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June 17, 2022

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

Re. Request for Comment on File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (March 21, 2022)

Dear Secretary Countryman:

Walmart Inc. ("we"; "us"; "our"; or the "Company") welcomes the opportunity to provide comments on the Securities and Exchange Commission's (the "Commission") proposed rules to require disclosure of climate-related information in registration statements and annual reports.

As we wrote in our letter to the Commission last year[1]—we support the adoption of principles-based rules that would require registrants to disclose certain material climate-related information in Commission filings and to disclose Scope 1 and Scope 2 emissions in a separately furnished report until reporting standards mature to a level of proven reliability. In our experience, this is what reasonable, mainstream investors want so that they can understand how companies identify, govern, and manage climate-related risks and make decisions about securities.

The Company appreciates that the proposed rules incorporate aspects of the Task Force on Climate-Related Financial Disclosures ("TCFD") framework, create a path towards disclosing Scope 1 and Scope 2 emissions in filed documents, and include safe harbors and phase-in periods for certain reporting. However, the proposed rules forgo many of the standard features of the integrated reporting framework intended to promote consistent, comparable, and reliable reporting across registrants and thereby protect investors, including a materiality limitation, sufficient time to develop adequate disclosure controls and procedures, the availability of reliable data to generate reporting, and the existence of generally accepted accounting principles to ensure standardized disclosures. By forgoing these foundational and well-developed securities law and financial reporting concepts, we believe that the proposed rules will create significant implementation challenges and lead to unintended consequences

[1] A copy of our June 11, 2021 letter to the Commission can be found at: <https://www.sec.gov/comments/climate-disclosure/cll12-8911753-244396.pdf>.

that undermine the Commission's goal of providing investors with consistent, comparable, and reliable information.

Specifically:

1. Item 1502 and Item 1503 of Regulation S-K require registrants to report extensive climate-related information—portions of which will not be material or impactful—undermining investor decision-making;
2. Item 1502, Item 1503, and Item 1506 of Regulation S-K require registrants with higher climate ambition to file additional disclosures—disincentivizing corporate climate action;
3. Item 1504 of Regulation S-K requires registrants to disclose metrics that are based heavily on estimates and immature standards—likely confusing investors;
4. Item 1504 and Item 1506 of Regulation S-K require registrants to twice report their emissions metrics under different bases of measurement—likely confusing investors; and
5. Article 14 of Regulation S-X requires registrants to report audited climate-related financial information for which no accounting principles or guidance exist—undermining investor decision-making and exposing registrants to significant liability.

We believe the Commission can overcome these unintended consequences by adopting the following recommendations:

1. Require principles-based climate disclosures that include a materiality qualifier;
2. Require registrants to furnish—rather than file—Scope 1 and Scope 2 emissions metrics unless and until reporting standards mature to a level of proven reliability;
3. Dispense with the requirement to disclose Scope 3 emissions unless and until reporting standards mature to a level of proven reliability;
4. Only require disclosure of emissions under one rule provision; and
5. Require a qualitative description of climate-related financial impacts under Item 303 of Regulation S-K, extend the phase-in period for such reporting, and tie the phase-in period to the adoption of U.S. GAAP-like climate accounting principles.

The following remarks focus on areas where our leadership on climate action and transparency can help illustrate some of the unintended consequences of the proposed rules. For ease of reference, we have organized our comments by the specific sections of the Commission's proposal.

I. Items 1502 and 1503 of Regulation S-K (Strategy, business model, and outlook / Risk management)

Any climate disclosure rules should be governed by the principle of materiality. Companies and reasonable investors have gravitated towards the TCFD framework because it focuses on foundational information about climate governance and practices while bounded by the principle of materiality. We believe this appropriately balances the potential burdens of preparing reporting with the disclosure of decision-useful information.

Concern 1: Requirement to Disclose Immaterial Information

By failing to qualify several disclosure requirements by materiality, we believe the proposed rules will sweep in large swathes of irrelevant data that could—as the Supreme Court cautioned—"simply bury [] shareholders in an avalanche of trivial information."[2] In the Company's case, one example of how that might unfold is as follows:

Item 1502 of Regulation S-K would require registrants to disclose the location of properties affected by physical risks reasonably likely to have a material effect on their business. According to our most recent climate risk assessment,[3] temperature changes are likely to affect the Company's facilities over the next three decades and could prompt heating and cooling costs to increase at two-thirds of our locations by 2030 and 80% of locations by 2050. Since we presently operate more than 10,500 stores and clubs, and 360 distribution centers and fulfilment centers globally, the proposed rules could potentially require us to disclose the locations of thousands of affected properties—down to the zip code—for one metric alone. Such levels of granularity would quickly balloon our reporting to a size that far exceeds utility.

