June 17, 2022

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

RE: File Number S7-10-22

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposed rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. We are pleased to provide our perspectives that are informed by our interactions with investors and companies.[1] Our views also incorporate our experiences as a global business, and our history of engagement and proactive thought leadership on ESG matters.

Consistent with our 2021 response to Commissioner Lee's request for input on climate change disclosures, we support the need for mandated climate disclosures. We believe the increased transparency provided by *quality* climate information is important for the liquidity and efficiency of the capital markets. We also believe the greater *integration* of climate information with broader disclosures about a registrant's business and financial disclosures enhances value by providing greater context for both climate and financial data. We believe integrated, high-quality data is the foundation of effective climate disclosures; our recommendations advance these principles together with the *change management* needed to ensure the success of the new disclosure regime:

1. Quality — Information availability, accessibility, and reliability underpins the interrelated objectives of investor protection, capital formation, and the fair and efficient functioning of the capital markets.

2. Integration — The SEC's mandatory disclosure system protects investors by providing integrated, reliable, and decision-useful information, on a predictable and timely basis. Harmonized reporting of climate and financial information—in terms of form, content, and timing of delivery—will increase disclosure accessibility and quality, while minimizing unnecessary cost, duplication, or obfuscation.

3. Change management — Managing change in disclosure will require concerted effort from all parties in the reporting ecosystem: investment firms and investors, as users of information; companies, as providers of information; experts and gatekeepers, as outside parties supporting reliability; and others, such as standard setters. Consensus developed through transparent and inclusive transition activities will advance reliability and confidence in the new disclosures.

With these objectives in mind, we have identified specific recommendations to improve the operability of the SEC's proposal for preparers, while ensuring investors receive investor-grade, relevant information.

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[1] As of June 10, 2022, we audit over 700 SEC registrants, including 28% of Fortune 500 companies.

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Overall framework

We appreciate that the proposed rules provide for disclosures structured around the Task Force on Climate-related Financial Disclosures' (TCFD) pillars of governance, risk management, strategy, and metrics and targets. We support leveraging the TCFD recommendations given their broad use, integration of risks and financial information, and potential to enhance global alignment as the TCFD framework is also the foundation for some of the proposed guidance from the International Sustainability Standards Board and European Financial Reporting Advisory Group.

Climate-related risks and their financial impact are a global problem, and organizations worldwide are focused on providing investors with the information needed to make informed decisions. We encourage the SEC to continue to coordinate and collaborate with global standard setters in developing disclosures and metrics that serve the needs of investors. Ultimately, convergence among globally-recognized frameworks would decrease costs of compliance, improve information quality and comparability, and enhance disclosure effectiveness.

Climate disclosure implementation group

Invariably, there will be questions about application to specific circumstances and interpretations made in the faithful application of the rules. The absence of interpretive guidance may give rise to diversity in practice that could dilute the effectiveness of the rules and the usefulness of the resulting disclosures. We have previously seen the success of implementation/transition groups, such as the Joint Transition Resource Group for Revenue Recognition, the Valuation Resource Group, and the Derivatives Implementation Group.

We advocate for the establishment of a transparent, inclusive climate disclosure implementation group, under the leadership of the SEC staff, to support quality in disclosures through the timely identification, discussion, and resolution of application matters both prior to and after the effective date of the proposed rules. We believe this group—with representatives drawn from a cross section of the SEC's constituencies, formal due process, and publicly reported interpretations—would improve disclosure comparability and usefulness, while reducing the cost of the compliance process.

We recognize forming and sponsoring an implementation group is a major undertaking that will demand support and resources. Whether under the SEC staff's own auspices, or administered by another party, we believe that the resulting improvement in the consistency and quality of climate disclosures, is critical to the ultimate success of the new disclosure regime.

Investor-grade information

Investors expect quality data and are entitled to the same confidence in climate information as they currently expect from financial disclosures. Although many companies provide voluntary sustainability reporting in some form, climate disclosure processes and controls are often nascent and may not be applied with the same rigor as those related to the production of financial information. Further, companies typically report tailored climate disclosures, informed by various voluntary frameworks, and so may not be prepared for the breadth of the proposed SEC disclosures. Companies may need to develop or enhance their systems, processes, and controls to produce information of the scope required by the proposed disclosures at a level of quality commensurate with that expected in an SEC filing.

The SEC has acknowledged these challenges by providing additional time for certain types of filers. We support the phased approach to adoption and agree with the suggested phasing. Nonetheless, although large accelerated filers may be better equipped to adopt these new requirements, they also may have additional challenges given the scope of their operations. We recommend that the SEC provide a delay between issuance of the final rules and the initial adoption date (see Section M), which would provide sufficient time for the identification and resolution of application issues, as well as implementation of processes and controls, thus improving data quality and comparability.

In our global investor survey completed in fall 2021, 77% of US respondents report having more trust in ESG information if it has been assured.[2] Third-party assurance builds trust by providing investors with additional confidence in reported information. Therefore, we support inclusion of certain climate data in the footnotes to the financial statements and also support the SEC's proposal to ultimately require "reasonable assurance" over scope 1 and 2 greenhouse gas emissions information (for certain filers). We question, however, whether investors will appreciate the difference in the levels of assurance provided by reasonable and limited assurance reports and thus may place disproportionate reliance on disclosures subject only to the review procedures of a limited assurance engagement. Hence, we believe reasonable assurance should be required over scope 1 and scope 2 emissions information, beginning in the first year of disclosure for impacted filers (see Section H).

Operability

Given the uncertainty surrounding climate change—particularly over the long term—there is a risk that a broad requirement to disclose all climate-related risks that are "reasonably likely to have a material impact on the registrant"[3] may trigger a long list of boilerplate disclosures. Focusing disclosures on the climate information that the registrant's management uses to make strategic decisions would improve its usefulness, while simultaneously reducing the burden on registrants. We recommend an approach that leverages the MD&A principle of allowing investors to look at a company "through the eyes of management," tailoring disclosure of risks through the application of a management lens (see Section B).

We also recommend scaling and further tailoring the proposed disclosures in the notes to the financial statements, as well as the proposed scope 3 greenhouse gas emissions disclosures. In our view, the proposed 1% bright-line threshold for financial statement line item disclosure may elicit a volume of information that is not meaningful to investors. Therefore, we recommend establishing a disclosure threshold based on the concepts of materiality applied in preparing the financial statements, with disclosure required for those climate events or risks that have a material impact. Alignment with existing materiality concepts may elicit disclosure above or below the 1% threshold, providing more cohesive disclosures and greater focus on the information that would be meaningful to investors.

We believe that all registrants (including smaller reporting companies) should be required to disclose scope 3 emissions in any category for which they have a stated target or goal. In the absence of a target or goal, we believe that the Commission should consider refining the required disclosures. Possible alternative approaches include selecting a few impactful categories for all registrants to disclose, requiring disclosure of the most significant categories as determined by the individual registrant, or identifying categories most commonly reported or meaningful for a particular industry.

Scope of application

Integrated reporting of relevant financial and non-financial information in one filing—by most types of registrants—will facilitate investor decision making and satisfy demand for enhanced disclosures in this area. We believe, however, that the time and cost of preparing this information may be viewed as onerous and a barrier to entry in the capital markets by a company contemplating an initial public offering or a

[2] PwC's US investor survey: The economic realities of ESG

[3] Securities and Exchange Commission, Proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, Regulation S-K, Item 1502(a)

stock acquisition. We recommend excluding registration statements from the proposed enhanced disclosure requirements, except as incorporated by reference from another filing (e.g., a Form 10-K incorporated in a Form S-3). In addition, we believe newly public companies should be afforded transition relief before the full gamut of climate disclosure is required.

Further, we believe that the workability of the rules may be enhanced by permitting foreign private issuers to report under an alternative reporting regime if deemed to be substantially similar (see Section J).

* * * * *

The appendix includes our observations and recommendations by section of the proposal. We would be pleased to discuss our comments or answer any specific questions the Commission or its staff may have. Please contact Wes Bricker at wesley.bricker@pwc.com, Heather Horn at heather.horn@pwc.com, or Kathryn Kaminsky at kathryn.s.kaminsky@pwc.com regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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Appendix

A. Overview of the climate-related disclosure framework

Although the amount of climate information available is soaring as a result of a proliferation of reporting, diversity in format and scope diminishes its usefulness and adds to complexity for investors—in finding, understanding, and comparing disclosures across companies. Mandatory disclosure in annual filings—including the notes to the financial statements—would enhance comparability while ensuring that the timeliness, quality, and reliability of climate information is commensurate with that of the financial data. Identification and analysis by investors would also be facilitated by presenting the Regulation S-K climate information in a specified location in the filing. Thus, we broadly support the SEC's proposed enhancements and standardization of the climate-related disclosure requirements, subject to the operational and other recommendations included in this appendix.

Task Force on Climate-related Disclosures

Starting with the disclosure framework provided by the Task Force on Climate-related Financial Disclosures (TCFD) is a pivotal step toward reducing complexity. We support TCFD for many of the reasons cited in the proposing release, including its integration of risks and financial information, its widespread voluntary adoption, and its expanding mandatory adoption in certain jurisdictions globally. Leveraging the TCFD recommendations is also a step towards global consistency as the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG)—under a directive from the European Commission—are also leveraging TCFD in the development of their standards.

Incorporation by reference

A registrant is permitted to incorporate information—such as the financial statements and governance disclosures—in its annual filing (e.g., Form 10-K) by reference from its annual report (i.e., the "glossy" annual report provided to shareholders) and definitive proxy. The SEC requires registrants to file these documents with the Commission, post the reports on a website other than sec.gov (for at least one year after issuance), and provide copies to security holders. These documents are specifically designed for use by shareholders, and investors are familiar with relying on this content in conjunction with an annual filing. As such, we support permitting incorporation by reference of climate information from the glossy annual report as well as climate governance information from the proxy statement to satisfy proposed disclosure requirements.

