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VIA EMAIL

June 17, 2022

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

rule-comments@sec.gov

Re: *The Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22)*

Dear Ms. Countryman:

Exxon Mobil Corporation (ExxonMobil) respectfully submits the enclosed comments to the captioned proposal and accompanying release (Proposal).

We support robust and transparent disclosures on climate-related matters and currently provide a range of climate-related information to our investors, employees, customers, governments, nongovernmental organizations, researchers, and the public at large. We provide substantial information in our Form 10-K, such as in our Risk Factors discussion, following well-established principles of materiality. The SEC's disclosure regime has stood the test of time in part due to its long-standing focus on materiality, which we recommend keeping in place.

Outside of SEC reporting, ExxonMobil provides many other climate-related disclosures to further inform stakeholders. For example, our ambition to drive greenhouse gas (GHG) emission reductions in support of a net-zero future is detailed in our "Advancing Climate Solutions: 2022 Progress Report" publication on our website

(ACS).[1] This annual report, which in previous years was called the "Energy and Carbon Summary," was developed based in part on our extensive engagement with investors and is aligned with the reporting principles of the Task Force on Climate-Related Financial Disclosures (TCFD).

Our ACS report provides an in-depth look at ExxonMobil's commitment to driving emission reductions in support of a net-zero future, including: how we are leveraging our core capabilities to meet society's needs for products essential for modern life, while addressing the challenge of climate change; our aim to achieve net-zero emissions from our operated assets by 2050; our 2030 emission-reduction plans, consistent with Paris-aligned pathways; our plans over the next six years to invest more than $15 billion on initiatives to lower greenhouse gas emissions, with a focus on scaling up carbon capture and storage, hydrogen, and biofuels; our work advocating for sound government policies needed to accelerate the deployment of key technologies at the pace and scale required to support a net-zero future; and an analysis of the resilience of our business and investment portfolio under the International Energy Agency's Net Zero Emissions by 2050 scenario.

The ACS further details how we expect to achieve 20-30% reduction in our corporate-wide greenhouse gas intensity and a resulting absolute reduction of approximately 20%, compared to 2016 levels, by 2030; how we similarly plan to reduce our upstream greenhouse gas intensity by 40-50% (resulting in an absolute reduction of approximately 30%), reduce corporate-wide methane intensity by 70-80%, and reduce our flaring intensity by 60-70%; and how we support other sound governmental policies to accelerate the private deployment of key technologies at the pace and scale needed to support a net-zero future.

These examples from our Form 10-K and ACS show our strong support for voluntary, robust climate-related disclosures. We submit this comment letter because we have concerns with the Proposal and hope to aid the SEC in its goal of creating materially relevant, consistent, comparable, and reliable disclosures for investors.

Our comments focus on the three core aspects of the Proposal: line-item financial statement disclosures, GHG emissions reporting, and narrative discussion of climate risks and strategies. As an introduction to our comments, we suggest specific ways the Commission might amend the Proposal to help accomplish its goal of improving

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[1] Available at: https://corporate.exxonmobil.com/-/media/Global/Files/Advancing-Climate-Solutions-Progress-Report/2022/ExxonMobil-Advancing-Climate-Solutions-2022-Progress-Report.pdf?la=en&hash=AFC42B15F21ADB081F9A35AA685385A3287F48E5.

climate-related disclosures in a way that is meaningful, practical, and sustainable for public companies and investors.

1. *Recommendations for Amending the Proposal*

We respectfully ask the Commission to consider amending the Proposal along the lines below. Following its revisions, we would urge the Commission to seek another round of notice and comment, to allow for the development of climate-related disclosures that are meaningful, practical, and sustainable for public companies and investors. Specifically, such an alternative approach should:

- For all disclosures, retain the longstanding, traditional materiality threshold for reporting, as articulated in the long line of cases that have clarified its importance to U.S. securities regulation, including: *TSC Industries, Inc. v. Northway, Inc.*, *Basic, Inc. v. Levinson*, and *Matrixx Initiatives, Inc. v. Siracusano*.