In our experience, investors have not asked for this level of detail in our climate reporting. Investors tell us that they want to know whether we have appropriately analyzed climate-related risks, developed a strategy to address those risks, and taken steps to achieve our objectives. Under the existing securities laws, risks of similar magnitude, likelihood, and time horizon that could impact business results—such as foreign exchange and interest rate fluctuations, tax laws and regulations, geopolitical risks, changing customer trends and shopping behaviors, and economic conditions such as a recession—do not require disclosures of this much detail. For those same issues, absent materiality, we are not required to disclose how we consider shifts in customer preferences or determine the relative significance of those risks compared to others, as Item 1503 would require, for example. We believe that climate reporting should be treated proportionally.

Concern 2: Disincentive for Corporate Climate Action

The proposed rules will likely disincentivize corporate climate action at a time of critical need. Under the proposed rules, the requirement to disclose certain information is only triggered when registrants have identified climate-related risks, adopted a climate transition plan, or set climate-related goals and targets. We believe this creates a disincentive that signals to registrants: the more you seek to understand your

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[2] *Basic Inc. v. Levinson, 485 U.S. 224, 231* (1988).

[3] Details of the climate risk assessment can be found in the Company's voluntary ESG reporting on our corporate website. Reference to the location of our voluntary ESG reporting was made in our fiscal 2022 annual report on Form 10-K filed with the Commission on March 18, 2022 (the "Form 10-K"). The Company's voluntary ESG reporting is not incorporated by reference into the Form 10-K or any other periodic documents filed with the Commission.

exposure to climate risk and the more ambitious your climate plans, the more burdensome your reporting becomes. To avoid the worst effects of climate change, we use our leadership position to pursue science-based climate action and to inspire others—including our suppliers—to do the same. However, we worry about our ability to galvanize further climate action when this proposal imposes additional costs and liability risks on registrants that grow with their ambition.

Recommendation – Item 1502 and Item 1503 of Regulation S-K

To address the unintended consequences of the proposed rules, the Company recommends that the Commission adopt a principles-based disclosure framework that includes a materiality qualifier. This approach can deliver relevant, registrant-specific information to investors and allow businesses to avoid incurring undue disclosure costs and risks for taking climate action below a threshold of materiality. We believe that a disclosure framework fully qualified by the principle of materiality better protects both investors and the planet by preventing voluminous disclosure of irrelevant information, while avoiding disincentives to pursue necessary climate action.

II. Item 1504 of Regulation S-K (GHG emissions metrics)

Scope 1 and Scope 2 Emissions Reporting

We believe that Scope 1 and Scope 2 emissions reporting is important because it indicates whether a company is transitioning its business at the pace required to keep the world within a 1.5-degree Celsius warming scenario. That is why we have been reporting on our Scopes 1 and 2 emissions for over 10 years and currently report our emissions against our 1.5-degree-aligned science-based target. At the same time, reporting standards and practices have not fully matured and would be entirely new for many companies. Accordingly, our 2021 letter suggested that initial disclosures of Scopes 1 and 2 emissions be made in a separate, furnished report, with a path towards eventual filing.

The proposed rules, by contrast, introduce many new and untested elements with too short a phase-in period to ensure that reporting meets expected standards for a filed document. We are specifically concerned that the proposed rules: (i) require emissions calculation boundaries that diverge from typical practice; (ii) require disclosure of disaggregated gas emissions, which are not universally available for Scope 2 reporting; and (iii) set an unrealistically short phase-in period for registrants to develop the necessary reporting controls and procedures needed to meet audit-level standards.

Concern 1: Overly Expansive Operational Boundaries

The proposed rules introduce emissions accounting requirements that contradict widely accepted standards and longstanding industry practice. To calculate Scopes 1 and 2 emissions, businesses need to determine the emissions they are responsible for—the concept of operational boundaries. In line with the Greenhouse Gas ("GHG") Protocol, most businesses set boundaries using the operational control approach, which requires businesses to account for 100 percent of the emissions that result from the operations they control. Under this reporting methodology, a business would only account for the emissions of the operations over which it has the full authority to introduce and implement operational policies and procedures.

