed rule, ACLN members expressed concern that the proposed implementation timeline does not provide adequate time to establish the processes and controls that a large, global company would need to accurately and reliably report the data requested. For example, if the Regulation S-X amendments were adopted as proposed, companies would have to design and implement controls for tracking, collecting, and analyzing climate-related data at the level of precision prescribed for at least one, and potentially two, fiscal years that have concluded. Companies need additional time to ensure that reported data is consistent and reliable. Although ACLN members generally support providing three years of historical climate-related data, as proposed, the group raised the challenge of doing so in the first year of implementation. Thus far, this data has not been captured or reported in the manner that the new rule proposes and creating that data retrospectively as well as subjecting it to controls and assurance would be very difficult.

   Recommendation: ACLN members recommended a delayed implementation timeline in line with the recommendation from the Council of Institutional Investors comment letter: *"…all of the proposed initial compliance dates be deferred by at least one year to better ensure that the resulting disclosures are based on information that is more 'consistent and reliable.'"* ACLN members suggested that historical climate-related data could be added moving forward only after the first year of implementation, so that all historical data provided could be effectively controlled and made precise.

3. **Scope 3 disclosures**—ACLN members noted that Scope 3 emissions are inherently complex. Definitions vary by industry and multiple calculation approaches are in use, including reporting gross or net emissions. As written, ACLN members believe the proposed rule would likely not accomplish the intended aim of providing investors with relevant, understandable, consistent, and comparable information, while imposing a significant time and cost burden on companies.

   The group noted that the proposed rule could inhibit companies from publicly announcing greenhouse gas (GHG) emission targets inclusive of Scope 3, since such targets would trigger Scope 3 disclosure requirements—whether material or not. A publicly disclosed target for one category of Scope 3 would trigger reporting for all categories, again potentially discouraging target setting and creating disclosures of non-material information that could make it more difficult for investors to identify true transition risk areas. Some companies with significant carbon emissions have not yet established emissions targets and would therefore not need to disclose Scope 3 information, thus creating a misleading picture for investors. ACLN members also worried that the proposed disclosures could result in extreme overcounting of GHG emissions because multiple companies would be reporting on the same emissions.

   Recommendation: ACLN members noted that substantial work and time is needed to make Scope 3 disclosures consistent, comparable, reliable, and useful to investors. They respectfully suggested that the Commission consider excluding Scope 3 disclosures from the proposed rule and plan to phase the requirement in after issuers, the Commission, investors, and other market participants can create additional clarity.

   Several members believe that a more realistic requirement would be to have companies disclose only the Scope 3 emissions related and material to their specific targets. Further suggestions from members included limiting Scope 3 disclosures to those that companies can practically achieve with an appropriate cost/benefit analysis, and to allow companies to evaluate materiality using data that they already have or can obtain without unreasonable cost or effort.