In contrast, we have reservations about providing climate-related information in annual filings through incorporation by reference from other sources. We agree that incorporation by reference is often effective at reducing duplication and easing the burden on registrants. Exchange Act Rule 12b-23(e) states in part, "Information must not be incorporated by reference in any case where such incorporation would render the disclosure incomplete, unclear, or confusing." Climate information is frequently included in sustainability reports or corporate responsibility reports, reports that may be prepared using a basis of presentation designed for a stakeholder group with different information needs than investors and other providers of capital. Consequently, the specific climate information intended to be read in tandem with the financial information may be unclear or overlooked when intermingled with the content included in reports designed for another purpose. Therefore, we believe that the ability to incorporate information by reference should be limited as discussed above.

B. Disclosure of climate-related risks

We agree with the general sentiment of the climate-related risk disclosures: information about risks (and opportunities) facing a company are meaningful to investors. A PwC global survey completed in fall 2021 found that current ESG reporting is not meeting the information needs of investors: 65% of US investors believe it is important for companies to show a link between ESG risks and opportunities and financial performance, but only 19% believe current reporting is good quality.[4]

We recommend that the Commission adopt a climate disclosure framework grounded in a management approach, focusing on those material climate-related risks that management is evaluating, managing, and reporting to the board. Similar to the Commission's characterization of the intent of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), the general purpose of these disclosures should be "to give the investor an opportunity to look at the company through the eyes of management by providing both a short and long-term analysis of the business of the company."[5] Focusing on information that the registrant's management uses to make strategic decisions—instead of a broad requirement to disclose "any" climate-related risks—would improve the usefulness of the disclosures and provide additional insight to investors, while simultaneously reducing the burden on registrants.

A management approach also aligns with the proposed requirement to assess the reasonable possibility of the identified risks over the short, medium, and long term, with those time horizons determined by the registrant based on its individual circumstances. The proposed approach would allow a registrant to link these periods to its own planning cycles for assets and financing, or its broader strategic plan. The flexibility of company-specific time frames would suit a broad range of circumstances, from an asset intensive industrial company with a 40-year planning horizon to a restaurant chain focused on near-term adaptation to supply chain and other challenges.

Application of a management lens may reduce comparability across entities, but would allow for disclosures tailored to a company's facts and circumstances. We believe company-centric information would be more meaningful than a regimented approach, providing investors with useful information about how management views climate risk in managing the business. We recognize that a management approach may result in minimal disclosures for a company that is not focused on climate risk, either because it does not subscribe to the causal effect on its business or because the potential impact does not appear to present a material risk. Knowing that climate considerations are not integrated into a company's broader strategy would, in and of itself, be valuable information for investors and more meaningful than boilerplate disclosures around generic risks.

Disclosure of risks associated with the value chain

The proposed rules would require a registrant to disclose information about risks in its value chain, including both upstream and downstream activities related to its operations. We agree this information may be relevant to investors, perhaps even more relevant in some cases than risks in a registrant's own operations. Consider a product reliant on a rare mineral for which mining may be limited due to emissions created in extraction, precursor manufacturing, and transport, or, alternatively, a lender whose primary business is financing emissions-intensive operations. Investors have expressed their interest in this type of information to support informed investment decisions.

The disclosure of risks associated with a company's full value chain may be difficult to operationalize; many companies may be unaccustomed to making direct connections between climate-related risks and financial performance, and evaluating the potentially sprawling scope of climate-related risks in a complex

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[4] PwC's US investor survey: The economic realities of ESG

[5] Release No. 33-6835, SEC Interpretation: Management's Discussion and Analysis of Financial Condition and Results of Operations, Section IIIA

value chain. Nonetheless, similar to a company's own risks, the most relevant risks in the value chain are those that are a focus of management. Hence, we believe disclosure of climate risks in the value chain should be an integrated part of the broader disclosures about the material climate risks management is assessing, managing, and reporting to the board.

Disclosure of climate-related opportunities

The proposed rules would permit, but not require, a registrant to provide information about climate-related opportunities. We believe, however, that insight into management's views of both risks *and* opportunities is essential to provide a more balanced perspective of the overall impacts of climate on a company's business and operating performance, supporting neutrality in reporting. A balance of positive and negative consequences is consistent with existing disclosure requirements, including provisions of Regulation S-K Item 303, *Management's discussion and analysis of financial condition and results of operations*, which requires a registrant to discuss "the known trends or uncertainties that have had or that are reasonably likely to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations" as well as whether any events are "reasonably likely to cause a material change in the relationship between costs and revenues."

We are not advocating an open-ended requirement that would result in an annual exercise solely for the purpose of disclosure. Instead, we recommend that the Commission consider requiring disclosure of those opportunities management is assessing, managing, and reporting to the board—mirroring our proposed approach to disclosure of climate-related risks. Required disclosure of opportunities would have an added benefit of enhancing consistency with the proposed requirements under the European Commission's Corporate Sustainability Reporting Directive (CSRD) and the International Sustainability Standards Board's climate reporting exposure draft. As further discussed in Section J, we support global alignment of climate disclosures.

Definitions

We believe that certain clarifications to the definitions of physical and transition risks may aid in the operability of the rules. See Section F for discussion of the interplay of terminology between the proposed rules in Regulation S-K and Regulation S-X.

Scope of physical events and conditions

We generally agree with the definitions of physical risks, including acute risks and chronic risks. There are, however, numerous questions around how the proposed definitions would be applied in determining the scope of a registrant's physical risk disclosures. For example, would the definitions include the impact of all hurricanes, floods, and wildfires or only those above a historical baseline (i.e., is there a difference between "normal" weather and "extreme" weather)? Or, what if a registrant is or believes it may be impacted by physical conditions but is skeptical that climate change is the source (or the sole cause)?

We believe application of a company-specific risk management lens as a filter to determine which risks should be disclosed would resolve some of these implementation issues. A requirement to disclose those physical risks being assessed, managed, and reported to the board would allow a registrant to incorporate the company's definition of a particular risk—for example, whether a risk of business interruptions due to hurricanes encompasses all severe storms, only category 3 or larger hurricanes, only more than one a year, or any other variation meaningful in the company's specific circumstances.

If, however, the proposed climate-risk disclosures are not modified to incorporate a risk management lens, we recommend that the Commission provide additional clarity around the scope of the physical risk disclosures.

Evaluating transition risks

The definition of transition risks is broad, potentially encompassing a wide swath of a registrant's strategy. There are also application issues related to the definition of transition risks; it may be unclear, for example, if changes in law or regulation are related to climate risks or if reduced customer demand is attributable to carbon concerns or general consumer trends. Similar to physical risks, we believe the application of a management lens would assist in clarifying which transition risks should be disclosed.

Questions would remain, however, as to how a registrant should disclose its strategic and risk management activities when climate is only one consideration (which would often be the case). This would be especially challenging in evaluating the financial statement impact of such risks. We recommend that the Commission provide additional guidance related to transition risks, including their scope and interaction with the company's broader strategic risks.

Climate-related opportunities

Whether disclosure of climate-related opportunities is required or voluntary, we agree that providing a definition is helpful to promote consistency. The proposing release provides examples of the types of opportunities that may be in scope; however, the proposed definition in Item 1500(b) is limited. This may result in questions about the scope of opportunities that should be disclosed, resulting in lack of comparability and variation in practice. Therefore, we recommend that the Commission expand or provide additional guidance around the definition of climate-related opportunities.

Location data

The proposed rules would require a registrant to provide zip code level information about business operations, properties, or processes subject to an identified physical risk that is reasonably likely to have a material impact on its business or consolidated financial statements, with additional disclosures required for risks related to properties located in flood hazard zones and regions of high or extremely high water stress.

Additional information, however, may actually obscure investors' understanding of what is most impactful or material. There are more than 41,000 zip codes in the US, and untold numbers of postal codes worldwide. Tables of zip/postal code information would read as a jumble of numbers, requiring further research to decode. In contrast, disaggregated information by state (or the equivalent in other countries) would be readily comprehensible. Compare: the company's headquarters is located in a very high fire hazard severity zone "in zip code 90077" versus "in California." And, although sophisticated investors may have the ability to manipulate and analyze zip code level information, the information would be less accessible to other investors. Further, companies may not include zip code information in the property subledger, rendering compilation of this data at a zip code level initially challenging and onerous to maintain. We recommend that the Commission revise the proposed granularity of the location disclosures. Geographic alternatives to zip codes may include (1) a state or equivalent governmental division in other countries or (2) a description of location determined to be most relevant by the registrant (e.g., a subdivision of a state, a region, a country).

In addition, location and risk information is not meaningful without at least some financial data. Therefore, we recommend that the SEC require disclosure of the net book value of the property at risk for all property within the scope of the physical risk disclosures (not just for assets in regions of high or extremely high water stress as discussed below). Together with the location and nature of the assets at risk, net book value would provide an investor with an indication of the potential operational risks (e.g., business interruption caused by a factory shutdown) as well as financial risk (e.g., impairment) in the event a severe weather event results in property damage or destruction in that location.

Further, consistency of disclosures across all types of physical risks will aid in investor analysis; therefore, we recommend that the Commission align the disclosures for all physical risk types and omit the proposed supplemental disclosures for properties located in flood zones or areas of severe or extremely severe water stress.

Risk of flooding

If the physical risk relates to the flooding of buildings, plants, or properties, the proposed rules would require disclosure of the percentage of assets located in flood hazard areas based on square meters or acres. Although this information may be meaningful in some circumstances, such as for a real estate investment trust, it would be irrelevant for most asset classes (e.g., a factory, company headquarters). In addition, similar to zip code data, this information is not typically tracked by companies as part of their property records. Disclosure of the physical risk, the nature of the assets at risk, and the net book value of assets at risk, as we propose for the broader location disclosure requirement, would be more meaningful and reduce the burden of preparation.

Assets in regions of high or extremely high water stress

We have similar concerns about the proposed scope of disclosures for assets in regions of high or extremely high water stress. We agree that the book value of assets may be helpful to an investor; as noted above, we believe the SEC should assess whether book value information should be disclosed for all assets at physical risk. Given that the percentage of assets is a calculation that an investor could perform based on the provided information if deemed helpful, we recommend eliminating this proposed disclosure. Finally, with respect to the percentage of water drawn from these regions, we believe this metric would be difficult to calculate and may require extensive data tracking, as it would require a company to monitor and track all water usage worldwide. The general requirement to indicate the nature of the properties, processes, or operations subject to physical risk should provide investors with the necessary context about the potential impact of a water shortage. Investors would understand the difference, for example, in how a water shortage may impact a soda bottler versus an office building. Therefore, we recommend aligning the required disclosures for assets in regions of high or extremely high water stress to the overall property disclosure requirements we propose above.