In setting our emissions boundaries, we use the operational control approach because it provides the most reliable indicator of the emissions we are able to reduce and are thus directly responsible for. This is useful information for investors because it serves to demonstrate whether we are doing the work necessary to reduce the emissions we directly control.

By contrast, the proposed rules would require registrants to set emissions boundaries that include all entities, operations, assets, and other holdings included within their consolidated financial statements, which could require registrants to disclose the emissions of entities they do not control within their Scopes 1 and 2 reporting. In our view, the resulting disclosure would present a distorted view of the emissions registrants can reduce and could confuse investors.

Concern 2: Lack of Data

Scope 2 reporting relies on data from third parties, which means registrants are at the mercy of other entities when preparing their disclosures. The proposed rules require registrants to disclose emissions disaggregated by constituent gas, but that information is not universally available from the third parties that provide us with Scope 2 data. For example, to calculate the emissions of our international operations, we rely on information from the International Energy Agency ("IEA"). But the IEA only provides jurisdiction-specific emissions factors (an estimate of the rate at which pollutants are released into the atmosphere because of certain activities such as electricity generation); it does not provide data on disaggregated gases. Compounding this concern, certain data required for our Scope 2 calculation only becomes available long after the proposed reporting period ends. Most U.S.-based businesses rely on the emissions factors published by the United States Environmental Protection Agency to calculate their domestic Scope 2 emissions, for example, but those emissions factors are published every two years. Similar lead times plague the dissemination of emissions factors by other U.S. authorities. Within this context, registrants will be required to report their Scope 2 footprint using metrics that rely on substantial data estimates and necessitate restatement once more accurate information becomes available.

Concern 3: Prohibitively Short Phase-in Period:

By creating a phase-in period, the Commission appears to recognize that immediate compliance is not possible. We agree. However, we believe that the proposed period is still prohibitively short and will not provide registrants with enough time to refine disclosure controls and procedures, generate reporting under that enhanced system, and work through an audit process prior to filing that information with the Commission. In our opinion, providing one year to prepare three years of reporting that includes data from historical periods—and only two years to satisfy an assurance requirement—is insufficient.

Recommendation – Item 1504 (Scope 1 and Scope 2 Emissions)

The Company recommends that the Commission require registrants disclose Scopes 1 and 2 emissions in a separate furnished report, with a path toward eventual filing. Given the added liability risk of filed reporting, disclosure obligations should only be imposed after registrants have been provided sufficient opportunity to develop the data sources and enhanced reporting practices required to enable and verify compliant reporting. By requiring disclosure outside of Commission filings, investors get early access to Scopes 1 and 2 reporting to assist with their risk assessment of equity securities, while affording registrants the time needed to develop robust reporting controls and procedures. We believe this strikes the right balance. Once the field of reporting matures to a standard of proven reliability, we support the requirement to include Scopes 1 and 2 emissions metrics in Commission filings.

Scope 3 Emissions Reporting

The Company supports climate action to reduce Scope 3 emissions but is concerned about the requirement that certain registrants disclose their Scope 3 footprint in a Commission filed document. In leading efforts to reduce emissions within our supply chain, we have come to believe that current Scope 3 reporting is unreliable and do not believe that the Commission's proposal is likely to advance the maturity of reporting in the near term. We therefore strongly recommend against requiring registrants to report Scope 3 emissions in a Commission-filed document.

Concern 1: Lack of Data

In a business as complex as multicategory retail, Scope 3 emissions are notoriously difficult to measure. Our Scope 3 footprint includes the indirect emissions that result from the production, transportation, and use of millions of products around the world that we do not develop or manufacture. We engage our suppliers through our Project Gigaton™[4] initiative to help accelerate emissions reduction in their supply chains and we have made philanthropic and business investments in sustainability measurement tools.

In our experience, data does not exist to calculate a comprehensive and accurate accounting of our Scope 3 emissions footprint. From apples to towels to coffee makers, calculating our Scope 3 footprint requires third-party information from tens of thousands of suppliers and hundreds of millions of customers. Consider the emissions footprint of a single t-shirt, for example. To accurately calculate those emissions requires information from multiple parties about the agricultural practices of the cotton fields providing raw materials, the energy used in the fabric mills and sewing facilities that assemble the garment, the fuel sources of the vehicles used at each stage of transportation, and the choices a customer made regarding how to wash and dry the item over the product's lifecycle. In some instances, emissions data may be available from the suppliers we directly transact with. But for suppliers further up the value chain, the lack of a formal business relationship makes it nearly impossible to obtain the data needed to accurately calculate our Scope 3 footprint. In addition, even if those relationships existed or we had better ways to access supplier data, many suppliers simply lack the resources or sophistication necessary to calculate their emissions. This severely limits our ability to accurately calculate our Scope 3 footprint.

