WELLS FARGO

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

Via SEC Website: https://www.sec.gov/rules/submitcomments.htm

Re: Release Nos. 33-11061; 34-94867; File. No. S7-10-22
The Enhancement and Standardization of Climate-Related Disclosures for Investors

Ladies and Gentlemen:

Wells Fargo & Company ("Wells Fargo," "we," "our," or "us")[1] appreciates the opportunity to comment on the Securities and Exchange Commission's ("SEC") proposal on climate-related disclosures (the "Proposal").[2] We support the SEC's efforts to develop decision-useful, consistent, and comparable climate-related financial risk disclosures.

At Wells Fargo, we are actively working to help investors, customers, employees, and communities anticipate, adjust to, and understand the climate-related risks we face. As background, in 2020, we issued our inaugural Task Force on Climate related Financial Disclosures ("TCFD") report.[3] In March 2021, we announced a number of goals to accelerate our transition to an equitable and sustainable future, including: (1) achieving net-zero greenhouse gas emissions by 2050 for our Scope 1, Scope 2 and Scope 3 (Category 15) financed emissions;[4] (2) deploying $500 billion in sustainable finance by

[1] Wells Fargo & Company (NYSE: WFC) is a leading financial services company that has approximately $1.9 trillion in assets, proudly serves one in three U.S. households and more than 10% of small businesses in the U.S., and is a leading middle market banking provider in the U.S. In the communities we serve, the company focuses its social impact on building a sustainable, inclusive future for all by supporting housing affordability, small business growth, financial health, and a low-carbon economy.

[2] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 87 Fed. Reg. 21334 (Apr. 11, 2022), *available at* https://www.govinfo.gov/content/pkg/FR-2022-04-11/pdf/2022-06342.pdf ("Proposal").

[3] Wells Fargo Task Force for Climate-Related Financial Disclosures (2020), *available at* https://www08.wellsfargomedia.com/assets/pdf/about/corporate-responsibility/climate-disclosure.pdf.

[4] Wells Fargo achieved carbon neutrality in our building operations (Scopes 1 and 2) in 2019 and again in 2020. See note 12 for a description of Scope 3 (Category 15) emissions.

2030; and (3) integrating climate-related risks into our risk management framework.[5] In October 2021, we joined the Net Zero Banking Alliance ("NZBA"),[6] and in May 2022, we released our methodology for setting targets to align our financial portfolios with our net-zero goal.[7]

At the same time Wells Fargo and other financial institutions are making voluntary commitments to address climate change, the Biden Administration is tackling climate-related risk through a "whole of government" approach. In response to President Biden's Executive Order on Climate-Related Financial Risk,[8] the Financial Stability Oversight Council ("FSOC") issued a report in October 2021 recommending federal agencies take action to enhance climate-related disclosures and strengthen the management of related risks.[9] In December 2021, the Office of the Comptroller of the Currency ("OCC") issued draft principles for climate-related financial risk management for large banks.[10] Now, the SEC has issued its Proposal on climate-related disclosures, addressing similar risk-management expectations. While the SEC's Proposal leverages the TCFD framework – including disclosures on governance, strategy, risk management, and metrics and targets – the Proposal goes beyond the TCFD framework, especially with respect to quantitative financial statement impacts and greenhouse gas ("GHG") emissions metrics and targets.

Our comments focus on proposed requirements that pose real-world implementation challenges that are not justified by the benefits. We believe that these requirements introduce unnecessary complexities by focusing on matters immaterial to investors. The SEC should use its longstanding and well understood view of materiality in any final climate-related disclosure rule and limit the disclosures to Management's Discussion & Analysis.

As an active participant in climate-related discussions at industry trade associations, we also generally support the views expressed in the Financial Services Forum and Bank Policy Institute letters.

Wells Fargo's Comments on the Proposed Rule

Climate-related Risk Management Considerations

Time and effort spent on granular, prescriptive disclosures for climate metrics and targets will require us, and other filers, to prioritize risk management resources on risks that <u>do not</u> impact firm's safety, soundness, and resilience. The overly prescriptive metrics and targets are likely to go beyond material risk as we manage climate-related financial risk. We recommend that the SEC, coordinating through FSOC and with input from the banking regulators, address any areas that could cause conflicts between risk management and the SEC's proposed disclosure requirements appear likely.

