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TCS - USA

June 17, 2022

RE: Response to SEC Proposed Rule – Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22)

Tata Consultancy Services (TCS) is a global IT services and consulting organization headquartered in Mumbai, India and operating in the United States among many countries worldwide. As representatives of TCS's BFSI Practice specializing in climate risk management and regulatory compliance, we hereby respond to the SEC's request for comments on the proposed rule ''The Enhancement and Standardization of Climate-Related Disclosures for Investors" published on March 21 and April 11, 2022.

We welcome SEC's renewed focus on disclosures of climate-related risks and concur with the SEC's view that disclosure of information about such risks and related metrics would be in the public interest and would protect investors. We agree with the SEC's argument that the proposed disclosures by SEC registrants, including securities issuers, will likely promote efficiency and competition within financial system.

Given our expertise and experience in the climate risk management domain, in this response we would like to share our perspectives on core requirement obligations around climate disclosures; challenges faced by banks, other financial institutions, and equities issues more broadly to comply with proposed disclosures; and recommendations for improvement.

1. TCS Viewpoint on Disclosure of GHG Emissions

The proposed rules would require disclosure of Scope 3 greenhouse gas (GHG) emissions if these emissions are material or if an institution already has set a GHG emissions reduction target or goal that includes Scope 3 emissions. Though we agree that materiality of scope 3 emissions would vary for firms in different sectors and sub-sectors, justifying flexibility and case-specificity in determining applicable scope 3 methodologies, we suggest that the SEC recommend to registrants and issuers a set of qualitative and quantitative considerations that should be considered in determining materiality of scope 3 emissions. We encourage SEC to propose a scope 3 materiality test borrowing from practices in the accounting industry.

Given that the GHG Protocol has become the most widely used GHG accounting standard, we suggest that the SEC should permit registrants to use the GHG Protocol as the basis methodology for determining GHG emissions, with appropriate adjustments and refinements where suitable. For example, the SEC makes a strong case for requiring a registrant to be consistent in its use of its organizational and operational boundaries once it has set those boundaries. Additionally, the SEC should consider the requirement for using activity data in lieu of emissions factors in several important cases, namely:

(i) when the emissions category in question exceeds a certain absolute threshold,
(ii) when the emissions category exceeds a threshold share or percentage of total emissions, and

(iii) emissions calculation of certain greenhouse gases and sectors where emissions factors are notoriously unreliable, such as the leaking and venting of high-GHG potential gases such as methane and fluorinated gases such as HFCs used widely as refrigerants.

We recommend that the SEC make it mandatory for registrants to disclose key climate risk metrics including carbon intensity (per unit of output, revenue, investment, etc.) and carbon footprint in the context of historical corporate GHG emissions, as well as financed emissions (part of scope 3) in the case of financial institutions. For investors to assess registrants' current emissions, including scope 3, as well as emissions intensity against historical performance, historical GHG emissions metrics do provide important or material information to investors to them to analyze trends. However, such information is only useful if historical data are high-quality and methodological consistency is maintained over time, allowing for apples-to-apples comparisons over time and trend analysis. Further, industry-specific guidance and disaggregation of data within companies and portfolios by industry and business line may further be necessary to enable comparison among firms and portfolios.

We concur that it is appropriate to provide registrant financial institutions with flexibility in the determination of scope 3 emissions methodologies for financed emissions and that requiring disclosure of the methodology or methodologies used is appropriate. We further propose guiding financial institutions to indicate if and how the methodologies chosen adequately cover the sectors and instruments comprising their investment and/or lending portfolios. To cite one example, as noted by the SEC in its discussion of the proposed rule (pp. 196-197), the widely-used PCAF methodology for financed emissions only covers a limited number of sectors, which may leave important portfolio segments unaddressed. Consequently, discussion of methodologies and their coverage is warranted to contextualize scope 3 emissions disclosures for investors.

2. TCS Viewpoint on Attestation of GHG Emissions

We do not subscribe to the view that an attestation of reported emissions would be appropriate at such a nascent stage of adoption of climate-related disclosure standards and practices. While reporting assurance is an important goal, there has to be a process to develop governance, internal control, testing, and certification to build attestation capacity and quality standards within the accounting industry. This certification process can evolve during this decade from an initially limited pilot stage, maturing over time into a substantive test and verification. At that stage, introducing an attestation would provide value to investors.

At such time that attestation is ultimately adopted, we suggest that the attestation standards used by attestation service provider to be publicly available for investors at no cost, as it will help investors to refine GHG methodology followed in determining emissions metrics as well as to ensure comparability among disclosures of registrants as well as among applied standards of assurance. In this regard we also feel that SEC could made it mandatory to include detailed conclusions or opinions.

The SEC should also permit attestation providers who are not registered public accounting firms to provide assurance of GHG emission disclosure, particularly for non-accelerated and smaller filers, so long as they can meet quality standards through certification or other means.