Defined terms

Flood zones, regions of high or extremely high water stress, and even wildfire zones in some states are defined by relevant agencies such as the Federal Emergency Management Agency or local agencies (e.g., CAL FIRE). We support defining these terms consistent with their use by other agencies or regulators, when applicable, to enhance comparability of information.

Other expanded disclosures

The proposing release questions whether (1) the required disclosures should be expanded to include discussion of the interaction of acute and chronic risks, or (2) there are other specific metrics that would enhance investors' understanding of a registrant's climate-related risks. We believe questions around the meaningfulness of additional disclosures should be answered by investors, analysts, and other stakeholders. We observe, however, that application of a management lens to the risk disclosures, as proposed above, would aid investors in more broadly understanding management's view, and would also enable management to depict the full spectrum of their risk management activities, without expanding specific disclosure requirements or further burdening registrants.

C. Disclosure Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook

We agree that "robust and company-specific disclosure"[6] about how climate-related risks have impacted or may impact a registrant's strategy, business model, and outlook—disclosed from management's perspective and encompassing impacts to the registrant, its suppliers, and other parties in its value chain—would provide investors with what we believe is one of the primary climate-related elements thought to be missing from today's SEC filings.

As proposed, the rules would also require a registrant to describe whether and how its identified climate-related risks have affected or are reasonably likely to affect its financial statements, with specific reference to the financial metrics disclosed in the notes to the financial statements. We believe this narrative discussion of the climate risks, together with discussion and analysis of the quantitative climate data disclosed in the footnotes, prepared in a format similar to MD&A, would help satisfy investors' demands for increased transparency.

Wording of required disclosure

Proposed Item 1502(b) would require a registrant to make an affirmative statement with regard to the actual and potential impact of each identified climate risk on a specified list of items (e.g., business operations, products or services, expenditures for research and development). We believe these should be examples of considerations, rather than required disclosures, and recommend recharacterizing the purpose of the list in the proposed rule.

Carbon offsets and renewable energy credits

The Commission has proposed that a registrant disclose the role, if any, of carbon offsets or renewable energy credits (RECs) in its climate-related business strategy or operations. We support such disclosure as there is a marked difference between achieving emissions reductions through planned organic changes to business strategy or operations and lowering net emissions by purchasing offsets and RECs—with disparate impacts on capital allocation and long term resiliency. Further, although RECs are typically regulated, the nature, quality, and longevity of offsets vary widely. Accordingly, we support the Commission's proposed qualitative and quantitative disclosures about the use of offsets, which would allow investors to assess the scope and quality of an offsets program as part of their consideration of the registrant's overall strategy.

Definition of renewable energy credit or certificate

We agree with the definition of a REC included in the proposed rules (Item 1500(a)(n)), noting its consistency with the definition used by the Environmental Protection Agency. The definition in the rule refers to renewable energy generated and delivered to "a power grid." We note, however, that the proposing release refers instead to electricity generated and delivered to "a registrant's power grid." A company may purchase RECs generated in a different location than its operations, and thus the related energy would not necessarily be delivered to the registrant's grid; therefore, it is important that the adopting release, when issued, uses the appropriate description to avoid confusion.

We also agree that the actual location of generation may be of interest to investors (e.g., a company with operations in North Dakota may be purchasing RECs generated in Finland) and thus, we support the Commission's required disclosure of location information about both RECs and carbon offsets.

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[6] SEC proposed climate disclosure rule, page 72

Green financing

While not addressed in the proposed rules, Question 23 in the proposing release asks whether the Commission should require additional disclosures about a registrant's use of climate-related financing instruments. Understanding how an issuer utilizes green financing may facilitate investors' assessment of a potentially important element of a company's overall climate strategy.

Registrants may issue "green" bonds that restrict the use of proceeds to funding projects expected to have a positive impact on the environment. The Climate Bonds Initiative forecasts that green bond investments will exceed $1 trillion in 2022.[7] Although other regulatory filings may detail the expected use of proceeds, and some issuers commit to providing periodic use-of-proceeds reporting (with or without third-party assurance), consistency and comparability of disclosures across companies would enhance accountability. As such, we would support a provision to require additional details regarding the use of green bond proceeds.

The terms "green financing" or "ESG financing" may also encompass bonds that are linked to ESG-related objectives. For example, a bond's interest rate may vary depending on whether the company purchases a certain percentage of its energy from renewable sources. Information about these types of bonds may also be of interest to investors. We believe, however, that no incremental disclosures are needed for these types of instruments because material impacts would already be disclosed in the financial statements as part of either the ASC 470, *Debt*, or the ASC 815, *Derivatives and Hedging*, disclosures.

Additional disclosures

The proposed rules would require additional disclosures if management employs carbon pricing or scenario analysis in its planning. Although these disclosures would be consistent with our overall support for a management approach, we recommend certain modifications to improve operability and relevance.

Maintained internal carbon price

The proposed rules would require a registrant to disclose specified information about a maintained internal carbon price (i.e., "an estimated cost of carbon emissions used internally within an organization"[8]), if any. The Commission asserts that this information would "help [investors] assess whether the registrant's use of an internal carbon price as a planning tool is reasonable and effective."[9] The proposed internal carbon price provisions include no scope, use, or materiality criteria; if a company employs an internal carbon price for any purpose, disclosure would be required.

An internal carbon price is just that—internal—and may be used for purposes beyond strategy and planning. We are aware, for example, that some companies attach an internal carbon price to incentivize compliance with climate-related targets (e.g., attaching a carbon price to a divisional manager's P&L for each mile of travel to discourage business travel). Although an investor may be interested in a company's behavioral incentives, we do not believe carbon prices established solely for internal reporting are relevant for investor objectives.

Internal carbon prices may also be used to support other climate-related information: as a material input to the company's planning process, for example, or if the company's incentive program is important to achieving an emissions reduction target. We believe, however, that a separate requirement to disclose the internal carbon price is duplicative because, when relevant, disclosure would be covered by other

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[7] *$1Trillion Annual Green Bond Milestone Tipped for end 2022 – New Market Survey*

[8] SEC proposed climate disclosure rule, page 79

[9] Ibid., page 80

requirements (e.g., scenario analysis). Therefore, we recommend that the Commission remove the specific required disclosures related to internal carbon prices.

Scenario analysis

As proposed, a registrant would be required to disclose "the resilience of its business strategy in light of potential future changes in climate-related risks."[10] Additional disclosures would be required if scenario analysis is used in the assessment of resilience or analysis of the impact of climate-related risks. Because scenario analysis is a common tool to evaluate resilience, we believe most registrants would be required to make these disclosures. As such, it is important that the scenario analysis disclosure requirements are operable for companies in all stages of disclosure maturity.

As proposed, management would have the flexibility to disclose scenario analysis performed based on the variables most impactful to its business, or alternatively, based on widely accepted scenarios, such as those detailed in the Paris Agreement. When scenario analysis is used, we agree that providing details about the scenarios considered, as well as the significant parameters and assumptions, would be helpful. Specifically, we believe understanding which assumptions have the largest potential impact on future strategy and results would be of interest to an investor analyzing the future prospects of the business.

We are concerned, however, that detailed quantitative information—even if framed as assumptions and ranges—may imply a level of precision in an area of extreme uncertainty. We have observed that scenario analysis is often qualitative, even among companies in advanced stages of environmental disclosure. This position is consistent with the advice given in the 2020 TCFD publication, *Guidance on Scenario Analysis for Non-Financial Companies,* in which companies are advised not to rush to quantification. The report states:

> Quantification should proceed in steps; for example, by starting with a qualitative analysis followed by quantification of impacts through 'orders of magnitude' or directional indications. More detailed quantitative approaches and models may be developed later once these impacts are well understood and the necessary data has been obtained.

We recommend that the Commission require only qualitative disclosures related to scenario analysis, delaying more quantitative disclosures until there is widespread application of more developed tools and more investor experience evaluating such disclosures. As processes mature over time, and in connection with other evolutions in the requirements, the Commission could consider requiring quantitative disclosure.

D. Governance disclosure

We generally support the SEC's proposed governance provisions. We have suggestions, however, that may improve the operability of the proposed rules while preserving the decision usefulness of the information.

Board oversight of climate risks and targets

We agree that the board has an important role to play in the oversight of climate risk, and support specific disclosure about how it exercises that oversight. Nonetheless, as the SEC acknowledges in the proposal, the proposed rules "are similar to the SEC's existing rules under Regulation S-K that call for disclosure about corporate governance."[11] Specifically, Item 407(h) requires a description of the extent of the board's role in the risk oversight of the registrant, such as how the board administers its oversight function.

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[10] Ibid., page 83

[11] SEC proposed climate disclosure rule, page 94

We also note that proposed Item 1501(a)(1)(v) would require disclosure of "whether and how the board sets climate-related targets or goals," as well as its oversight of progress against those goals. We believe that it would be unusual for a board to set a goal independent of management. Further, although we agree that disclosure of the board's oversight of the company's progress against targets or goals would be useful, we believe the discussion would be more meaningful when integrated with the broader governance disclosures.

In lieu of the proposed rules, we recommend that the Commission amend existing governance disclosure requirements to include disclosure of how the board exercises its oversight of climate risk and oversees progress toward climate-related targets or goals, if any.

Board oversight of attest provider

We note that the Sarbanes-Oxley Act enhanced the corporate governance role of the board of directors by charging it with oversight of a company's external auditor. Audit committees, in particular, were given enhanced responsibility for the quality of financial reporting and oversight of internal and external audits. We believe these requirements have had a meaningful impact on audit quality. Hence, we believe the audit committee should have the same responsibility with regard to the appointment, compensation, retention, and oversight of the entity providing the scope 1 and scope 2 attestation as they are charged with under Exchange Act Rule 10A-3(b)(2) with respect to the registered public accounting firm engaged to audit the financial statements.

