June 17, 2022

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

Re: File Number S7-10-22 - Comments on Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors

Dear Ms. Countryman,

I am writing on behalf of AllianceBernstein L.P. (“AB”) in response to the comment period for input on proposed rules issued by the Securities and Exchange Commission (“SEC”) to enhance and standardize climate-related disclosures for investors. AB is a global asset-management firm with more than 4,000 employees across 25 countries and jurisdictions. We serve our clients by providing asset management, independent sell-side research and brokerage, and wealth management services. With $687 billion in assets under management (AUM) as of May 31, 2022, we deliver solutions across the capital structure, from fixed income to equity and from private alternatives to multi-asset solutions. Our broad range of investment expertise spans portfolio construction and management; fundamental, quantitative, economic and multi-asset research; wealth planning; and trading.

We highly commend the Commission’s efforts to improve the quality and quantity of climate-related disclosures, which are critical to an efficient market response to climate change risks. To function effectively, capital markets participants need transparent and comprehensive, decision-useful data from all enterprises facing material climate change risks. Reliable, consistent and comparable climate-related disclosure at scale will provide investors and companies the information needed to allocate capital efficiently and in a manner that reduces risk and financial shocks or disruptions.

The SEC has always supported full and fair disclosure and focused on protecting investors, and we believe the SEC must view climate change as a topic where more disclosure is necessary to ensure investors receive consistent and accurate information from issuers on climate change that is material to making investment decisions. Additionally, the SEC is tasked with ensuring effective functioning of capital markets, and we believe robust climate change disclosure would further enable regulators to more efficiently address and prepare for emerging climate-related issues that could cause climate-related financial market shocks that may have significant consequences for issuers, investors and shareholders.

AB views material risks and opportunities associated with climate change as fundamental financial factors that impact company cash flows and the valuation investors attribute to those cash flows. Regulatory changes, physical risks, and changing consumer decision criteria and preferences are all factors that asset managers need to understand and integrate into their investment processes to make optimal investment decisions on behalf of their clients.

Our views and comments below are based on our extensive experience with integrating climate change issues, data and information into our investment processes. Climate change poses a pervasive, significant risk to both capital markets and issuers. These include physical risks to real assets and supply chains from severe weather and transition risks from litigation and regulatory, technology, economic changes as economies strive to meet "Net Zero," which means aligning global activities with a temperature increase below 1.5C as prescribed by the Paris Agreement.[1] These risks are often non-linear and subject to unexpected feedback loops that can create disruptive impacts on asset valuations, global financial markets and economic stability. As a global asset manager, we invest in equity, debt and alternative securities globally and it's imperative that we dimension how climate change can affect different geographies, economies, industries and companies, then factor material risks and opportunities related to climate change into fundamental research and investment decisions.

As a result of these efforts, AB has observed significant challenges in integrating material climate change considerations into the investment processes due to severe inconsistencies and weaknesses in corporate disclosures around climate change risks, opportunities and the strategy and management thereof. The variability and gaps in current disclosures frequently fail to capture material, financial climate risks faced by issuers and markets, thereby preventing investors from implementing efficient capital allocation and effective risk management.

As investors, we seek to motivate and engage issuers to manage climate change risk and opportunity in their operations, management, strategies, products and services, and to hold boards and management accountable for performance in this area. Despite the Climate Change Guidance that the Commission issued in 2010, disclosures currently do not support, and often undermine, these investor efforts and therefore also the effective functioning of capital markets. As a result, investors expend significant resources to identify, collect, estimate and manage climate disclosures and data.[2] Efforts include purchasing data from third party vendors, reconciling gaps in these products and issuer disclosures, consulting with industry and scientific experts and developing proxy data from alternative sources.
It is clear from the proposed rule that the SEC has tried to incorporate much of the investor feedback received during the 2021 Requestion for Information, which AB responded to in June 2021.[3]

Mandating climate-related disclosure for registrants will accelerate the awareness in the US public and private sector of the growing risks and opportunities stemming from climate change. Such disclosure will also help companies prepare and plan for this transformation and protect investors and US competitiveness in the economies of the future. It could also reduce the burden of registrants from multiple and various requests for climate-related information from investors, data providers and other stakeholders.

Generally, AB believes the proposed rules will more adequately cover material climate risks, and lead to more consistent, comparable and reliable disclosures that will enable investors to make better decisions on how and where to allocate capital over the next several years. However, significant constraints and uncertainties persist today surrounding data, methodologies, scientific consensus, forecasts and resources as it pertains to climate change impacts on businesses across sectors, industries and regions.

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[1] See the Paris Agreement, 2015. The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.
[2] See ERM and the SustainAbility Institute's Cost of Climate Disclosure Survey Fact Sheet, May 2022.
[3] See AllianceBernstein's Letter to the SEC's Public Input on Climate Change Disclosure, June 2021.