[4] Project Gigaton™ aims to reduce or avoid one billion metric tons of emissions from the global value chain by 2030. Project Gigaton™ works by recruiting Company suppliers to set goals and take action to reduce emissions in six areas critical to decarbonizing supply chains: energy use; nature management; waste management; packaging design; transportation; and product design.

Concern 2: Use of Unreliable Estimates for Emissions Calculations

For a multicategory retailer to calculate its Scope 3 footprint at scale, it must rely on broad assumptions and unreliable estimates of emissions. In essence, current Scope 3 calculation involves estimations on top of assumptions that are repeatedly layered to arrive at a falsely precise number. For upstream emissions, this might involve collecting data on the economic value of products and multiplying it by estimated average emissions of each industry involved in a product supply chain. For downstream emissions, it might involve multiplying the quantity of products sold by rough assumptions about how a product is used over its lifetime. While the GHG Protocol provides various methodologies for businesses to begin assessing their Scope 3 footprints, these methodologies can lead to divergent results—especially considering the absence of data noted above—and need further refinement to generate reporting that would allow investors to compare individual registrant exposure and performance.

<u>Recommendation – Item 1504 (Scope 3 Emissions)</u>

The Company recommends that the Commission dispense with the requirement to disclose Scope 3 emissions in Commission-filed and furnished documents unless and until reporting standards mature to a level of proven reliability. Most businesses lack the data necessary to calculate an accurate Scope 3 number and current accounting methodologies—while allowing rough order-of-magnitude estimates at an industry level—do not produce comparable or reliable outputs regarding a registrant's Scope 3 emissions. If the Commission believes that it is vital to require registrants to disclose Scope 3 emissions in certain instances, we suggest that it adopt a principles-based disclosure requirement that gives registrants the option to report their Scope 3 calculation.

III. Item 1506 of Regulation S-K (Targets and goals)

As we stated in our 2021 letter, the Company supports the disclosure of climate-related goals and targets to the extent material. We are concerned that Item 1506 creates a problem when paired with Item 1504 by requiring registrants with Scopes 1, 2, or 3 goals to report their emissions metrics twice: once under Item 1504 and once under Item 1506.

Concern: Double Reporting of Emissions Metrics

Item 1506 requires registrants with existing emissions goals and targets to disclose their progress using the measurement criteria adopted when the goals were set. If those criteria differ from the calculation methodology required under Item 1504, registrants would have to report their emissions twice using operational boundaries and time periods that may not be consistent. This would almost certainly confuse investors. For example, the Company has a science-based target to get to zero emissions within our own operations. We measure progress against those Scopes 1 and 2 targets using the calendar year as a baseline and ongoing reporting period. Item 1506 would require us to report on our progress against this target in our 10-K annually. Item 1504 would require us to report our emissions in a different way, including disclosure of the emissions data from the operations covered by our consolidated financial statements—a larger group than our operational emissions—and to disclose that information by fiscal year. This will result in reporting emissions twice using different boundaries—a result that will not aid in understanding our performance and is likely to confuse investors.

Recommendation – Item 1506 (Reporting of Emissions Goal)

If a registrant has set a Scope 1, Scope 2, or Scope 3 target and the Commission maintains the requirement to report goals and targets, we recommend that the Commission give registrants the option to choose whether to report that information under Item 1504 or Item 1506. This will avoid investor confusion and enable consistent reporting.

IV. Article 14 of Regulation S-X (Climate-related financial metrics)

Commission rules already require filers to disclose climate-related impacts on the registrant's consolidated financial statements to the extent material. The proposed rules would dramatically expand this reporting obligation to require the disclosure of immaterial information without the benefit of settled principles and mature company accounting practices, while providing registrants essentially no time to develop them. We believe this creates a reporting environment that is not conducive to delivering consistent, comparable, or reliable information. We strongly suggest that the Commission reconsider requiring this information in the financial statements.