E. Risk management disclosure

The proposed rules would require management to provide a description of the process it uses to identify, assess, and manage climate-related risks, mirroring the recommendations in the TCFD framework. We agree that establishing and operating an effective process is important and acknowledge that investors would find this information useful; 79% of global respondents to our investor survey completed in 2021 agree that how a company manages ESG risks and opportunities is an important factor in making investment decisions.[12] As with all risks, management's processes associated with climate risks may vary widely. As a result, these disclosures would allow investors to make informed comparisons across companies.

The proposed process disclosure requirement, however, expands the disclosures supporting climate-related conclusions well beyond the SEC requirements related to other information included in annual filings. Although the emerging nature of climate-related risks may warrant expanded disclosure, we recommend that the Commission consider consistency with existing risk disclosures as well as whether the proposed process disclosures are establishing a precedent for other emerging risks, such as cyber security.

Definitions

As proposed, the risk management requirements include new terminology specific to the classification of climate-related risks (e.g., proposed Item 1503(2)(iii) refers to "high priority risks"). The Commission's current vernacular would appear sufficient to describe the required risk assessment; creating new categories of risk would add unnecessary complexity. If the requirement as proposed is retained, we recommend that the Commission define the term or otherwise clarify which risks should be classified as high priority.

[12] The green shoots of TCFD reporting, PwC, April 2022 (updated May 2022)

Transition plans

We support the proposed disclosure of transition plans to the extent they relate to addressing physical risks and transition risks as elements of management's strategy. We believe it is important for investors to understand how a registrant plans to mitigate or adapt to such risks. Because a climate-related target or goal would be a type of transition plan, we believe that having separate requirements related to such targets and goals (as detailed in Section I) creates confusion. We recommend that the Commission combine the requirements to disclose targets and goals (Item 1506)—as modified per our recommendations in Section I to limit the scope of the disclosures—with the requirements to disclose transition plans (Item 1503(c)(1)).

F. Financial statement metrics

Acute and chronic severe weather events—such as hurricanes, wildfires, extreme heat, and water shortages—are increasingly impacting companies as are operational decisions made in response to climate transition risks. The financial impact of some of these items—for example, losses arising from asset impairments or operations and maintenance expenses associated with site restoration—may already be disclosed under existing GAAP. These disclosures, however, may not clearly link to the impact of climate, while other climate-related impacts may not be disclosed.

We agree standardized climate disclosures in the footnotes to the financial statements would aid investors in better understanding the impact of climate risks on the financial statements. In fact, 65% of US investors in our global investor survey completed in fall 2021 indicated that it is important to show a link between a company's ESG risks and opportunities and its financial performance.[13] We also agree that the information would be most decision-useful if reported for the same period and on the same timeline as the financial data and other climate data provided in the filing. We have concerns, however, regarding the operability of the financial statement disclosure rules as proposed and recommend that the Commission consider certain changes to facilitate application by preparers and improve usefulness for investors.

F.1, F.2, and F.3 — Overview, Financial metrics, Expenditure metrics

There is widespread support for more, and more consistent, climate disclosure than what is provided under today's disclosure standards. In recognition of the demand for this information, we generally support the SEC's proposal to require registrants to provide financial statement metrics as well as to address the impact of climate on significant financial statement assumptions.

We believe, however, that the current proposed disclosure threshold would be difficult for registrants to implement and also would not provide the type of meaningful or actionable information investors are demanding. We also have concerns about ambiguity in certain of the definitions used and the potential scope of the required disclosures.

Disclosure threshold

In some respects, we understand that a bright-line standard may enhance consistency across registrants. Application of the proposed 1% threshold to individual financial statement line items, however, may elicit information that is not meaningful to investors. Further, this approach may result in partial disclosure of a significant event, the total impact of which is recorded in multiple financial statement line items, diminishing the usefulness of the information. Companies' systems and processes are not designed to capture information in this manner, creating potential practical application challenges such that the

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[13] PwC's US investor survey: The economic realities of ESG

potential cost may exceed the perceived benefit. Any bright-line threshold—whether 1%, 5%, or even 10%—will suffer from these limitations.

To address these issues, we recommend that the Commission consider an alternative approach to the disclosures of financial and expenditure metrics. We believe that disclosures should be required only for those climate events or risks that materially impact the financial statements. In determining whether the disclosure threshold is met, we believe that positive and negative impacts should be considered separately, not netted (e.g., if a winery receives insurance proceeds for grapes damaged by a wildfire, they should consider the gross loss in assessing whether disclosure is triggered).

If the Commission adopts this approach, we recommend that the impact disclosures include disaggregated information, such as amounts capitalized and expensed, and the relevant financial statement caption or financial statement line item (with respect to the balance sheet, income statement, statement of cash flows). If the climate event or risk clearly relates to a specific segment of the business, management may choose to provide segmental context; we believe, however, that this type of disclosure should be discretionary.

Notwithstanding the approach to disclosure ultimately adopted by the Commission, we agree that disclosure of contextual information will be important to investors, including information about significant inputs and assumptions used in determining disclosure amounts.

Definitions

Proposed Regulation S-X Rules 14-02(c) and 14-02(d) would require disclosure of the financial impacts of "severe weather events and other natural conditions" and "transition activities," respectively. Proposed Rules 14-02(e) and 14-02(f) would require similar disclosures about expenditures to mitigate or manage the related risks. Although some examples are provided, the term "severe weather events and other natural conditions" is not defined. Further, there is a lack of clarity about the interplay between these event-driven requirements and the proposed Rule 14-02(i) requirement to separately consider the impact of the risks identified in Item 1500(c).

The confusion is exacerbated by the use of different but similar terms (e.g., the proposed rules under Regulation S-X refer to severe weather events with one set of examples, while the proposed rules under Regulation S-K refer to extreme weather events with overlapping but different examples), making it unclear if the rules are intended to refer to the same things. As discussed in Section B, there is also confusion about whether these disclosures are intended to capture *all* climate-related impacts or only those above a historical baseline.

We believe that alignment of the terminology would improve understanding and aid in consistent application of the proposed rules. For example, the weather disclosures in the notes to the financial statements could be framed as events arising from the manifestation of acute and chronic physical risks, similar to the reference to transition risks within the transition activities disclosure requirement. Aligning the definitions would provide clarity and eliminate the need for the disclosure requirement in Rule 14-02(i).

The proposed rules also provide examples of the types of impacts that should be considered for disclosure. We agree that measurable and recorded items such as impairment losses, costs incurred, and changes to loss contingencies should be disclosed if attributable, or partially attributable, to climate. The proposed rules, however, suggest that registrants should also disclose hypothetical amounts, such as lost revenue from disruptions to business operations or supply chains. We believe amounts that cannot be objectively verified and reliably quantified should be excluded from the proposed disclosures (consistent with the SEC staff's historical guidance against including such amounts in non-GAAP measures).

Climate-related opportunities / positive impacts

The proposed rules would permit registrants to include the positive financial impacts of a climate event in its disclosures, including both opportunities and other positive impacts. As noted in Section B, we support discussion of opportunities as part of the broader discussion in the “Climate-Related Disclosure” section of the filing. The financial impact of a climate opportunity, however, may be difficult to delineate from other aspects of a company’s strategic and operational decisions. We recommend that the disclosures of opportunities and positive impacts be limited to amounts that can be objectively verified and reliability quantified, similar to our recommended limitation on climate-risk related disclosures discussed above.

F.4 — Financial estimates and assumptions

We agree that information about the impact of climate on estimates and assumptions may be useful for investors. It may be difficult, however, for a registrant to reliably separate those adjustments from changes based on broader business factors. For example, a company’s decision to move its corporate headquarters away from a flood zone may also reflect its interest in relocating closer to customers or a broader base of employees, or perhaps to a lower tax state. Likewise, identifying the exact source of a decline in counterparty credit quality leading to an increase in the credit loss reserve may be impossible given the number of factors impacting a company’s credit.

We recommend that the Commission provide additional guidance about when these disclosures would be triggered, perhaps focusing on changes primarily or solely due to climate rather than instances when it is inextricably linked to other contributing factors. We also recommend that the Commission consider limiting the scope of this disclosure to changes to critical accounting estimates. We believe these changes would improve operability for registrants while still providing key climate information to investors.

F.5 — Inclusion of climate-related metrics in the financial statements

We support inclusion of climate-related metrics in the notes to the financial statements. Such information would be subject to audit and included in management’s assessment of internal control over financial reporting. This approach would also help ensure that the climate information is considered in the context of the registrant’s broader financial results.

As proposed, the rules would require the registrant to provide all the financial statement climate-related disclosures in a single note. We recommend that the Commission consider providing additional flexibility as to the placement of the disclosures within the notes to the financial statements. In some cases, the information may be more effectively presented together with other related disclosures. For example, a change in the useful life of a plant attributable to emissions restrictions may be most meaningfully disclosed in the property, plant, and equipment note rather than in a segregated climate risk footnote.

G. GHG emissions metrics disclosure

G.1.a and G.1.b — Overview and treatment of scope 1 and scope 2 versus scope 3

We generally support the proposed rules related to the greenhouse gas emissions disclosures, however, believe some changes are necessary to improve the operability for preparers while preserving the usefulness for investors.

General guidelines

We support separate disclosure of scope 1, scope 2, and scope 3 greenhouse gases (subject to the recommendations below to narrow the scope 3 disclosures), including the SEC’s proposed definitions based on the Greenhouse Gas Protocol (GHG Protocol) as well as the seven types of greenhouse gases identified in the proposed rules. The seven gases are consistent with those included in most major emissions reductions schemes. Information about the type of greenhouse gases emitted by a registrant would be meaningful information for investors given the vastly differing levels of global warming potential among the different gases. Disaggregated data may also aid investors in understanding a company's risk profile because different gases may be subject to varying regulations. We also agree that the information would be most decision-useful if reported for the same period and on the same timeline as the financial data and other climate data provided in the filing. See Section M for our views on the presentation of comparative information during initial adoption.

