June 17, 2022

Submitted via comments submission portal at www.sec.gov

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
Attn: File Number S7-10-22
100 F Street NE
Washington, DC 20549-1090

Re: *The Enhancement and Standardization of Climate-Related Disclosures for Investors* 87 Fed. Reg. 21334 (April 11, 2022), File Number S7-10-22

Dear Ms. Countryman:
The National Alliance of Forest Owners appreciates the opportunity to submit the following comments on the Securities and Exchange Commission's (SEC) proposed rule regarding *The Enhancement and Standardization of Climate-Related Disclosures for Investors* 87 Fed. Reg. 21334 (April 11, 2022), File Number S7-10-22 ("Proposed Rule").

The National Alliance of Forest Owners (NAFO) is a national advocacy organization advancing federal policies that ensure private working forests provide clean air, clean water, wildlife habitat and jobs through sustainable practices and strong markets. NAFO member companies, including registrants, own and manage more than 46 million acres of private working forests. Private working forests are owned by individuals, families, small and large businesses, and Americans who invest in working forests for retirement. Private working forests are a critical nature-based solution to many of our most pressing environmental challenges.

NAFO's publicly traded member companies are already providing extensive climate-related disclosures to their investors, and our entire membership recognizes the importance of this voluntarily provided information to investors and stakeholders. We support the SEC's recognition that climate change can pose financial risks and that publicly disclosed information must be accurate, comparable, and understandable by all stakeholders.

Importance of Private Working Forests & Wood Products to the Climate

It has long been recognized by the United Nations International Panel on Climate Change (IPCC) that forests play a key role in global efforts to reduce and mitigate carbon emissions. Climate mitigation from our nation's forests includes two important elements: forest carbon sequestration and storage, and the carbon benefits from using long-lived wood products. Together, sustainably managed working forests and the forest products they produce are already one of our nation's greatest assets for achieving our climate goals: U.S. forests and forest products offset 15% of U.S. industrial carbon emissions every year.[1]

[1] Citation: Janowiak, M.; Connelly, W.J.;Dante-Wood, K.; Domke, G.M.; Giardina, C.; Kayler, Z.; Marcinkowski, K.; Ontl, T.; Rodriguez-Franco, C.; Swanston, C.; Woodall, C.W.; Buford, M. 2017. Considering Forest and Grassland Carbon in Land Management. Gen. Tech. Rep. WO-95. Washington, D.C.: United States Department of Agriculture, Forest Service, p.68.

More than one-third of the United States is covered by forests, and 47% of U.S. forests are privately owned working forests – forests owned by families, businesses, and investors.[2] These forests are sustainably managed to supply a steady, renewable supply of domestically-grown wood for lumber, energy, paper, and packaging, providing more than 5,000 items that consumers use every day. They support 2.5 million well-paying American jobs, mainly in rural communities.[3]

Approximately 90% of the timber harvest for domestic wood and fiber used to make forest products in the U.S. comes from private working forests. At the same time, these forests account for 72% of our gross forest carbon sequestration, removing more carbon from the atmosphere than is emitted by all passenger vehicles in the U.S. each year.[4] Private working forests in the U.S. also store an estimated 82 billion metric tons of carbon. That amount is nearly half of the carbon stored in all U.S. forests combined. By providing a continuing cycle of growing, harvesting, and replanting, sustainable forest management improves forest health and resilience and optimizes the capacity of private working forests to sequester and store carbon and extend those benefits to the built environment through long-lived solid wood products.

Because wood is 50% stored carbon by weight, long-lived wood products also store vast amounts of carbon. Each year, U.S. wood products add close to 100 million metric tons of carbon to the nearly 9.8 billion tons of carbon stored in the wood products carbon storage pools – or nearly three times the carbon stored in all national parks combined. Advanced engineered wood products, like mass timber, present an enormous opportunity to lower the embodied carbon footprint in the built environment.