Financial Statement Considerations

The Proposal's requirement to specifically identify and isolate climate-related data, even when they are not considered significant factors in predicting collectability of cash flows, conflicts with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). One example includes the Financial

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[5] Wells Fargo press release "Wells Fargo Sets Goal to Achieve Net Zero Greenhouse Gas Emissions by 2050," (March 8, 2021) *available at* https://newsroom.wf.com/English/news-releases/news-release-details/2021/Wells-Fargo-Sets-Goal-to-Achieve-Net-Zero-Greenhouse-Gas-Emissions-by-2050/default.aspx.

[6] Wells Fargo press release "Wells Fargo Joins Net-Zero Banking Alliance," (Oct. 15, 2021) *available at* https://newsroom.wf.com/English/news-releases/news-release-details/2021/Wells-Fargo-Joins-Net-Zero-Banking-Alliance/default.aspx.

[7] https://sites.wf.com/co2emission/.

[8] Executive Order on Climate-Related Financial Risk (May 20, 2021), *available at* https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/.

[9] Financial Stability Oversight Council Report on Climate-Related Financial Risk (2021), *available at* https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.

[10] OCC Principles for Climate-Related Financial Risk Management for Large Banks (December 2021), *available at* https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62a.pdf.

Accounting Standards Board Accounting Standards Codification 326, Financial Instruments Credit Losses, requires an entity to develop an allowance for current expected credit losses ("CECL") based on available information and significant factors relevant to assessing the collectability of cash flows. CECL guidance notes that "*an entity should consider significant factors that are relevant to determining the expected collectability*" when adjusting historical loss information for current and future conditions. The Proposal's disclosure and disaggregation requirements irrespective of significance depart from current accounting guidance.

As an example, an entity may grade commercial loans using various risk factors that include customer business performance, credit worthiness, and economic and market conditions. Physical or transition risk may impact any of these factors. Because the CECL standard does not contemplate the need to disaggregate the impacts from specific climate-related events and activities, we do not have processes in place to perform such disaggregation. Significant time and cost, with questionable benefit to investors, will be required to identify and separately estimate the impacts of newly identified individual events and activities not considered in our current process under U.S. GAAP, unless significant.

The Proposal recognizes climate-related risks will manifest over shorter, medium, and longer time horizons, which will likely extend beyond management's "reasonable and supportable" ("R&S") forecast period (e.g., two years for Wells Fargo). The CECL standard requires estimation over the contractual life of a financial asset and limits the nature and type of adjustments that may be used after the R&S period. Given these different time horizons, there may be conflicting and inconsistent identification of climate impacts.

Finally, the Proposal's 1% disaggregation requirement is impractical and will result in the disclosure of insignificant climate-related information. The Proposal requires registrants to disaggregate financial impacts that have an aggregate, absolute value impact of greater than 1% on any single financial statement line item. However, current rules already require different levels of financial statement disaggregation depending on the industry. An example is Article 9 of Regulation S-X (Bank Holding Companies), which requires the separate presentation of items in the Income Statement, including any item of 'Other Income' or 'Other Expense' that exceeds 1% of total interest income and other income.[11] In this scenario, applying a bright-line *additional* 1% threshold to a line item that consists of expenses that represent a very low percentage of total income will result in the disclosure of immaterial information. The application of current rules with the additional requirements of the Proposal will likely lead to arbitrary and inconsistent disclosures that do not consider the relevance of the impact to financial statements. These unclear benefits will come at a significant cost, as the level of granularity required to analyze the financial impacts of individual weather events or transition activities on any single financial statement line item does not currently exist in financial reporting processes.

Both the 1% requirement and the misalignment with U.S. GAAP, specifically the CECL standard, will result in significant implementation costs with little benefit for investors. We recommend that the proposed disclosure requirements from Article 14 of Regulation S-X be moved to Item 303 of Regulation S-K, such that discussion of the financial impacts of climate-related risks are included in Management's Discussion and Analysis.

[11] 17 CFR 210.9-04.