Although we support leveraging the GHG Protocol, we believe the SEC should allow for the expansion of the reported gases as monitoring and measurement of greenhouse gases continue to evolve. Potential vehicles to ensure the proposed rules keep pace with broader scientific and societal developments include (1) establishing a climate disclosure implementation group that advises the Commission on the need for amendments (see Section M); (2) referencing the list of reported gases to another reported framework (e.g., U.S. Energy Information Administration or the Environmental Protection Agency); and (3) enhancing the GHG Protocol (see "Emissions methodology" in this section). Alternatively, the Commission could commit to revisiting the list of reported gases at some period post adoption (similar to the stated intention to revisit the Tier 1 definition in the adopting release for Regulation A).[14]

Reporting of offsets and renewable energy credits

As proposed, the rules would require the disclosure of information about carbon offsets and renewable energy credits if these instruments are used as part of the registrant's plan to achieve climate-related targets or goals (Item 1506(d)). We believe disclosures about the use of these instruments should be required for all carbon offsets and RECs, not just those used as part of a plan to achieve a specific goal. Further, we believe information about offsets and renewable energy credits would be most useful when presented together with the related emissions data. Therefore, we recommend that the Commission clarify the requirements for reporting carbon offsets and RECs and consider incorporating these disclosures together with the gross scope 1, scope 2, and scope 3 emissions disclosures. Optional presentation of offset information together with the related emissions would also be consistent with the GHG Protocol reporting standards.

We support gross reporting of emissions data with separate disclosure of carbon offsets and renewable energy credits. The proposed rules are clear that offsets should not be considered in reporting gross emissions; however, they are silent as to how renewable energy credits should be reported. If a company purchases (and retires) a REC together with the underlying power generated by a renewable source, there would be no emissions to report. In contrast, if the company buys "brown" power (or power for which the specific source of generation is unknown) and separately purchases a REC (e.g., the generation and REC are in different locations), gross reporting of the emissions associated with the electricity consumed would be more representational as well as more meaningful. We recommend that the Commission clarify that companies should report scope 2 emissions associated with the electricity actually used, with separate reporting of the benefit from the RECs.

Scope 3 emissions

Investors trying to understand a company's broader environmental footprint may benefit from disclosure of scope 3 emissions data, particularly in circumstances when the registrant's downstream or upstream activities are emissions intensive. As proposed, however, the scope 3 disclosure standard may be onerous for companies to operationalize and fail to yield significant incremental benefit for investors.

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[14] Release No. 33-9741, Amendments for Small and Additional Issues Exemptions under the Securities Act (Regulation A), footnote 91

Proposed Item 1504(c) would require a registrant to disclose:

- total scope 3 emissions, if material;
- scope 3 emissions, if the registrant has a target or goal that includes scope 3 emissions;
- categories of scope 3 emissions included in the scope 3 calculation; and
- separate data for any scope 3 category that is significant.

As written, a registrant with any scope 3 goal, even one focused solely on, for example, category 6, “Business travel,” or category 7, “Employee commuting,” would be required to calculate and report all of its scope 3 emissions. Further, even in the absence of a target or goal, a registrant would be required to calculate its scope 3 emissions across all relevant categories to determine whether the total is material.

To improve the operability of the requirement, we recommend that the Commission require all registrants (including smaller reporting companies) to disclose scope 3 emissions in any category for which they have a stated target or goal. Further, we recommend that the Commission refine the required disclosures of scope 3 emissions when no such targets or goals have been announced. Alternative approaches may include (1) identifying a select number of impactful categories for all registrants to disclose (e.g., category 1, “Purchased goods and services,” category 11, “Use of sold products,” and category 15, “Investments”); (2) requiring disclosure of the most significant categories as determined by each individual registrant; or (3) requiring disclosure based on the categories most commonly reported or meaningful for a particular industry. We believe narrowing the breadth of the scope 3 disclosure will aid companies while still providing the scope 3 information that is most relevant to investors.

G.1.c — GHG intensity

Public companies range in size and profitability; investors routinely evaluate and compare companies across a wide array of characteristics. Similarly, we believe that investors will develop techniques to analyze and benchmark emissions based on the financial and GHG information provided. Although we agree that an intensity measure may aid in comparing different companies, in the context of a net zero or other substantial greenhouse gas reduction commitment, the absolute quantity of GHG emissions released into the atmosphere—and progress toward the goal—is more meaningful than a normalized GHG intensity measure. Further, an intensity metric may mask emissions *growth*: for example, if a company is increasing revenue by raising prices, its revenue-based intensity metric may show a decline even if emissions have increased for the same number of units sold.

We recognize, however, that intensity ratios are widely used by companies reporting GHG emissions and that an individual company may find an intensity measure helpful to demonstrate its progress toward GHG reductions. Thus, we believe GHG intensity measures should be provided on a *voluntary* basis, accompanied by disclosures as proposed.

G.2 — GHG emissions methodology

In our experience, data requires context. In particular, the calculation of greenhouse gas emissions is new to many companies, and although the Greenhouse Gas Protocol has existed since 1998, its basic precepts may not be well known to companies or investors. Further, only a few industries (e.g., power and utilities) regularly incorporate continuous emissions monitoring systems in the calculation of direct (scope 1) emissions. Instead, emissions are typically based on indirect measures (i.e., activity data multiplied by emissions factors). Thus, the methodology, significant inputs, and significant assumptions used to calculate GHG emissions will be important to provide context for users. We therefore support the proposed requirement to describe the GHG methodology and related information as outlined in Item 1504(e).

Emissions disclosures are intended at least in part to enhance transparency and accountability. Although current practice in GHG emissions measurement is highly reliant on estimates, we believe the SEC should advocate for using company-specific data when possible (e.g., relying on an invoice rather than an estimate to determine electricity consumed in a specific facility). In addition, we believe participation in efforts to update and maintain the Greenhouse Gas Protocol, as discussed in the next section, would contribute to ensuring accepted measurement practices evolve as practice changes.

Methodology used

The use of US GAAP or IFRS in preparing financial statements provides a common language for users to understand the overall framework applied. This uniformity enhances the usefulness of the financial statements and allows companies to more effectively convey information. We believe application of a common methodology in the calculation of greenhouse gas emissions would provide similar benefits.

The Greenhouse Gas Protocol is currently the most widely used framework for emissions measurement and we expect that most registrants would look to its guidance in preparing their emissions disclosures. We recommend that the Commission work with other regulators and ESG standard setters to ensure key elements that support high quality standards are more formally incorporated into the maintenance and ongoing development of the GHG Protocol, such as establishing formal due process, amending for the impact of current accounting standards, and implementing a continuous update process. More formal processes would also help ensure that its principles keep pace with developments in greenhouse gas measurement.

We agree with the proposing release that GHG disclosures, based on the Greenhouse Gas Protocol and supplemented by SEC-specific requirements (e.g., determination of organizational and operational boundaries), "could help provide investors with consistent, comparable, and reliable information about a registrant's GHG emissions."[15] We also note that the proposed rules would allow registrants to use methodologies other than the GHG Protocol. Because approaches to the measurement of greenhouse gases are evolving, we support permitting some flexibility in the measurement framework applied. We are concerned, however, that the use of a company-specific framework, or one not widely accepted, would fail to achieve the SEC's objective of consistency. As a result, we recommend that the Commission require the use of an established GHG measurement framework that meets specified minimum criteria, as modified, if necessary, to be consistent with the SEC-specific requirements. We believe the comparability and usefulness of company-specific data will be diminished absent application of a generally accepted methodology.

Organizational and operational boundaries

The determination of which entities should be included in a company's consolidated financial statements is based on a significant volume of generally accepted accounting principles that have developed over decades of standard setting. Investors understand the concept of consolidated financial statements and rely on the knowledge that the primary information reported in a registration statement or annual report is reported on the same basis, for the same group of entities.

In contrast, the definitions of organizational and operational boundaries outlined in the GHG Protocol were designed to standardize greenhouse gas reporting, with a dual benefit of providing information for use by policymakers and architects of GHG programs. Because the guidance was not originally developed in the context of reporting emissions together with financial information, it may need to be updated and enhanced to satisfy the demands of a framework supporting audited data in an SEC filing. For example, if the reporting entity acquires a company, the GHG Protocol would require upward revision of the

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[15] SEC proposed climate disclosure rule, page 158

consolidated entity's greenhouse gas emissions for all periods presented, including periods before it owned the subsidiary. This diverges from the treatment of the acquired entity's results of operations and other financial information, which would only be included for periods after the acquisition. Given these and other elements in the GHG Protocol that are divorced from accounting principles, we support the SEC's proposed disclosure of emissions based on the organizational boundaries established by the financial statements.

Use of estimates

We recognize that there may be situations when greenhouse gas data for the full period is not available within the applicable reporting timelines. We believe the guidance applied to estimates in the financial statements provides a useful point of reference in developing a framework for estimating greenhouse gas emissions. The FASB's Conceptual Framework for Financial Reporting (CON 8) addresses the use of estimates in the financial statements and states that "a representation of [an] estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing an estimate."

We believe the same model should be applied to climate data, including GHG emissions data Consequently, we are concerned about the proposed requirement in Item 1504(e)(4) to "promptly [disclose] in a subsequent filing any material difference between the estimate used and the actual, determined GHG emissions data for the fourth fiscal quarter." Reporting of GHG emissions often relies on estimates—emissions factors, economic data in lieu of activity data, location-based data, and so forth. A requirement to "true-up" differences implies a level of precision that may be incongruous with the nature of emissions reporting (except perhaps in cases when emissions are directly monitored). The requirement may also create questions from investors about reliability as well as the potential impact on the attest report, where and how the revised amounts would be reported, and whether the original filing would need to be revised. We recommend that the Commission eliminate references to updating estimates in subsequent periods; actual results that differ significantly from a previously reported estimate should be evaluated in the same manner as subsequent information about any other estimate reported in the filing.

SEC Staff Accounting Bulletin No. 99 provides guidance for the evaluation of financial statement errors and the related audits. We recommend the Commission consider whether similar guidance is needed for the determination of materiality and evaluation of errors associated with greenhouse gas emissions information.

G.3 — Scope 3 safe harbor and other accommodations

The proposed rules would not require smaller reporting companies (SRCs) to disclose any scope 3 GHG emissions. We believe, however, that an SRC that has disclosed scope 3-related targets or goals should be subject to the same disclosure requirements as any other registrant making similar commitments. Companies may announce climate targets and goals for many purposes, including marketing a lower carbon product or otherwise establishing a specific marketplace niche. In those and other circumstances, scope 3 data may be important to investors assessing the company's progress against its goals, irrespective of the size of the company. As such, we recommend that the Commission require scope 3 disclosures for smaller reporting companies that have announced a scope 3-related target or goal. As discussed in Section I, we also recommend that the Commission consider clarifying for all registrants the types of targets or goals that would trigger disclosure.