Information about the climate impact of forests and forest products, as well as source references for the above statistics, can be found at ForestCarbonDataViz.org, a visualization of government data created by NAFO.[5]

In 2020, NAFO, CEOs of 43 leading U.S. forest-owning companies, The Nature Conservancy, the Environmental Defense Fund, American Forests, and the American Forest Foundation adopted a unique set of Principles on Private Working Forests as a Natural Climate Solution. These "CEO Principles" express a common vision for increasing the climate mitigation of sustainably managed private working forests and sustainably produced solid wood products through market- and incentive-based approaches.

In addition to climate mitigation, there are other important environmental benefits associated with keeping working forests working. Water supplies for communities around the country come

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[2] Oswalt, Sonja N.; Smith, W. Brad; Miles, Patrick D.; Pugh, Scott A., coords. 2019. Forest Resources of the United States, 2017: a technical document supporting the Forest Service 2020 RPA Assessment. Gen. Tech. Rep. WO-97. Washington, DC: U.S. Department of Agriculture, Forest Service, Washington Office. 223 p. https://doi.org/10.2737/WO-GTR-97 Table 11.

[3] Forest2Market. 2019. The Economic Impact of Privately-Owned Forests in the 32 Major Forested States. Available at https://nafoalliance.org/wp-content/uploads/2018/11/Forest2Market_Economic_Impact_of_Privately-Owned_Forests_April2019.pdf#page=9.

[4] Oswalt, Sonja N.; Smith, W. Brad; Miles, Patrick D.; Pugh, Scott A., coords. 2019. Forest Resources of the United States, 2017: a technical document supporting the Forest Service 2020 RPA Assessment. Gen. Tech. Rep. WO-97. Washington, DC: U.S. Department of Agriculture, Forest Service, Washington Office. 223 p. https://doi.org/10.2737/WO-GTR-97.

[5] Because both forests and long-lived forest products sequester carbon in quantifiable volumes, we have included references to the "forestry and forest products sector" in our comments. Strictly, "forestry" is considered part of the Land Sector while "forest products" is manufacturing and considered part of the Materials Sector. However, both forest-related sectors contain publicly traded entities subject to the proposed rule and both are likely within scope 3 emissions that others will have to report on so our comments group them together where appropriate.

from forested watersheds, where forests act as a natural filtration system for nearly 30% of the water we drink[6]. Private working forests also play an important role in conserving at-risk and declining species. Access to these forests is vital to wildlife conservation, as 60% of our nation's at-risk species rely on private forestland for survival.[7] Collaborative conservation efforts such as the National Alliance of Forest Owners' Wildlife Conservation Initiative can benefit species while keeping private working forests intact.

Comments

We appreciate the opportunity to comment on the proposed climate-related rule amendments. Given the importance of privately-owned working forests as a climate solution, we support the SEC's recognition that climate change can pose financial risks and that publicly disclosed information must be accurate, comparable, and understandable by all stakeholders. It is also critical to ensure policy responses to those risks are as simple to implement as possible in order to minimize any further financial risks to registrants. We offer the following comments on elements that could reduce undue burdens on registrants; help achieve the goal of consistent, comparable and reliable disclosures; and eliminate disincentives for climate action.

1. **Accounting and reporting standards for greenhouse gas emissions continue to evolve. In the case of the forestry sector, the Greenhouse Gas Protocol's (GHG Protocol) Land Sector and Removals guidance and methodology are not yet complete. The SEC should take a principles-based approach and provide ongoing flexibility to allow methodologies to mature and develop.**

The SEC's proposed rules on climate-related disclosures recognize the Greenhouse Gas Protocol (GHG Protocol) as "a leading accounting and reporting standard for greenhouse gas emissions."[8] The SEC describes its proposed GHG emissions disclosure requirement as having been based primarily on the GHG Protocol's concept of scope emissions and related methodology.[9]

The GHG Protocol is currently developing new guidance on accounting for greenhouse gas emissions and carbon removals from land use, land use change, bioenergy, and related topics in companies' greenhouse gas inventories, called the Land Sector and Removals Guidance.[10] The complexity of carbon accounting in the land sector[11] is recognized by the GHG Protocol, which publishes the most widely recognized and comprehensive greenhouse gas accounting protocol in the world.[12]

As entities like the GHG Protocol learn more about emissions data and build out additional sector-specific guidance, it is natural to expect changes or updates to existing frameworks and methodologies. The GHG Protocol recently announced that it would assess the need for additional guidance to build on the existing set of corporate GHG accounting and reporting