Therefore, as a preface that applies to the areas of focus highlighted below (Sections 4 & 5) and the proposed rules more broadly, AB urges the Commission to:

1. **institute its final rulemaking over a multi-year timeframe with appropriate phase-in periods and corresponding safe harbors for disclosures that are based on estimates, assumptions, forecasts and third-party data that is outside of registrant's control or currently unreliable**. This approach will encourage issuers to disclose data without penalizing them for the challenges they face in reliability, collection and calculation of climate data from third parties and counterparties. We recognize that collecting and reporting this data is not easy and not costless to registrants or their shareholders. However, the benefits to investors and capital markets of increased understanding and transparency of climate risks and opportunities are greater than the costs of such disclosure over the long-term.

   Where disclosure depends on estimates, forecasts, assumptions or external data that may be unreliable or subject to significant revisions, a phase-in period for disclosure complemented by safe harbors would mitigate the burden to issuers as well as provide a degree of protection from liability that could ultimately be damaging to shareholders. Such measures could also counteract the potential chilling effect of some of the proposed rules, i.e. the risk that registrants will avoid using certain climate risk assessment and management tools because they will then warrant disclosure.

   In addition, implementing such measures would allow auditors and assurance providers time to adapt and develop the necessary human capital and organization infrastructure required to perform requisite services on such climate-related disclosures. This recommendation is particularly relevant for proposed rules on transition plans, scenario analysis, emissions reductions targets, Scope 3 emissions and impacts to financial statements under Article 14 of Regulation S-X;

2. **focus disclosure thresholds on more widely understood and established concepts of materiality, as opposed to thresholds based on previous public disclosure, "decision-usefulness" or internal use-cases within registrants**. Please see responses from the Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI) to the comment period for more information on materiality; and

3. **balance the rules with investor needs for disclosure of information that will be most material, reliable, comparable and useful while decreasing potential unintended consequences such as the chilling effect on the use of certain climate risk management tools because of new increased disclosure requirements**. These tools include transition plans, climate scenario analysis, climate-related targets and internal emissions pricing.

   We acknowledge that some investors and registrants indicate that requiring disclosure predicated on the use of such tools will incentivize registrants not to use these tools. However, AB's portfolio managers and analysts currently and regularly engage with issuers across sectors, industries and regions to understand the absence of disclosure on the use and results of such tools when they are deemed material. These tools are important signals to investors on whether and how an issuer is identifying, quantifying and addressing climate change risk in its business. If an issuer declines to disclose the use and results of such tools that AB's portfolio managers and analysts deem material, we will continue to engage with the issuer to understand their rationale and to encourage the user to adopt best practice uses of such tools as appropriate to their industry, region, sector and other circumstances. In light of this experience, AB believes inclusion of rules for disclosure, rooted in materiality, around these climate tools will increase efficiencies and transparency to the benefit of investors and markets overall.

The SEC's consideration of the above principles will protect issuers, and ultimately shareholders from excessive and prolonged litigation, inefficient allocation of registrant and investor resources and will also deter the disclosure of irrelevant or unnecessarily detailed information that will impede the ability of investors to effectively integrate such disclosure.

In addition to SIFMA and ICI, AB works with several organizations that are preparing comments to the Commission on the proposed rules, including Ceres, the UN Principles on Responsible Investment and the Council of Institutional Investors. While we encourage the SEC to consider these organizations' responses, this letter highlights the climate change disclosure elements that AB believes the SEC should, at minimum, include in its requirements.

4. In particular, AB would like to **highlight its support** for the following elements of the proposed rules as particularly useful for investors and issuers to understand, price, and manage climate risks and opportunities:

a) **Incorporating the Greenhouse Gas Protocol and recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) into the proposed rules**. The TCFD recommendations have garnered support from thousands of companies and investors, including AB,[4] as disclosure against the recommendations provide critical information for investors that allows us to effectively allocate capital and manage risk. Regulators and government agencies from several major economies have also begun to structure climate disclosure requirements based upon the TCFD recommendations, and we support the commission's efforts to incorporate disclosure of elements such as:

i. Scenario analysis
ii. Governance
iii. Identification, assessment and management of climate-related risk
iv. Impacts on strategy, business model and outlook
v. Climate metrics and targets

In particular, the inclusion of rules for disclosure around scenario analysis, with the caveats outlined in Sections 1, 2 and 3 above, will improve access to capital for registrants that can demonstrate resilience in a lower carbon economy. Scenario analysis is particularly important for those registrants in emissions-intensive industries where such analysis can demonstrate the quality of impairment testing and increase confidence in asset values. While many registrants claim to perform scenario analysis, however, there is little disclosure around assumptions used in these models and how registrants use results impact strategy, business and capital allocation decisions, making their results challenging to compare and incorporate in an investor use-case.