H. Attestation of scope 1 and scope 2 emissions disclosure

H.1 — Overview

The proposed rules would require large accelerated and accelerated filers to include an attestation report covering the company's scope 1 and scope 2 disclosures in the relevant filing. GHG emissions data is unlike other information in the filing for which assurance is not required. As noted in the proposing release, "quantitative disclosure outside of the financial statements typically is derived, at least in part, from the same books and records that are used to generate a registrant's audited financial statements and accompanying notes and that are subject to ICFR."[16] Independent third-party assurance would provide investors with additional confidence in the quality of the emissions information and enhance its credibility, and we agree with the proposed attestation requirements.

Level of assurance

The SEC has proposed a phased approach to the attestation requirements with limited assurance required in years two and three after initial adoption and reasonable assurance beginning in the fourth year. We do not believe that investors will appreciate the difference in the confidence provided by the different levels of assurance, especially when presented in the same filing as the audited financial statements. Investors may place disproportionate reliance on disclosures subject only to the review procedures of a limited assurance engagement, creating an expectation gap. Further, the additional diligence required in a reasonable assurance engagement may result in restatement or revision of previously reported information that was subject to limited assurance. If the objective of these new disclosures is to provide investors with additional, decision-useful information, even a limited number of restatements may result in loss of investor confidence in this data.

According to our global investor survey completed in fall 2021, almost three-quarters (72%) of US investors think ESG metrics should be assured at the same level as the financial statement audit.[17] We recommend that the Commission require reasonable assurance over scope 1 and scope 2 emissions information beginning in the first year of disclosure for impacted filers, assuming a delayed effective date (see Section M). We also recommend that the Commission clarify that attestation is not required for retrospective periods, similar to our support for prospective-only climate disclosures (see Section M).

Disclosure controls and procedures

Because the Regulation S-K disclosures, including the emissions information, would be included in the registrant's annual report, they would be subject to management's disclosure controls and procedures (DC&P) and the related management certifications. We believe that the overall certifications regarding DC&P are sufficient and do not recommend modifying such language to specifically refer to GHG or other climate disclosures more broadly.

H.2 — GHG emissions attestation provider requirements

The Commission notes in the proposing release that it has "long recognized the important role played by an independent audit,"[18] and cites studies that suggest that "investors have greater confidence in information that has been assured."[19] In our global investor survey, 77% of US respondents report having more trust in ESG information if it has been assured.[20] This confidence would be undermined by a lack of confidence in the person or entity providing that assurance. Poor quality attestations in this area may also have ripple effects with regard to overall confidence in the nature of attestations.

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[16] SEC proposed climate disclosure rule, page 220
[17] PwC's US investor survey: The economic realities of ESG
[18] SEC proposed climate disclosure rule, page 222
[19] Ibid.
[20] PwC's US investor survey: The economic realities of ESG

The proposal would require the person or firm engaged to attest to the registrant's scope 1 and scope 2 emissions information to be independent of the registrant and possess relevant expertise.

In addressing the independence of the attest provider, the proposing release notes that the terms "affiliate" and "professional engagement period" have the meaning provided in Regulation S-X Rule 2-01 and includes some descriptions that mirror the Rule 2-01 language. The proposal, however, does not explicitly require that GHG attest providers meet the stringent independence standards applicable to the financial statement auditor. Independence and objectivity are the starting point for investor confidence in third-party assurance. We therefore recommend that the Commission require attest providers to meet the full complement of SEC independence requirements.

The SEC has proposed that a qualified attest provider is one that has "significant experience in measuring, analyzing, reporting, or attesting to GHG emissions" with significant experience described as having competence and capabilities to perform engagements in accordance with professional standards and enable them to issue appropriate reports.[21] The proposed requirements thus would appear to allow entities with no prior attest experience to issue attest reports on emissions information included in a registrant's filing. Performing competent attest engagements requires extensive training; we believe investors would have more confidence in attestations performed by experienced professionals. In fact, 81% of US respondents to our global investor survey believe that assurance providers should have expertise both in the subject matter and in providing assurance.

We recommend that the SEC more closely align the experience requirement with that used by the International Standard on Assurance Engagements 3000, which, among other provisions, requires the engagement partner to have "competence in assurance skills and techniques developed through extensive training and practical application" and "sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion."[22] We also recommend that the Commission consider whether state licensure laws would preclude parties other than CPAs from performing attest services.

The proposed rules would also require registrants to make certain disclosures about the attest provider, including whether the provider (1) has a license from any licensing or accreditation body to provide assurance, (2) is subject to an oversight inspection program, and (3) is subject to record-keeping requirements. Because of the importance of these criteria, we recommend elevating these provisions and adding them to the GHG emissions attest provider requirements.

Taken together, our recommendations highlight the need for a substantive process to ensure that attest providers are appropriately qualified and subject to effective oversight. We recommend that the Commission consider whether it is feasible to require attest providers to be registered with the Public Company Accounting Oversight Board (PCAOB) or otherwise subject to independent oversight. The PCAOB contributes to audit quality through its oversight functions, including registration and inspections, standard setting, and enforcement. Requiring PCAOB registration would establish a consistent benchmark for the quality and diligence of the attest provider that would be easy for investors to understand. Because attest providers would be considered to be appearing and practicing before the SEC, we also recommend that the Commission consider whether it could direct the PCAOB to expand its inspection oversight to encompass reasonable assurance engagements over GHG emissions.

If a GHG emissions attest provider is not required to be registered with the PCAOB, we recommend that the SEC require compliance with additional minimum quality control requirements, such as those related

[21] SEC proposed climate disclosure rule, page 475

[22] International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 31(b) and (c)

to engagement performance and compliance with code of conduct and ethical requirements akin to the requirements for those that provide attestation under PCAOB, American Institute of Certified Public Accountants (AICPA), or International Auditing and Assurance Standards Board (IAASB) standards.

Changes in attest providers

Item 4.01 of Form 8-K requires a registrant to disclose changes in a registrant's certifying accountant. We recommend that this Item be amended to include the disclosure of changes in the scope 1 and scope 2 emissions attest provider, including whether there were any disagreements with the former attest provider. Such disclosures should be modeled after the requirements of Item 304 of Regulation S-K. Alternatively, related amendments should be made to Item 304 or included as a separate requirement within proposed Item 1500. The same amendment should be made to Item 16F of Form 20-F.

Limited assurance attest provider liability

A report on unaudited GHG emissions information by an independent attest provider that has conducted a limited assurance review of such information should not be considered part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Securities Act, similar to the provision applicable to review reports on unaudited interim financial information detailed in Securities Act Rule 436(c).

Consents

In some instances, Section 7 of the Securities Act requires an SEC registrant to file a written consent from an expert as an exhibit to a Securities Act registration statement. We encourage the SEC to consider addressing whether a registrant would be similarly required to obtain and file a consent from a scope 1 and scope 2 attest provider when that provider's opinion is included or incorporated by reference into a Securities Act registration statement.

H.3 — GHG emissions attestation engagement and report requirements

We agree with the proposed requirement that GHG emissions attest engagements and the related report be conducted pursuant to standards that are publicly available at no cost and established by a body or group that followed due process procedures in the development of those standards. Due process is an important step in ensuring that standards are operational and their public availability at no cost will help users of the reports assess whether the standards used are appropriate for the designated reporting objective. Similar to the Commission's description of characteristics of frameworks that would be suitable for the evaluation of internal control over financial reporting, we agree that it would be helpful for the SEC to provide minimum requirements for what constitutes a suitable framework for disclosing GHG emissions. This will help ensure that the standards referenced by registrants are sufficiently developed and suitable for the intended purpose. See also Section G for discussion of suitable frameworks for GHG emissions disclosures.

We further agree that the attestation standards of the PCAOB, AICPA, and IAASB would meet the due process requirements. We were pleased to see that the PCAOB has added consideration of the need to update the attestation standards to its Standard Setting Agenda.[23] We note that the attest standards of the AICPA and IAASB are currently the most common frameworks used to conduct emissions attest engagements and have been more recently updated than the PCAOB standards. Consistent PCAOB standards would help minimize diversity in the work performed in an attestation engagement filed with the SEC.

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Suitable criteria

We believe that the provisions of the GHG Protocol, accompanied by company-specific information, would be suitable criteria against which the scope 1 and scope 2 emissions disclosure could be evaluated. As with the GHG Protocol, the SEC's principles-based requirements would need to be supplemented with company-specific information that is appropriately described, representing the basis on which the GHG emissions disclosures have been prepared.

H.4 — Additional disclosure by the registrant

We agree with the Commission that it is important for investors to understand the qualifications of attestation providers—including information about licensing, oversight, and recordkeeping requirements—as a data point to help understand the reliability of the attestation results.

If the Commission does not require GHG attest providers to be registered with the PCAOB, we agree that the disclosures proposed would be beneficial to an investor in assessing the quality of the provider. As noted in Section H.2 above, however, we believe these matters should be required qualifications for any attest provider as opposed to items subject only to disclosure. Further, given the stringent requirements to be registered with the PCAOB, which already address licensure, oversight, and record-keeping, we believe it should be sufficient to disclose that the attestation was performed by a PCAOB-registered accounting firm, without additional detail.

H.5 — Disclosure of voluntary attestation

Some registrants not required by the proposed rules to obtain assurance over their scope 1 and scope 2 emissions (e.g., non-accelerated filers) may plan to voluntarily obtain third-party attestation or verification. In these cases, the proposing release notes that additional disclosures are needed to "help investors understand the nature and reliability of the attestation or verification."[24]

As discussed in Section H.1, we support required attestation over scope 1 and scope 2 emissions for large accelerated and accelerated filers. We are concerned that inconsistencies in the nature and extent of procedures performed in a voluntary attestation may detract from the benefits of the required attestations. A lack of standardization may also impede an investor's ability to evaluate whether the voluntary procedures have "enhanced the reliability of the GHG emissions disclosures."[25] Further, as detailed in Section H.1, investors may not appreciate the difference between limited and reasonable assurance. Disclosing that the data was "verified" would compound the confusion, especially when performed by parties other than CPAs. We recommend that the Commission require any attestations referenced in an SEC filing—whether voluntary or required—to be in compliance with the proposed requirements for large accelerated and accelerated filers.