[6] https://www.fs.usda.gov/managing-land/private-land
[7] Robles, M.D., C.H. Flather, S.M. Stein, M.D. Nelson, and A. Cutko. 2008. The geography of private forests that support at-risk species in the conterminous United States. Front. Ecol. Environ. 6:301–307.
[8] Proposed Rule, 87 Fed. Reg. at 21343.
[9] Proposed Rule, 87 Fed. Reg. at 21345.
[10] New Greenhouse Gas Protocol Land Sector and Removals Guidance, https://ghgprotocol.org/blog/new-greenhouse-gas-protocol-land-sector-and-removals-guidance.
[11] Defined by the GHG Protocol as "greenhouse gas emissions and removals from agriculture, forestry, other land use, and land use change." https://ghgprotocol.org/sites/default/files/standards_supporting/LSR_Overview.pdf
[12] https://ghgprotocol.org/about-us

standards for Scope 1, Scope 2, and Scope 3 emissions.[13] Application of the GHG Protocol's existing Scope 3 guidance has inherent limitations and uncertainties in the forestry context. Most notably, it does not expressly address how to account for Scope 3 emissions associated with land use change. And while the GHG Protocol's Land Sector and Removals Guidance is expected to contribute to the current dialogue on how to calculate emissions, particularly (but not exclusively) for Scope 3 emissions in the forestry and forest products sector, significant components of this guidance are in flux and will not be ready until 2023 at the earliest. The SEC should continue to recognize these developments and future changes to methodologies when considering GHG emissions disclosures by taking a principles-based approach and providing flexibility to allow methodologies to mature and develop.

2. **The SEC's final climate-related disclosure rules should expand the safe harbor to protect registrants from potential liability arising from refinements to accounting practices or changes to the accounting methodologies upon which their GHG emissions disclosures are based.**

NAFO appreciates the SEC's recognition that work is underway in certain sectors to improve methodologies.[14] In the case of the forestry sector and the Scope 3 emissions needs of others, such as the forest products sector, the GHG Protocol's Land Sector and Removals guidance and methodologies are not yet complete.

The SEC's proposed rules recognize the inherent and unique challenges with Scope 3 emissions reporting.[15] To address this, the SEC proposed a safe harbor for Scope 3 emissions data, stating that disclosures of Scope 3 emissions by or on behalf of the registrant would be deemed not fraudulent unless it is shown that such statement was made or reaffirmed without a reasonable basis or was disclosed other than in good faith.[16] NAFO agrees with this safe harbor and recommends that it expressly encompass changes in future statements made based on refinements to the application of existing methodologies as well as changes to the underlying methodologies themselves. Further, the final rules should make clear that there is no obligation to restate prior reports when a registrant has made such refinements or where the relevant methodological standards have evolved in subsequent years.

Ensuring that these statements are covered by the safe harbor will provide registrants the needed assurance that changes in disclosures based on changes in methodologies or their application will not be penalized – and that registrants can avoid the future burden of restating as methodologies evolve. This assurance will incentivize registrants to calculate emissions using the most up-to-date methodologies and provide investors with the most accurate information available.

3. **The SEC's final climate-related disclosure rules should recognize the unique natural capability of the forestry and forest products sectors to remove and store**

[13] GHG Protocol to assess the need for additional guidance building on existing corporate standards, Greenhouse Gas Protocol, https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards.
[14] "This proposal does not define a single methodology for calculating GHG emissions. This is because both the reporting and attestation landscapes are currently evolving and it would be premature to adopt one approach and potentially curtail future innovations in these two areas." Proposed Rule, 87 Fed. Reg. at 21395.
[15] "Depending on the size and complexity of a company and its value chain, the task of calculating Scope 3 emissions could be challenging." Proposed Rule, 87 Fed. Reg. at 21390.
[16] "We are proposing a safe harbor for Scope 3 emissions disclosure to alleviate concerns that registrants may have about liability for information that would be derived largely from third parties in a registrant's value chain." Ibid.

carbon. The terms used in the rule, "climate-related opportunities"[17] and "offsets,"[18] are insufficient to characterize the ways these sectors can contribute to climate change mitigation. The SEC's final rule should acknowledge and provide opportunities for registrants to account for the full carbon benefits of forests and forest products.