Concern: No Generally Accepted Accounting Principles for Climate-Related Financial Information

A core challenge of the proposed rules is having to identify what impacts to our financial statements are climate-related and what impacts derive from the ordinary course of business. Under the proposal, registrants would be required to disclose the financial impacts of severe weather events, natural conditions, and activities undertaken to reduce emissions or otherwise mitigate exposure to climate change. However, businesses generally do not tag expenditures or revenues to severe weather events, physical risks, or transition activities, and without guidance, it is unclear how to accomplish that tagging in a way that delivers comparable reporting that would also satisfy an audit.

Consider a Company store damaged by a hurricane. The event might prompt the need to repair a building that was already slated to receive a remodel. But with those expenditures already accounted for by our existing ledger, it is difficult to conclude whether any portion of the spend should be attributed to climate-related impacts under the proposed rules or whether it should remain categorized as an ordinary expense. In all likelihood, that assessment will come down to a highly speculative judgment call, but businesses lack a process to know where to draw the line between an ordinary business expense and a climate-related cost; neither accounting principles nor guidance have stepped in to fill this void. Many other expenditures will suffer from similar attribution challenges. All of the Company's operational assets, for example, have a shelf life that eventually requires replacement. From refrigeration units to electric forklifts, we are investing in new low-carbon technology that will help us achieve our emissions targets, while satisfying internal plans to replace aging assets. But determining whether to attribute these expenditures to normal replacement or to climate mitigation efforts is—without the benefit of established accounting principles or guidance—a subjective and uncertain exercise.

Unless compliance with the proposed rules is tied to the adoption of U.S. GAAP-like climate accounting principles, the Company is concerned that reporting of climate-related financial impacts will vary according to the idiosyncrasies of whatever controls and processes each registrant adopts, rather than like-for-like differences in how climate change is affecting businesses within the same industry. As a result, financial reporting of climate-related impacts by registrants will lack both reliability and comparability.

Recommendation – Article 14 of Regulation S-X (Climate-related financial metrics)

If the Commission believes that disclosure beyond current requirements is necessary to protect investors, the Company recommends that the Commission require a qualitative disclosure of climate-related financial impacts under Item 303 of Regulation S-K (including the possibility of a tabular-like disclosure), rather than the proposed quantitative metrics under Regulation S-X. As part of a registrant's MD&A disclosure, Item 303 of Regulation S-K directs registrants to provide tailored information about the material events and uncertainties that are reasonably likely to impact future operating results or financial condition, as well as future liquidity and capital resources. We believe that this is a more appropriate venue to house rules governing the disclosure of climate-related financial impacts because the materiality qualifier will facilitate a better comparison of climate risk between registrants and equity securities, while offsetting the disproportionately high liability risk associated with audited financial statements (including the footnotes) under Regulation S-X. The Company also recommends that the Commission extend the phase-in period for such reporting and tie that phase-in period to the adoption of U.S. GAAP-like climate accounting principles. Assessing the financial impacts of climate-related risks is a new skill for most registrants and businesses need sufficient time to develop the controls and systems necessary to report impacts in an accurate and meaningful way. We strongly believe that a longer phase-in period tied to the adoption of a GAAP-like climate accounting principles will help improve the methodological rigor of reporting, and in turn, better inform investors about the financial impacts of climate change on a particular business.

Conclusion

The Company supports the adoption of rules that can facilitate the disclosure of consistent, comparable, and reliable material climate-related information. As previously mentioned, to avoid the worst effects of climate change, we use our leadership position to pursue science-based climate action and to inspire others—including our suppliers—to do the same. However, we believe that reporting rules should be calibrated to provide material information to investors and that the compliance burden of reporting that information should be proportional to the treatment of analogous risks under longstanding securities law concepts. We are concerned that the proposed rules will, unless amended, lead to unintended consequences that disincentivize climate action and fail to improve investor decision-making.

We appreciate the opportunity to provide comments on the proposed rules and stand ready to assist with further feedback.

Sincerely,

Walmart Inc.

June 17, 2022 | 14:00 CDT

Kathleen McLaughlin, Executive Vice President, Chief Sustainability Officer

David Chojnowski

June 17, 2022 | 14:03 CDT

David Chojnowski, Senior Vice President, Corporate Controller and Chief Accounting Officer

Gordon Allison

June 17, 2022 | 14:06 CDT

Gordon Y. Allison, Senior Vice President, Office of the Corporate Secretary and Chief Counsel for Finance and Corporate Governance