I. Targets and goals disclosure

A company's climate commitments—and progress in relation to its commitments—may impact its business, outlook, access to markets, pricing, operating expenditures, capital expenditures, liquidity, and other capital resources. The proposed rules would require disclosures related to certain types of climate-related targets and goals. We support disclosure of targets because of our concerns with so-called greenwashing—companies that trade on commitments lacking substance or follow through.

Anecdotally, we understand that some companies believe required disclosures related to targets and goals would be a disincentive for making voluntary commitments. We believe that the scope limits we propose

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[24] SEC proposed climate disclosure rule, page 264

[25] Ibid.

below may help to mitigate this concern. We also believe that the global focus on reducing the environmental impact of all companies will continue to inspire responsible leadership to make positive climate-related commitments.

Proposed scope

We agree that disclosure should include information about the target or goal and any milestones, the base year used for purposes of measurement, how the company intends to meet such target or goal, and related progress. We also agree that a company with multiple targets or goals may use a different base year for each target and should disclose how offsets and RECs, if any, are used to help achieve emissions goals. We recommend, however, that the Commission combine the disclosure requirements listed in Item 1506—as modified per our recommendations below—with the requirements to disclose transition plans (Item 1503(c)(1)), as discussed in Section E.

Further, we recommend that the Commission narrow the targets and commitments in scope for disclosure. Although we believe disclosure about targets and goals is a reasonable approach to enhance accountability, as proposed, a company would be required to disclose "any" targets or goals related to the reduction of GHG emissions and "any" other climate-related targets and goals (Item 1506(a)(1)). The proposed wording implies that all GHG and climate-related goals—whether publicly announced or internal, and no matter how insignificant—may need to be included in the disclosure.

We recommend that the Commission clarify that the disclosure of targets or goals applies only to targets and goals that have been publicly announced by the registrant, its subsidiaries that are separate registrants, or its significant subsidiaries (with significance determined by reference to Regulation S-X Rule 1-02(w)). In addition to disclosure of voluntary targets, we believe a registrant should also be required to disclose its plans to meet climate-related targets established by legal or regulatory authorities in jurisdictions in which it has significant operations, whether or not it has formally announced these plans.

Progress updates

The proposed disclosures of targets and goals would provide visibility for investors, thus enhancing management's accountability for its commitments. We recommend, however, that management be required to provide periodic updates to help investors evaluate progress and suggest that the SEC require some level of interim reporting, even for companies without disclosed interim goals.

J. Registrants subject to the climate-related disclosure rules and affected forms

We support the proposed inclusion of the climate-change disclosures in annual Exchange Act filings as well as the proposed periodic update requirements. Further, we generally agree with the proposed application of the rules to various types of registrants, including emerging growth companies, smaller reporting companies (with a modified scope 3 exclusion, see Section G), and foreign private issuers. Integrated reporting of relevant financial and non-financial information in one filing—by most types of registrants—will facilitate investor decision making and satisfy demand for enhanced disclosures in this area.

We believe, however, that the Commission should consider exempting registration statements and clarifying or modifying the rules for certain types of financial statements and filers. Further, we recommend certain rule modifications that would enhance operability for foreign private issuers.

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Application to registration statements

As proposed, the enhanced and standardized climate disclosure rules would apply to specified registration statements (Securities Act Forms S-1, F-1, S-3, F-3, S-4, F-4, S-11, and Exchange Act Forms 10 and 20-F).

The climate change disclosures, however, may be viewed as a barrier to entry in the capital markets by a company whose resources are already stretched by the compliance obligations of an initial public offering or acquisition. In addition, although a merger target or company contemplating an offering would typically have some form of financial statements as a starting point, many or most will not have climate information readily available in a format and quality suitable for an SEC filing. Preparation of the disclosures would require significant time and effort, potentially delaying or derailing an offering or merger transaction. Consequently, these requirements may dissuade companies from undertaking an initial public offering or acquisition using securities.

We therefore recommend excluding registration statements from the proposed climate disclosure requirements (specifically, Forms S-1, F-1, S-4, F-4, S-11), except as incorporated by reference from another filing (e.g., a Form 10-K incorporated in a Form S-3). The initial exemption would allow more time to focus on the preparation of the financial information included in the filing. Further, in the case of a successful acquisition, the climate disclosures would no longer be required on a standalone basis as the acquired entity's climate information would be included in consolidated reporting.

Transition relief

We recommend that the Commission provide transition relief for newly public companies (including de-SPAC transactions) as well as newly acquired entities. The extended transition time would enable implementation of formal processes and controls over climate-related information, thus enhancing the quality and reliability of the disclosures once made.

Newly public companies

If this transition relief is granted, we believe the enhanced climate disclosures should only be required beginning with the first fiscal year after the year of the initial public offering (i.e., the second Form 10-K after the initial offering). Further, the disclosures should be required prospectively starting with the year of initial implementation. This transition would be similar to the transition period afforded newly public companies for compliance with management's assessment and the auditor's attestation of the company's internal control over financial reporting. A transition period would reduce the burden on companies seeking to go public by allowing them to defer implementation until after a successful offering.

As an alternative, the Commission could consider exempting emerging growth companies; however, we believe a transition for newly public companies better balances the needs of investors and preparers while affording this relief to all newly public companies.

Newly acquired entities

We also support a transition period that would permit a registrant to exclude a newly acquired entity—that is not already a separate registrant—from the scope of its climate-related disclosures in its annual filing until the year following the acquisition. The SEC staff provides an accommodation for a registrant to exclude an acquired business from its assessment of internal control over financial reporting in the year of acquisition if the registrant does not have sufficient time to complete the required control assessments between the consummation date and management's assessment date. Similarly, a registrant may need additional time to integrate the acquired entity's climate information.

If the exclusion is elected, the climate risks associated with the excluded acquired business and potential significance to the registrant's consolidated financial statements should be disclosed.

Application to certain US non-equity registrants

A registrant that is a direct or indirect wholly-owned subsidiary of another registrant, and that meets certain other conditions (as outlined in General Instruction I to Form 10-K), is entitled to certain disclosure relief. For example, such registrants may omit the information required by Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, if they instead provide a narrative analysis of the results of operations that meets certain requirements. These entities are also entitled to omit certain governance information and to limit the information provided in Item 1, *Business*, and Item 2, *Properties*.

We believe that the Commission should mirror the existing relief by allowing these entities to provide an abbreviated response to the new proposed Item 6, *Climate-Related Disclosure*. These disclosures are similar to the other items for which the Commission has provided relief and, further, understanding of a subsidiary's risks and goals may be more meaningful in the context of the consolidated group.

Nonetheless, we agree that such registrants should be required to provide the footnote disclosures, consistent with the requirement for these entities to provide full audited financial statements. The financial statement disclosures would also provide debt investors with visibility into the impact of climate on the financial results of the separate registrant.

Application to non-registrant financial statements

We recommend that the Commission clarify the applicability of the rules to financial statements filed in accordance with Regulation S-X Rules 3-05, 3-09, 3-14, and any other rules that could require the filing of financial statements other than those of the registrant. Specifically, we do not believe that the proposed climate-related disclosures should be required in such financial statements.

Application to foreign private issuers

We support the proposal to require foreign private issuers to comply with the climate disclosure rules, including furnishing periodic reporting (Form 6-K) to the extent required. We believe, however, that the workability of the rules may be enhanced by permitting foreign private issuers to report under an alternative reporting regime if deemed to be substantially similar. Many foreign private issuers are already or will be subject to some form of mandatory climate disclosures in other jurisdictions. For example, companies with European operations will be subject to the new Corporate Sustainability Reporting Directive. Further, countries including New Zealand, Switzerland, and the United Kingdom have adopted some form of TCFD-aligned disclosures. Allowing foreign private issuers to fulfill at least a portion of their climate-reporting requirements with disclosures prepared under an alternative reporting regime would improve reporting efficiency for preparers without a meaningful impact on the total mix of information provided to investors.

The proposed SEC rules have three basic components: (1) discussion in the "Climate-Related Disclosure" section, (2) GHG reporting, and (3) footnote reporting. We recommend that the Commission separately assess whether there is equivalency for each of these components, with reporting in accordance with the SEC rules in the other areas. For example, in some cases—such as in jurisdictions that require a report prepared in accordance with TCFD—the alternative reporting may need to be supplemented by footnote, GHG emissions, or other disclosures to achieve equivalency with the proposed SEC reporting requirements.

In addition, we believe that to be deemed substantially similar, the report would need to be filed on the timeline required by the proposed rules (even if the alternative reporting regime permits an extended deadline).

Organizational boundaries

The proposed SEC rules require different organizational and operational boundaries than permitted by the GHG Protocol. We support the SEC's proposed organizational boundaries because we believe that the usability and comparability of non-financial information is enhanced when inclusive of the same entities as the financial information (see Section G for further discussion). If the SEC allows disclosures prepared under an alternative reporting regime to satisfy the GHG disclosures, we recommend that the Commission require disclosure of material impacts, if any, arising from application of different organizational boundaries.

Evaluation process

One challenge for the Commission in accepting alternative reporting may be in determining which reporting regimes are substantially similar. To minimize the burden for the Commission staff and registrants, if alternative reporting is permitted, we recommend that the Commission evaluate, and provide guidelines for, reporting under major alternative regimes, including the CSRD, the ISSB standards, and the Canadian climate rules when finalized, as well as TCFD-aligned standalone reports. The assessment of equivalency would need to be periodically reassessed as significant new guidance is issued (e.g., the IASB issues a standard requiring climate-related footnote disclosures). We believe having the SEC make a central evaluation would be more efficient than responding to separate requests for a determination of equivalency.

Proposed amendments to the forms

Foreign private issuers are permitted to file financial statements prepared in accordance with IFRS (as issued by the IASB). The proposed rules would amend Form 20-F to require a foreign private issuer to provide the climate-related disclosures. Further, the proposing release makes it clear that the rules apply to foreign private issuers. Nonetheless, for the avoidance of doubt, we believe the Commission should amend the instructions to Item 18 of Form 20-F to add clarifying language such as, "Information required by Article 14 of Regulation S-X should be provided as applicable."