The use of the term "offsets" as defined by the SEC is insufficient to capture activities in the forestry and forest products sectors. As noted above, these sectors sequester and store carbon naturally in carbon storage pools like forests, trees, soil, and long-lived wood products. As stated in the draft rule, sometimes companies will purchase offsets from forest owners, which include NAFO member companies (including registrants). Offsets are defined in the draft rule as "an emissions reduction or removal of greenhouse gases in a manner calculated and traced for the purpose of offsetting an entity's GHG emissions." However, carbon storage and sequestration by NAFO member companies and other forest owners most often happens in the normal course of business, as opposed to taking additional actions with "the purpose of offsetting an entity's GHG emissions." Thus, the definition of offsets in the SEC draft rule does not adequately cover the massive capture of carbon by forestry and forest products companies, including registrants.

The GHG Protocol's upcoming Land Sector and Removals Guidance potentially provides a useful approach to address this challenge. The guidance is not yet final, but will be in the relatively near future (currently expected in the first half of 2023). The GHG Protocol anticipates its new guidance will be used by companies to: 1) inform mitigation strategies by understanding the GHG emissions/removals impacts of land use, land use change, biogenic products and carbon removal activities; 2) set targets and track performance by including the above activities in GHG targets; and 3) report GHG inventories including GHG emission and carbon removals and report progress toward GHG mitigation goals.[19]

Referencing the following definitions from the GHG Protocol's Land Sector and Removals Guidance could help the SEC in incorporating the necessary language for the creators of offsets in the forestry and forest products sector, not just the buyers:

> 1) Removals: the transfer of greenhouse gases from the atmosphere to storage within a pool. Removals can be from biogenic or technological sinks and stored in land-base, product or geologic carbon pools.
>
> 2) Land sector emissions/removals: Accounting and reporting for greenhouse gas emissions and removals from agriculture, forestry, other land use, and land use change
>
> 3) Biogenic product carbon pool: Carbon in products or materials derived from living organisms or biological processes, but are not fossilized or from fossil sources.[20]

The SEC's use of the term "climate-related opportunity" similarly needs broadening to appropriately capture activities in the forestry and forest products sectors. Many sectors approach climate mitigation disclosures primarily through energy efficiency and emissions reductions. The forestry and forest products sector will consider not just mitigation but also the optimization of carbon sequestration and storage during the course of business.

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[17] Proposed Rule, 87 Fed. Reg. at 21351, 21465.
[18] Proposed Rule, 87 Fed. Reg. 21355, 21465.
[19] Land Sector and Removals Guidance, https://ghgprotocol.org/land-sector-and-removals-guidance.
[20] Land Sector and Removals Guidance, https://ghgprotocol.org/land-sector-and-removals-guidance.

In the proposed SEC rule, this inherent sequestration and storage capability could potentially be considered a "climate-related opportunity," which the Proposed Rule explains as:

> "Cost savings associated with the increased use of renewable energy, increased resource efficiency, the development of new products, services, and methods, access to new markets caused by the transition to a lower carbon economy, and increased resilience along a registrant's supply or distribution network related to potential climate-related regulatory or market constraints.[21]

Yet, this definition also does not capture the characteristics of the forestry and forest products sectors, which have been sequestering and storing carbon long before climate change was observed on the planet. The SEC draft rule falls short on language to describe these contributions. Inclusion of the three GHG Protocol definitions listed above in the final SEC rule could help correct this omission.

4. **The voluntary market for offsets can harness the power of forests and forest products and provide a way for companies to achieve climate-related targets or goals. The SEC should recognize that offsets should be: 1) real, additional, permanent, measured, verified, and unique; 2) publicly disclosed via carbon registries; and 3) given flexibility as offset accounting methodologies evolve.**

Strong forest product markets are the economic force behind our nation's private working forests and the many public benefits they provide, including climate mitigation. At the same time, new carbon mitigation opportunities are creating options for private working forest owners to increase climate benefits of their lands and harvests. Among these, voluntary forest carbon markets, included within the SEC definition of "offsets," are a rapidly growing catalyst to scale natural climate solutions while providing important income potential for forest landowners. While there are compliance carbon markets in places like California, these comments focus on voluntary markets.

