

THE ENHANCEMENT AND STANDARDIZATION OF
CLIMATE-RELATED DISCLOSURES FOR INVESTORS
PROPOSED RULE

REQUEST FOR COMMENT

MAY 2022

SUMMARY

The Securities and Exchange Commission (“Commission”) is proposing for public comment amendments to its rules under the Securities Act of 1933 (“Securities Act”) and Securities Exchange Act of 1934 (“Exchange Act”) that would require registrants to provide certain climate-related information in their registration statements and annual reports. The proposed rules would require information about a registrant’s climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition. The required information about climate-related risks would also include disclosure of a registrant’s greenhouse gas emissions, which have become a commonly used metric to assess a registrant’s exposure to such risks. In addition, under the proposed rules, certain climate-related financial metrics would be required in a registrant’s audited financial statements.

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11. Some chronic risks might give rise to acute risks, e.g., drought (a chronic risk) that increases acute risks, such as wildfires, or increased temperatures (a chronic risk) that increases acute risks, such as severe storms. Should we require a registrant to discuss how the acute and chronic risks they face may affect one another?

Acute physical risks, such as wildfires, floods, and tornados have become more commonplace in the present day. Hundreds of thousands of residential and commercial properties each year are at risk of being impacted by acute disaster events and registrants must take steps to mitigate the risk of their portfolios through constant evaluation of a property's propensity for disaster impact. Veros has published a research overview of acute disaster events occurring in 2021 ([Disaster Vision Link](#))¹ and has identified over 8 million residential properties, valued at over 2.7 trillion dollars, as being affected by these acute disaster events within the year. The disaster report covers multiple disasters by their event types (wildfires, floods, tornados, etc.). [The 2020 disaster review](#)² provides additional detail and elaborates on specific 2020 acute disasters. The impact that chronic risks have on the rise in frequency and scale of acute risks is a serious matter that must be accurately tracked, monitored, and addressed. Veros believes immediate, property-specific data are critical for appropriate and timely property risk management approaches that allow for mitigating and managing costs. By precisely pinpointing the properties located in the core or buffer area created by a natural disaster, industry stakeholders can proactively monitor and anticipate future events generated by chronic and acute risks.

12. For the location of its business operations, properties or processes subject to an identified material physical risk, should we require a registrant to provide the ZIP code of the location or, if located in a jurisdiction that does not use ZIP codes, a similar subnational postal zone or geographic location, as proposed? Is there another location identifier that we should use for all registrants, such as the county, province, municipality or other subnational jurisdiction? Would requiring granular location information, such as ZIP codes, present concerns about competitive harm or the physical security of assets? If so, how can we mitigate those concerns? Are there exceptions or exemptions to a granular location disclosure requirement that we should consider?

Agencies such as FEMA (Federal Emergency Management Agency) provide broad insights into properties affected by disasters at a county-level designation for their event declaration for impacted zones. While assessing the level of acute physical risks at a county level of jurisdiction can be of some benefit in assisting homeowners of impacted areas, leveraging solutions that can provide insight into a more granular level such as ZIP or parcel level can provide a much more accurate assessment of the likelihood of a property's risk to acute physical risks. Assessing risks at a broader level, such as the county, presents challenges in conducting timely and cost-effective investigations. Acute physical events such as wildfires can be more accurately assessed when examined at an individual property level, especially when large counties or borders of multiple counties are affected by a natural disaster event. Events affecting larger counties such as the 2018 Woolsey Fire showcase the challenge presented when identifying the effect of

¹ Veros 2021 Natural Disaster Impact Review - <https://www.veros.com/wp-content/uploads/2022/04/2021-Disaster-Impact-Review-Veros-Disaster-Vision-1.pdf>

² Veros 2020 Natural Disaster Impact Review - https://go.veros.com/hubfs/Veros_White_Papers/2020%20Natural%20Disaster%20Impact%20Report_Fin.pdf

physical risks at a broad level. [The FEMA declaration](#)³ for the Woolsey Fire designated the impact to Los Angeles and Ventura counties, counties that contain millions of properties. Veros was able to analyze and assess the disaster boundary at a more granular level and focus on the likely properties impacted by the disaster event (~1,600 properties). Solutions like [Disaster Vision](#)⁴ are able to help lessen the lead time in prioritizing the likely properties affected to inspect and assess their risk over properties that are far outside the damage impact zones.

15. Are there other specific metrics that would provide investors with a better understanding of the physical and transition risks facing registrants? How would investors benefit from the disclosure of any additional metrics that would not necessarily be disclosed or disclosed in a consistent manner by the proposed climate risk disclosures? What, if any, additional burdens would registrants face if they were required to disclose additional climate risk metrics?

Being able to identify properties affected at a more granular level than zip-level such as parcel-level boundary can provide investors with a better understanding of the physical risks at play as disaster events such as wildfires, tornados and hurricanes affect properties. Veros conducted research on the Tropical Storm that turned into Hurricane Barry as [FEMA initially designated 41 parishes](#)⁵ as being affected by the disaster event. Based on [Veros' disaster analysis](#)⁶, the top 15 parishes affected by the disaster events show that less than 4% of their properties were likely impacted by the event. Assessing physical risks at a more granular level allows for investors to be able to more effectively allocate their time and resources to managing properties that are more likely to be affected.

³ FEMA Woolsey Fire Declaration - <https://www.fema.gov/disaster/4407/designated-areas>

⁴ Disaster Vision - <https://www.veros.com/solutions/collateral-risk-management/disaster-data>

⁵ FEMA Tropical Storm Barry Declaration - <https://www.fema.gov/disaster/3416/designated-areas>

⁶ Veros 2019 Disaster White Paper - https://go.veros.com/hubfs/Veros_White_Papers/When-Disaster-Strikes-Data-Helps-Lenders-And-Servicers-Be-More-Prepared_Veros-White-Paper-201909-FA.pdf