b) **The mandate for registrants to disclose total Scope 1 and 2 emissions**. Emissions reporting is critical to investors' understanding of the quality of a company's earnings in the face of

[4] See AB's Climate Change Statement and TCFD Report, October 2021.

climate change and the energy transition. Although companies voluntarily report some information on emissions, these disclosures are often incomplete and highly variable in terms of quality, consistency and comparability over time and within industries. The lack of discipline reflects myriad reporting demands and standards from various stakeholders and the absence of mandatory requirements, regulatory monitoring and enforcement. The SEC's proposed approach, with some caveats discussed below in Section 5, will provide better comparability for investors and ultimately help improve the data that feeds into Scope 3 emissions reporting.

c) **The inclusion of disclosure around the use and nature of carbon offsets to provide a gross and net view of a registrant's Scope 1 and 2 emissions footprint.** AB recognizes that many registrants will be unable to remove, reduce or avoid significant portions of their emissions footprints and therefore will resort to the purchase or development of instruments that 'offset' these emissions. The markets for carbon credits and offsets are nascent, fragmented and opaque, with significant variability in governance, quality, pricing and sourcing. Increasing transparency on offsets is critical to an investor's assessment of how well a registrant is managing the risk of climate change to its business, particularly transition risk.[5]

d) **The inclusion of rules for disclosure around internal emissions pricing.** Internal emissions pricing is a fundamental strategy for evaluating registrants' climate-related risks and opportunities. Internal carbon pricing can guide capital expenditures, research and design and other fundamental decisions towards projects, products and services that are more resilient to climate change and away from assets that may become economically unviable in the global transition to a lower carbon economy. While many companies claim to utilize internal emissions pricing, it is challenging for investors to assess the validity and strength of this mechanism without transparency on methodology, price and application.

AB also broadly supports the Commission's provisions for disclosure on climate-related opportunities and transition plans; for smaller registrants receiving more time to comply with the proposed rules; and for both narrative and quantitative disclosure that will provide investors with comparable information in a common location as described in Regulation S-K.

5. In addition to AB's support outlined above, we believe that **some aspects of the proposed rules can be better tailored** to reduce the effect of unintended consequences that would prevent the proposed rules from achieving their objectives to support better investment and to mitigate costs on entities in which AB invests. As such, we encourage the Commission to consider the following revisions:

a. **Impacts to financial statements should be based on materiality and be presented under Management Discussion & Analysis (MD&A).** The proposed requirements would prompt registrants to disclose, in notes to the audited financial statements, climate changed-related impacts on any line items in the financial statements that have a greater than 1% impact on the respective line item.

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[5] See AB's Six Best Practices for Carbon Offsets, December 2021.

We support the greater disclosure of impacts on climate change on the financial results of registrants, as such disclosure would allow investors to better understand and value changes in asset values due to climate change.

However, including these impacts in audited notes to the financial statements as proposed under Article 14 of Regulation S-X, would be extremely challenging for registrants to implement given the internal procedures associated with such audited disclosures and the unique novelty, granularity, uncertainty presented by potential climate change impacts. In addition, more traditional tests of materiality should be applied to discerning such information for disclosure, as the proposed 1% financial impact thresholds on financial statement line items are highly burdensome, arbitrary and would not necessarily lead to more useful or comparable information for investors.

Including such disclosure in MD&A, by amending Item 303(b) of Regulation S-K to add express reference to climate-related impacts, would allow registrants to present such information in context with other quantitative and qualitative information describing year-over-year impacts on financial results, avoid a resource-intensive exercise that may inundate investors with a significant amount of non-material information, and reduce liability for disclosures that will in many cases rely on high degrees of assumptions and estimates.

b. **Scope 3 Emissions disclosures should be triggered if they are material to the registrant, and focus on those emissions categories that are material to the registrant:** The proposed requirement would prompt registrants to disclose emissions if the registrant determines that its total Scope 3 emissions are material or if the registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions.[6] In addition, if Scope 3 emissions disclosure is triggered, a registrant would have to disclose all 15 categories of such emissions, regardless of whether or not all categories are material to the registrant.

   AB supports the enhancement of disclosure around Scope 3 emissions. For registrants in many industries, Scope 3 emissions comprise the vast majority, upwards of 99%, of a registrant's emissions footprint. Given that more than 60 countries and jurisdictions have applied or are implementing some type of carbon price, tax or trading system,[7] a registrant's measurement and management of these emissions is often a signal to their awareness and integration of climate change risk to their business. Management of Scope 3 emissions can also indicate how well a registrant is managing its impact on the communities and resources that it depends on to grow and maintain its business activities.

