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Comments on physical risks to the U.S. Securities and Exchange Commission on S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

The World Resources Institute (WRI) welcomes the proposed rule on Enhancement and Standardization of Climate-Related Disclosures for Investors and appreciates the opportunity to provide comments. This is the second comment document submitted by WRI and focuses on physical risks. WRI provides comments on questions relevant to greenhouse gas accounting and reporting in a separate submission.

The following are WRI responses to specific requests for comment included in the proposed rule.

Response to request for comments in Section II. Discussion, B. Disclosure of Climate-related risks.

“9. Should we define “climate-related risks” to mean the actual or potential negative impacts of climate-related conditions and events on a registrant’s consolidated financial statements, business operations, or value chains, as proposed? Should we define climate-related risks to include both physical and transition risks, as proposed? Should we define physical risks to include both acute and chronic risks and define each of those risks, as proposed? Should we define transition risks, as proposed? Are there any aspects of the definitions of climate-related risks, physical risks, acute risks, chronic risks, and transition risks that we should revise? Are there other distinctions among types of climate-related risks that we should use in our definitions? Are there any risks that we should add to the definition of transition risk? How should we address risks that may involve both physical and transition risks?”

- **SEC should include the building blocks for physical risk assessment developed by the Intergovernmental Panel on Climate Change (IPCC) to facilitate physical risk assessment and disclosure.** IPCC’s definition of risk provides a strong foundation for physical risk assessment. It is a function of the probability of a given physical climate hazard occurring at a given magnitude, and their dynamic interaction with the level of exposure, and vulnerability of the effected human or ecological system (IPCC, 2012; updated in 2014 and 2022). The level of exposure and vulnerability determines the impacts of the physical risk should the hazard occur. In this function, risks include the possible financial impacts of physical hazards for an organization. These three factors of risk – hazard, exposure, and vulnerability – are essential building blocks for assessing physical risk and its impacts.
- **SEC should include a comprehensive list of physical climate hazards developed by IPCC to facilitate physical risk assessment and disclosure.** The IPCC Sixth Assessment Report (AR6), Working Group I: The Physical Science Basis, develops a comprehensive list of 35 physical climate hazards, grouped into seven categories: heat and cold; wet and dry; wind; snow and ice; coastal and oceanic; open ocean; and other (IPCC, 2021). SEC should require companies use this list as a reference and identify those that are material to their business and investments. This list can serve as the foundation of physical risk analysis and disclosure.



References

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