When it comes to reporting, SEC should encourage flexibility to registrants to furnish additional climate disclosures not necessarily subject to assurance such as those in many firms' sustainability, ESG, and TCFD reports, to complement those proposed to be required for inclusion in annual financial filings. In this manner, furnished additional disclosures would avoid the chilling effect that the requirement for assurance may have on content subject to mandatory inclusion in regular financial filings. The SEC should seek to balance consistency, fidelity, and rigor in emissions disclosures with the need for filers to build capacity over time to disclose, gain confidence in their methodologies and practices, and experiment and innovate to drive continual improvement. Given widespread and growing concerns about greenwashing in voluntary corporate disclosures, measures to ensure integrity in disclosures, whether voluntary or mandatory, will likely be necessary.

3. TCS Viewpoint on Alignment of Proposed Disclosures to TCFD

As per the recent report from Financial Stability Board (FSB) on TCFD adoption, more than 2,600 organizations have expressed their support for the TCFD recommendations. Investors and stakeholders widely consider climate reporting aligned to TCFD recommendations to enable transparency, comparability, and consistency. Our practical experience in climate-related reporting supports the view that the SEC should broadly encourage TCFD-alignment of climate-related risk reporting explicitly as well as implicitly in the structural consistency of its proposed rule. TCFD alignment should also be encouraged insofar as other jurisdictions are adopting TCFD-aligned regulatory requirements for disclosure and TCFD methodologies are preserved in emerging updated standards and approaches such as those developed by the ISSB. Going forward, the SEC should particularly seek to align with the TCFD and ISSB-led successor standards insofar as they create common approaches supporting comparability of disclosures within industries.

4. TCS Viewpoint on Alignment of Proposed Time Horizons

SEC should grant registrants flexibility to define short-, medium-, and long-term with horizons relevant to firm's business model. SEC could establish guidance to firms to include an explanation on the rationale for following the chosen time horizon(s) for disclosing material impacts on its business, noting the value of attaining consistency among firms within industries and sub-sectors over time.

5. TCS Viewpoint on Physical & Transition Risk Disclosures

SEC should define climate-related risks to include both physical and transition risk, and define physical risks to cover disclosure of both acute and chronic physical risks. Such disaggregation of physical and transition risk should extend to quantification in financial statements as proposed by SEC. SEC should encourage institutions to provide detailed information to articulate why specific transition and physical climate risk factors are important to the firm's business. The SEC should also encourage firms to disclose their assessment of the correlation between various climate-related risks, such as acute and chronic physical risk categories, and how increase of one risk may affect another.

The proposed rule might consider encouraging firms to disclose the expected financial impact of identified material physical climate risk factors at either ZIP code level or equivalent geographic location granularity. This can be done in a manner that alleviates concerns about proprietary information, commercial secrets, or the physical security of assets.

6. TCS Viewpoint on Disclosure of Material Climate Impacts

We believe that it is important for registrants to disclose information about how climate-related risks have impacted or are likely to impact a registrant's strategy, business model, and outlook since clear understanding of this impact information will enable investors to holistically understand climate impacts to the firm for the purpose of making an investment or voting decision about the registrant.

The SEC might encourage filers to incorporate such considerations into the MD&A section of 10-K filings in addition to inclusion in the proposed required climate-focused section of periodic disclosures. In fact, the broader consideration of these elements in the context climate-related strategic risk, addressing matters of governance, strategy, and operations that speak more holistically to the posture of the firm and its approach to climate-related risks and opportunities than a granular financial impact analysis that may provide a false sense of accuracy and precision. Consequently, a narrow accounting of financial impact should be approached with caution as it could impose high costs and challenge assurance without adding substantial informational value to investors.

If a registrant leverages climate-related financing instruments, such as green bonds or other forms of "sustainable finance" such as "sustainability-linked bonds," "transition bonds," or other financial instruments linked to climate change, SEC should expect registrants to disclose all key information as suggested by Green Bond Principles which includes below components including Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, Reporting.

7. TCS Viewpoint on Disclosure of Scenario Analysis

We suggest that SEC create a process similar to balance-sheet scenario analysis and stress testing for financial institutions. Such a process should allow registrants and filers to develop the capability, document their framework and process, and establish their constraints. SEC should provide flexibility for registrants to leverage any of existing scenarios such as those published by the IPCC, the IEA, or NGFS or even firm's own scenarios but should require registrants to clearly disclose parameters, assumptions, and analytical choices in the selection and design of scenarios used.

In closing, we thank SEC for the opportunity to share our views on the proposed rule on climate related disclosures. Should you wish to discuss any of above perspectives in detail, we would be very glad to further elaborate upon these responses in support of the SEC's efforts to establish requirements for the disclosure of climate-related financial risks.

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