Canadian companies filing under the MJDS system

The rules as proposed do not amend Form 40-F, in recognition of the special status accorded Canadian registrants eligible to report under the Multijurisdictional Disclosure System (MJDS). Similar to the US, Canada has a current process underway to adopt new climate-disclosure rules. Until those rules are finalized, it is difficult to assess whether the proposed disclosures would be sufficient to meet the needs of US investors. We recommend that the Commission amend Forms 40-F and F-10 to require inclusion of the enhanced climate disclosures (including the disclosures in the notes to the financial statements and greenhouse gas disclosures). The Canadian disclosures should be assessed to determine whether they are substantially similar once finalized.

Further, consistent with our broader recommendation on alternative reporting regimes, if the Commission permits Canadian disclosure rules to apply (now or in the future), we believe the Commission should clarify whether the proposed disclosures in the footnotes to the financial statements apply to Canadian issuers.

Interaction with the International Sustainability Standards Board

We encourage the SEC to continue to coordinate and collaborate with global standard setters in developing disclosures and metrics that serve the needs of investors. Active participation by the SEC in influencing both the content and timeliness of global standards—such as those under development by the International Sustainability Standards Board—will help ensure that they are as comprehensive and suitable for the US capital markets as possible.

The SEC's proposed rules are a step-change in required climate-related disclosures for US registrants. A change of this magnitude will invariably result in implementation questions and matters of interpretation. As discussed in Section M, we believe the SEC should establish a climate disclosure implementation group to assist the SEC staff in improving reporting through the timely identification, discussion, and resolution of interpretive application matters. This group would also provide the SEC with a mechanism to work with global standard setters on broad improvements to climate reporting (e.g., updates to the GHG Protocol) while also ensuring the unique challenges and investor expectations for US capital markets are considered.

With or without a US climate-related implementation body, the ISSB will play an important role in developing a climate-related disclosure framework not influenced by geography, enhancing its potential to advance consistency among globally developed frameworks. Further, the ISSB may aid in the development of broad implementation guidance as well as bring focus to potential improvements to the GHG Protocol.

As such, we support structuring an alternative reporting provision to encompass reports made pursuant to criteria developed by the ISSB, subject to the SEC's review of the criteria for equivalency and with the potential for required incremental disclosures for US filings. Further, we would support permitting all filers, not just foreign private issuers, to avail themselves of this reporting alternative. Allowing wider adoption of the ISSB standards may help encourage development of a globally accepted form of reporting while reducing reporting complexity for US multinationals and others subject to multiple reporting regimes.

Periodic updates on Form 8-K

While not addressed in the proposed rules, Question 177 in the proposing release asks whether the SEC should require any changes to the annual climate-related disclosures to be reported on Form 8-K.

We believe the existing Form 8-K filing requirements are sufficient and do not need to be expanded to capture significant climate-related events. Many types of climate-related impacts—such as lost revenue, a new investment, increases in operating costs—are substantially beyond the scope of the existing Form 8-K reporting requirements. No reporting would be triggered for these types of events if not caused by climate; we do not support special rules for climate events or an expansion of the existing scope of the requirements, except as noted in Section H for a change in attest provider.

K. Structured data requirement

The Commission has proposed that all climate disclosures be subject to block text and detail tagging. We agree that structured data enhances the availability and usefulness of information for investors and other market participants by making it more easily accessible for purposes of aggregation, comparison, and other filtering. The requirement to tag these disclosures using Inline XBRL, however, would differ from the requirements for other Regulation S-K disclosures (e.g., Properties, MD&A).

We support the expansion of tagging to sections of SEC filings beyond the financial statements, but believe the Commission should consider this expansion holistically. In lieu of the proposed tagging of climate information, we recommend the Commission evaluate the broader use of XBRL tagging (i.e., expansion to Regulation S-K disclosures), including consideration of the balance between costs to preparers and the benefits to investors. Delaying the tagging of Regulation S-K disclosures would also provide time to develop related taxonomies.

We also encourage the SEC to foster alignment in principle with standard setters and other regulators as new climate-related taxonomies are developed. For example, the International Sustainability Standards Board is developing a sustainability disclosure taxonomy. Aligned taxonomies would enhance comparability and aid investors in the analysis of climate-related information.

L. Treatment for purposes of Securities Act and Exchange Act

We support inclusion of climate information in annual reports because this approach provides holistic, integrated disclosures to investors and subjects the disclosures to disclosure controls and procedures (or internal control over financial reporting to the extent disclosed in the financial statements) and related management certifications.

Regardless of the location of new disclosures, management would need to have appropriate processes and controls in place to ensure the quality of the information provided. Further, the quality of the disclosures should be the same, whether furnished or filed for purposes of liability under the Exchange Act for misstatements or omissions. That said, for consistency with other information in annual reports, we support a requirement for the information to be filed.

M. Compliance date

We agree that the interests of investors would best be served by an expeditious timeline for adoption of the new disclosure requirements. We also recognize that many companies voluntarily disclose some climate information in sustainability or other reports, but may nonetheless be unprepared for the broader magnitude of the proposed SEC disclosures. A PwC review of the first 50 companies to report under the UK's new mandatory TCFD disclosures found that 50% of those companies reported that they have more work to do on their disclosures in future periods.[26] Further, current voluntary disclosures may be piecemeal and typically lack the depth of the proposed SEC disclosure rules. As such, companies will need to develop new systems, processes, and controls to produce information of the scope required by the proposed disclosures at a level of quality commensurate with that desired in an SEC filing.

The SEC has acknowledged these challenges by providing additional time for certain types of filers and disclosures (i.e., scope 3 emissions). We support the proposed phased approach to adoption and agree with the proposed transition. Nonetheless, although large accelerated filers may be better equipped to adopt the new requirements, they may also have additional challenges given their potentially expansive operations. Therefore, we recommend that the SEC provide a delay between issuance of the final rules and the initial adoption date. For example, if the final rules are issued in 2022, the adoption dates for all companies should be delayed by one year, with initial adoption in fiscal year 2024 (filed in 2025). A delayed effective date will provide additional time to address implementation issues while ensuring *all* companies have sufficient time to understand the new rules, develop appropriate controls, and report investor-grade information.

Establishment of a climate disclosure implementation group

Given the complexity of the proposed rules, we expect that numerous implementation questions will arise. Absent further guidance, there is a risk that each company, industry group, securities counsel, audit firm, and attest provider will independently develop—and in some cases publish—individual interpretations of the rules. Divergent approaches may result in potentially thousands of disparate interpretations. And, while that statement may be hyperbole, nonetheless, the absence of a standardized process to develop

[26] The green shoots of TCFD reporting, PwC, April 2022 (updated May 2022)

interpretive guidance risks diversity in practice that will dilute the effectiveness of the rules and the usefulness of the resulting disclosures.

We have seen the success of implementation/transition groups, including the Emerging Issues Task Force, the IFRS Interpretations Committee, the FASB's Derivatives Implementation Group (dating back to 1998), the FASB's Valuation Resource Group (established in 2007), and the more recent FASB/IASB Joint Transition Resource Group for Revenue Recognition. Accordingly, we recommend that the SEC establish a climate disclosure implementation group (CDIG):

- Mission — Assist the SEC staff in improving reporting through the timely identification, discussion, and resolution of interpretive application matters, reducing diversity in practice on a timely basis before divergent practices become entrenched
- Members — Select members knowledgeable about emerging climate reporting matters; include representatives drawn from a cross section of the SEC's constituencies, including investors, preparers, auditors, GHG attest providers, standard setters, regulators, and others
- Process — Follow a transparent and established process in developing interpretations (e.g., conduct meetings in public, with all meeting materials and minutes—including alternatives considered and consensus positions reached—posted to a public website and downloadable at no charge)

An implementation group with these characteristics would improve the consistency and quality of climate disclosures while concomitantly reducing the burden and cost of the compliance process for issuers. It would also minimize the need for the SEC staff to spend time and effort addressing implementation and application questions. Further, the implementation group could work with the ISSB and others to consider global views as well as assess the need for any rule changes or updates as climate reporting continues to evolve. Thus, the group could support and advise the Commission and its staff to help ensure the rules keep current with US and global developments in climate reporting.

We recognize forming and sponsoring an implementation group is a major undertaking that would demand support and resources. Whether under the SEC staff's own auspices, or managed by another party, we believe a structured approach to resolving implementation and emerging issues is critical to the ultimate success of the new disclosure regime.

Presentation of comparative information

We support the overall requirement to provide comparative disclosure of climate-related financial data and GHG information as we concur with the Commission that such information would aid investors in analyzing climate trends and the evolving impact of climate on financial results. Compliance with these requirements, however, may be challenging in transition, notwithstanding the ability of registrants to omit comparative disclosures in accordance with Securities Act Rule 409 or Exchange Act Rule 12b-21 (e.g., if the information was not previously presented and is not reasonably available without undue effort or expense). Climate data originally prepared for another purpose and disclosed in other reports or formats may require modification or amendment to meet the SEC disclosure requirements. In addition, disclosures of information from periods prior to the adoption date would lack comparability—which is a stated objective of the proposed rules—as the level of disclosure and nature of information disclosed would vary among registrants. We recommend that the Commission phase-in reporting of historical periods, with only the current fiscal year reported in the initial year of adoption, with comparative information phased in over subsequent years.

Scope 3

Although many companies currently report their scope 1 and scope 2 GHG emissions, far fewer companies provide any scope 3 emissions, with an even smaller subset providing information across all relevant scope

3 categories. As discussed in Section G, we recommend that the Commission modify the proposed rules to narrow the scope 3 disclosures. Further, we suggest that the Commission provide a two year gap between initial implementation and the required disclosure of scope 3 information. Additional time would foster improved reliability of scope 3 measurements by individual companies by providing additional time to identify, aggregate, and validate supporting information. A delay would also allow enhancement of the GHG Protocol in cooperation with other regulators and standard setters, or alternatively, development of additional guidance by the climate disclosure implementation group.

Other rules

We agree with the Commission's proposed adoption dates for non-calendar year end companies (subject to our overall recommendation for a one year delay) and do not believe additional clarification is required. We recommend, however, that the Commission provide specific transition guidelines for changes in year end and other special situations (as discussed in Question 200).