In order for offset projects to provide climate value, they must be:

1. Real, meaning they represent an actual net reduction (or sequestration) in emissions, even after taking into account leakage, which occurs when increasing sequestration or storage in one location causes a corresponding reduction in sequestration or storage in another location.
2. Additional, meaning increased carbon sequestration above a baseline;
3. Permanent, ensuring the carbon is stored for an appropriate duration and that the removals are not threatened by disturbances like severe wildfire or storms; and
4. Measured according to an appropriate methodology.
5. Verified by an independent third party to ensure it meets all necessary criteria and GHG reductions are properly quantified and accounted for.
6. Unique, taking safeguards to prevent double-counting of removals.

These requirements can be met by registering and verifying offset projects with established carbon registries using existing carbon accounting methodologies or protocols. These offset projects are then made public via a transparent registry system. Three robust carbon registries in the U.S. are the American Carbon Registry (ACR), the Climate Action Reserve (CAR), and Verra.

[21] Proposed Rule, 87 Fed. Reg. at 21351.

NAFO supports measures to ensure offsets provide climate value according to the criteria laid out above. For this reason, NAFO supports the SEC's goal of ensuring transparency of offset purchases. However, NAFO also notes that offsets are increasingly being traded in various configurations[22] and as registrants engage in offsets trading, reporting "information regarding the source, value, underlying projects, and authentication of the offsets"[23] may be impractical. The SEC should instead consider requiring that registrants use offsets filed with registries that require disclosure in the manner of the registries named above and other similarly credible registries that might emerge.

The SEC should also recognize that the technology for offsets continues to develop and that the requirements for robust offset projects will likely change over time. For this reason, the final rule should be principles-based and provide flexibility (as the current draft does) to allow methodologies around offsets to mature and develop.

5. **The inherent uncertainty and judgment involved in identifying and disclosing the financial statement impacts of climate-related events and transition activities will lead to disclosures that are not consistent and comparable and place an undue burden on registrants.**

In the proposed ruling, the SEC argues that "separately stating the financial statement impacts from climate-related events and transition activities could improve comparability across both the registrant's year-to-year disclosures and the disclosures of different registrants". The rulemaking also notes that "the proposed disclosures are similar to those that many companies provide based on broadly accepted disclosure frameworks, such as the Task Force on Climate Related Financial Disclosures (TCFD) and the Greenhouse Gas (GHG) Protocol."

Neither the proposed rule nor the TCFD includes guidance for quantifying the financial statement impacts of climate-related events and transition activities. Because standard guidance is not available, a significant degree of judgment will be required, and companies will likely attribute the impacts of climate-related events and transition activities differently. As a result, we believe these disclosures will not be consistent or comparable across registrants within or across industries. This is particularly true in the forestry industry because of the large, geographically diverse land bases that would make it challenging to calculate and disclose consistent information between different companies.

Additionally, because disclosure of financial statement impacts is outside the framework provided by the TCFD and GHG Protocol, our member companies are not positioned to comply with this requirement. We are concerned that the cost of systems, processes and controls for gathering audited data at a one percent materiality threshold will create an undue burden for registrants.

If the SEC elects to require these disclosures of financial statement impacts in the final rule, given the degree of judgment involved and likely differences in interpretation, we believe this information would be more appropriate to include in the new Climate-Related Disclosure section of the 10-K rather than in a footnote to the financial statements. If the SEC elects to keep these

[22] https://www.prnewswire.com/news-releases/cme-group-to-launch-cbl-core-global-emissions-offset-futures-301477280.html
[23] Proposed Rule, 87 Fed. Reg. at 21406.

disclosures within a footnote to the financial statements, we believe the SEC should explicitly permit registrants to omit the disclosures for historical comparative periods in the initial period of adoption given the significant amount of effort and expense this would require, rather than forcing registrants to rely on Rule 409 or Rule 12b-21.