- Eliminate the requirements to include new line-item disclosures in the financial statements and otherwise streamline the information required in the proposed Reg. S-X amendments to align with the information currently required in financial statement disclosure. The existing rules already mandate that issuers provide information that is material to investors and enable flexibility for companies to provide additional information they think would be relevant to investors. The proposed requirements will cause issuers to incur enormous costs to provide information that fails to meet a reasonable materiality threshold and will be inconsistent across issuers thereby diminishing its usefulness to investors.

- Allow issuers to furnish, rather than file, information that discusses climate and transition related risks and opportunities, within the framework of a principles-based, rather than prescriptive, reporting regime grounded in materiality. Less prescriptive approaches are available, practical, and more likely to encourage greater disclosure. On the other hand, highly prescriptive disclosure requirements like those in the Proposal will overwhelm public filings with too much granular and speculative detail and even mislead investors into assuming a level of certainty unmerited by the types of information being requested to be disclosed.

- In particular, while we support the disclosure of Scopes 1 and 2 GHG emissions, to the extent the SEC concludes this information should be included in SEC reports, the data should be furnished, not filed, because these metrics are subject to a significant degree of technical estimation and numerous assumptions.

Furnished information would still be subject to SEC review. We also recommend the SEC coordinate with the Environmental Protection Agency (EPA) to ensure a consistent standard applies not just to public companies, but to private companies as well, because it makes no sense to have different standards for public and private company reporting of GHG emissions.

- Exclude emissions calculated under the Scope 3 standard to allow more useful and effective standards for addressing indirect emissions to mature and develop to avoid significant estimation and double-counting. The SEC should allow the scientific/technical approaches to mature to create a more sound measure of emissions measurement that recognizes demand, life-cycle emissions, and product substitution impacts. Furthermore, focusing on the Scope 3 standard to the exclusion of other developing methodologies has significant potential for unintended consequences and misuse that could actually lead to an overall increase in society's emissions (e.g., by shifting production to operators who may not be as incentivized to reduce emissions).

- Limit requirements to discuss forward-looking information to locations outside the financial statements, where the Private Securities Litigation Reform Act protections can apply, and broaden safe harbors or other limitations of liability to cover all disclosures subject to a high degree of estimation or speculation.

- Expand the safe harbor provisions to encourage issuers to discuss difficult-to-quantify areas, such as the costs of potential future events and policies, without increasing the risk of litigation.

- For reasons of practicality, limit any reporting requirements to prospective reports and eliminate any requirement to update reports that predate the Proposal's effective date.

- Provide significantly more time to implement necessary information gathering and reporting systems. We suggest providing companies with at least three years from the date the rule becomes effective before the beginning of the first reporting period to be covered by new disclosure requirements.

We make the recommendations above in an effort to improve the Proposal in a way that provides material information that is consistent, comparable, and decision-useful for investors and creates incentives for companies to share more information in a way that is practical and cost-efficient for companies and their shareholders.

2. ***Financial Statement Disclosure of Climate-Related Impacts Should Follow the SEC's Long-established Materiality Standard***

We believe in the importance of materiality as a guiding principle for SEC disclosures. While we understand the SEC's desire to capture all potentially relevant data, the Proposal's amendments to Reg. S-X to include line-item disclosures in a note to the financial statements would, in our view, pose significant challenges in real-world application for many registrants. We also observe that these requirements as proposed are not rooted in the same principles of materiality as other Reg. S-X disclosures.

To the extent business results depend on markets, attributing cause and effect, much less precisely quantifying the effects of specific causes, could result in a high degree of speculation that is different from other Reg. S-X requirements. Market prices, especially for broadly traded commodities such as oil and gas, reflect a balancing between a large number of factors that affect supply and demand. Looking at our own industry as an example, within any given period, the cumulative effect of the global economy's energy transition activities could have both positive and negative effects on supply, demand, and prices for oil. Changes in demand affect price which affects supply and vice versa, in a continuous and dynamic feedback process.