   AB also acknowledges the challenges and costs registrants face in collecting, verifying and calculating Scope 3 emissions data. Lack of widely accepted methodologies and frameworks, as well as control of and transparency into entities within a registrant's value chain can make Scope 3 emissions disclosures challenging to produce and verify today. Indeed, many investors expend significant resources on purchasing and verifying products and services that deliver estimates and assumptions on Scope 3 emissions data, which are frequently inaccurate due to challenges in underlying assumptions and models.

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[6] See Securities and Exchange Commission, Proposed Rule: The Enhancement and Standardization of Climate-related Disclosures for Investors ("SEC Proposal"), p. 470.
[7] See the World Bank, State and Trends in Carbon Pricing 2020, p. 7, March 2020.

Nonetheless, AB believes that increasing transparency, as would be required under the proposed rule, would improve the overall ecosystem for collecting, measuring and managing Scope 3 emissions and related data. In our view, the benefits to shareholders of having access to this information, when material, will ultimately outweigh the costs, which we anticipate would decline over time as efficiencies and industry best practices are developed and implemented.

We recommend that the trigger for disclosure of Scope 3 emissions be prompted by materiality, rather than prior public disclosure. For rationale supporting the focus on materiality, please Section 2 above. Similarly, AB recommends that Scope 3 emissions disclosures focus on categories of emissions that are material to the registrant. Disclosure across all 15 categories defined in the proposed rule would lead to unnecessary burden and cost for registrants and ultimately shareholders, and lead to inefficiencies for investors who will have to process more information that is ultimately not material to their decision-making process.

c. **The proposed rules surrounding governance could be strengthened by requiring disclosure of whether and how executive renumeration is tied to climate-related performance**. The proposed rule currently does not include language around disclosure of executive remuneration tied to climate-related performance.

   In our view, executive pay is a powerful motivating factor and investors need to consider whether executive pay incentives are fully aligned with the goals of the registrant's business.[8] Today, climate change is widely recognized as an essential factor to a proper evaluation of the risks and opportunities facing a company. For that reason, AB believes it's vital to incorporate climate change issues both into our investment research process and into executive compensation metrics for companies where climate change represents a material risk or opportunity. In this way, the full spectrum of risk, opportunity and goal-setting can be viewed in proper perspective. We find that companies with material exposure to climate change that have meaningful climate change goals embedded in their executive compensation programs tend to have a better understanding of the climate change risks and opportunities that are material to their business, use specific key performance indicators (KPIs) and are more likely to achieve goals.

   This view is supported by the results of AB's ESG Engagement Campaign, which has focused on engaging with companies in our top holdings over the past several years to integrate environmental, social and governance (ESG) metrics in executive compensation.[9] In addition, requiring disclosure on executive remuneration would align with TCFD's recommendations.[10]

d. **Foreign private issuers should be permitted to follow international disclosure regimes that are aligned with the proposal.** The proposed rules currently require foreign private issuers that file Form 20-F to make climate-related disclosures consistent with those of domestic

[8] See AB's ESG In Action: Encouraging Effective Pay Structures September 2021.
[9] See AB's 2021 ESG Engagement Campaign: Executive Compensation, Climate Risk and Modern Slavery, April 2022.
[10] See the TCFD's Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, October 2021

companies.[11] As noted in AB's response to the SEC's call for public input on climate change disclosure last year,[12] we highly encourage the SEC to coordinate globally, and domestically, to ensure consistency with other regulatory regimes and leverage existing, internationally recognized frameworks and standards. Consistency in disclosure requirements and definitions will alleviate compliance costs for issuers, which is also to the benefit of investors. To that end, we believe the SEC can provide investors with useful and generally consistent disclosures that mitigate jurisdictional differences by allowing foreign private issuers to file climate-related disclosure that complies with regimes such as those drafted by the IFRS' International Sustainability Standards Board (ISSB).[13]

AB welcomes the SEC's efforts to facilitate useful climate change disclosure, and believes the Commission has a critical role to play in the ongoing global dialogue on this issue as it relates to the efficient functioning of global capital markets. We highly encourage the SEC to continue engaging investors on this issue, as this will help reveal and drive consensus around the critical users of climate change disclosure. We sincerely appreciate the opportunity to provide our recommendations and your consideration of our perspective. We believe the recommendations above will support the SEC's efforts in this area and would welcome any opportunity to discuss these with the SEC's staff. Please feel free to reach out to Michelle Dunstan at [redacted] or Sara Rosner at [redacted].

Sincerely,

Michelle Dunstan
Global Head of Responsible Investment

Sara Rosner
Director, Environmental Research & Engagement

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

[11] See SEC Proposal, p. 275.
[12] See AllianceBernstein's Letter to the SEC's Public Input on Climate Change Disclosure, June 2021.
[13] See the ISSB's Exposure Draft – Snapshot, IFRS Sustainability Disclosure Standards, March 2022.