For many of the foregoing reasons, we are also concerned about the requirement to include the proposed financial statement disclosure in registration statements filed under the Securities Act of 1933. Given the time it will take for there to emerge agreed-upon standards of practice and interpretive guidance for the accounting and related disclosure of these items, we believe that there should be a 3-year delay from the time the rules are finalized before these financial disclosures, whether they appear as a footnote to the financial statements or located elsewhere in the report, are required or incorporated by reference in any Securities Act registration statement.

6. **Requiring registrants to disclose information regarding the use of emerging analytical tools (i.e., transition planning, scenario analysis, internal carbon pricing, and target setting), as proposed, would be premature and may not further the SEC's goal of providing "decision-useful" information for investors.**

The field of assessing and acting on climate risk using forward-looking tools like transition planning, scenario analysis, internal carbon pricing, and target setting is a promising way to manage for climate risk and identify potential opportunities. That said, the field is also nascent and evolving. For this reason, information generated by these tools does not yet guarantee a high degree of certainty or accuracy. Rather than penalize early adopters of these tools, the SEC should encourage registrants to explore the complexities of using these tools without the concern of triggering new disclosure obligations, at least at this early stage.

To give one example, climate scenario analyses of the effects of climate change are typically derived from models that incorporate subjective assumptions about future events, parameters and data choices. It is important to recognize that these models have significant limitations and their outputs are highly sensitive to assumptions and parameters. While consistent and standardized assumptions can be expected to settle over time, more technical development is needed. The SEC's proposal to require registrants to disclose "the financial impacts on the registrant's business strategy under each scenario" with both "qualitative and quantitative information" may not be decision-useful to investors and may result in confusing or misleading disclosures.

Further, the SEC's proposal to require disclosures of the use and outputs of these analytical tools only for registrants that elect to use them could have a disproportionate impact on early adopters and a chilling effect on registrants currently considering scenario analysis. Many NAFO members are already using or beginning to explore the use of these tools, and NAFO understands from the industry's initial experience that they are particularly nuanced in the forestry context.

The SEC has likely underestimated the costs associated with disclosures of the use and outputs of these tools for registrants. The SEC has based the proposed rules in part on the Task Force on Climate-Related Financial Disclosures (TCFD) disclosure framework, which the SEC describes as having been widely accepted, on the basis that this would help mitigate the compliance burden (and therefore the compliance costs) for registrants. However, recent TCFD Status Reports have indicated that the percentage of companies disclosing strategy resilience

(which includes use of some of these tools) is significantly lower than that of the other recommended TCFD disclosure topics. In other words, while companies are beginning to explore use of these tools, they are not yet widespread – and could therefore be costly to scale up – even among companies already following the TCFD framework. For this reason, it is NAFO's position that requiring information on these activities is premature and should not be required in the final rule.

7. **This rule will have follow-on effects on companies that are not registrants; the rule should consider follow-on impacts for non-registrants as it lays out timelines and should embrace technological tools to ensure that reporting requirements are affordable and reasonable to comply with.**

The forestry and forest products sector comprise both registrants and privately held, smaller, and/or family-owned companies. These non-registrant organizations may also be exposed to any SEC climate-related disclosures indirectly through Scope 3 disclosure requirements that flow down from registrants to whom these smaller companies are suppliers or in other ways have commercial relationships. As the SEC considers timelines, it should consider extending timelines in all cases where Scope 3 data may be required in order to accommodate these non-registrants. For similar reasons, leveraging economic studies, sector-wide analyses, and credible modeling approaches will be an important requirement for successfully capturing Scope 3 disclosures in a way that does not place an undue burden on supply chains.

Conclusion

Privately-owned working forests are an important climate solution. The SEC's final rule should acknowledge and provide opportunities for registrants to account for the full carbon benefits of forests and forest products. We support the SEC's recognition that climate change can pose financial risks and that publicly disclosed information must be accurate, comparable, and understandable by all stakeholders. Given developing methodologies and guidance in calculating emissions and removals, we suggest a principles-based approach to disclosure and encourage strong safe harbor rules that recognize this evolution. NAFO appreciates the opportunity to comment on the draft rule. Please contact Anne Clawson at [redacted] for any follow up questions.

Respectfully,

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[redacted]