Scope 3 Financed Emissions Considerations

Although the Proposal acknowledges the unique nature of financed emissions[12] by providing registrants flexibility in their calculations, the Proposal departs from the TCFD framework[13] by failing to provide flexibility regarding which financed emissions must be disclosed. We recommend banks be given the flexibility to provide Scope 3 disclosure based on an assessment of materiality that disaggregates Scope 3 emissions (i.e., for sectors where financed emissions are relevant to the assessment of transition risk or for which we have set sector-specific targets). This approach will result in disclosure better aligned with the SEC's objectives and resolves certain problems with the proposed Scope 3 disclosure requirements.

If Scope 3 emissions are material or if a registrant has a public goal or commitment regarding Scope 3, the Proposal requires disclosure of all Scope 3 emissions, with separate disaggregation of significant categories within Scope 3. The Proposal's preamble implies that registrants should consider the magnitude of Scope 3 relative to Scope 1 and 2 emissions as a determinative factor in assessing materiality. Because of the significance of financed emissions for banks, the Proposal effectively requires a financial institution to <u>all</u> disclose Scope 3 emissions. Regardless of whether Scope 3 emissions are "material" to a particular asset or activity, disclosure would be required across a financial institution's balance sheet. This requirement significantly expands many financial institutions' voluntary commitments to disclose financed emissions by mandating it across categories and asset classes where Scope 3 emissions are not relevant to transition risk. Much of this information is immaterial, and the necessary data does not exist. Disclosure of Scope 3 emissions should not be "all or nothing."

Methodologies to measure financed emissions do not exist for significant portions of a bank's balance sheet, including Federal Reserve deposits, U.S. Treasuries, and GSE securities. Collectively, these asset classes represented approximately 25% of Wells Fargo's total assets as of March 31, 2022.[14] These assets are generally held for non-climate related risk management purposes or to meet regulatory requirements. We do not believe it would be useful to estimate or disclose financed emissions associated with these assets.

The Proposal's requirement for Scope 3 disclosure for companies that have set climate targets or goals should be narrowed to match the specific targets or goals announced. While our 2050 goal is communicated in broad terms, we are taking a phased approach to scope in specific sectors and activities. When we consider a sector for target setting, we evaluate the components of its value chain, prioritizing specific sections that have high directly attributable emissions and may be drivers of broader emission patterns.

In our target setting and disclosure, we have initially prioritized lending, capital markets facilitation, and specialized investment activities within the Oil & Gas and Power sectors. We intend to add additional sectors and financing activities in the coming months and years, subject to the data and methodological limitations. We anticipate that the methods by which we track the alignment of our

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[12] Scope 3 Category 15 "investments" was originally conceived as part of the GHG Protocol Corporate Standard to capture the investment activity of companies, including equity investments in joint ventures. Over the last few years, the interpretation of Scope 3 Category 15 has broadened to the financial sector, including bank lending and even capital markets facilitation activity. This more recent application of Scope 3 Category 15 is often referred to as "financed emissions." Questions remain as to whether the category will be further expanded to encompass other market making activity including repurchase transactions, cleared and bilateral derivatives, and securities lending. Financed emissions represent attributed emissions of our customers. To calculate financed emissions, we aggregate certain Scope 1, 2 and 3 emissions of our customers and ascribe a portion of their emissions to ourselves proportionate to financing we have provided.

[13] Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures 2021 guidance page 29 ("Banks should disclose GHG emissions for their lending and other financial intermediary business activities where data and methodologies allow."), *available at* https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

[14] See Wells Fargo & Company's First Quarter 2022 10-Q.

financing portfolios with net-zero will evolve over time as: (1) we measure progress against our targets; (2) the practice of financial institution target-setting matures; (3) counterparty emissions data and estimation methods improve; and climate scenarios evolve. The SEC's proposed disclosure requirements should provide flexibility to allow for this type of progression with a more defined approach to setting Scope 3 disclosure requirements based on company specific factors and timelines.

Conclusion

Wells Fargo very much appreciates the SEC's effort to bring consistent, comparable, and decision-useful climate related disclosure to investors and other users of financial statements. We have highlighted areas where we think the Proposal should be refined to accomplish this objective. If you have any questions regarding the above, please contact Tim Becker at [redacted].

Sincerely,

Muneera S Carr

Muneera Carr, Chief Accounting Officer