Under the Proposal, climate- or transition-related effects would include changes in laws or policies in response to national efforts to reduce greenhouse gas emissions; changes in consumer preferences based on the emissions profile of a product; changes in the availability or cost of financing reflecting allocation of capital toward lower-emission energy sources; and a myriad of other factors.

As a company that produces oil and gas and manufactures fuels, lubricants, petrochemicals, and other products derived from oil and gas, the price of oil is a key input for our financial results. Thus, as one example, the Proposal would require disaggregation and quantification of each climate-related factor on the price of oil for each period presented in our financial statements. We think this exercise would be extremely difficult and costly, and prone to a high degree of speculation, resulting in inconsistent and therefore meaningless attribution characterizations across issuers.

As an example, the US Federal government has announced an accelerated timetable for increases in the Corporate Average Fuel Economy (CAFE) standards for new vehicle sales.[2] The new policy has been expressly tied to the objective to reduce emissions to help meet national emission reduction goals.[3] This policy thus would appear to represent a climate-related factor under the Proposal, and its impact on financial statement line items such as revenues, earnings, etc. would need to be assessed.

CAFE standards were first introduced in 1975 in response to the oil embargo of the time, with an initial principal objective of reducing US reliance on oil imports and increasing US energy security. A policy originally related to *energy security* thus became a policy related to *climate change*. This illustrates a threshold difficulty with characterizing policies as climate-related based on an assessment of intent. The rationale for enacting laws and regulations may be stated by policy-makers or restated by government agencies, and there is no guidance within the Proposal for determining whether any given policy is climate-related. Classifying market developments such as changes in consumer preferences as climate-related – which result from the independent decisions of millions or billions of individuals – would be even more challenging. We see risk of widely varying methods for dealing with this assessment, resulting in disclosures that will not be comparable from one company to another.

Continuing with the CAFE example, the effect must be quantified in order to determine if this factor, together with the absolute values of all other applicable positive and negative factors, represents 1% of a line item. An increase in vehicle miles-per-gallon theoretically would tend to decrease demand for motor fuels and therefore decrease oil prices. However, increased fuel economy has the effect of *reducing* the cost per mile of travel. A reduction in the cost of travel tends to result in an increase in miles traveled.[4] For example, a family may decide to take a driving vacation instead of staying home, or select a more distant destination.

Thus, an increase in mileage standards will tend to have both positive and negative effects on fuel demand and oil prices, which under the Proposal must be disaggregated and separately quantified. Increasing vehicle fuel economy also tends to require use of additional vehicle technologies that may increase the cost of a new car. These technologies may increase the demand for certain hydrocarbon-derived products, such as strong, light-weight plastics. Moreover, an increase in vehicle price may cause some consumers to defer the purchase of a newer, more efficient vehicle, slowing the turnover rate of the fleet and thereby partially offsetting the effects of the policy. The

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[2] See https://www.nhtsa.gov/press-releases/usdot-announces-new-vehicle-fuel-economy-standards-model-year-2024-2026/.

[3] See https://www.transportation.gov/mission/sustainability/corporate-average-fuel-economy-cafe-standards/.

[4] See, e.g., https://www.niskanencenter.org/the-tough-economics-of-fuel-economy-standards/.

net effect on demand for hydrocarbon-derived products could similarly be inconclusive. Therefore, even a relatively discrete policy change, such as an increase in CAFE standards, will have complex and dynamic volume and price impacts that would be difficult, if not impossible, for companies to meaningfully quantify.

Furthermore, it would appear to be necessary to quantify *all* factors that impact the supply and demand for oil and therefore ultimately determine its price—geopolitical, commercial, technological, and otherwise—in order to attempt to isolate the climate-related factors.

We are concerned these kinds of complex and dynamic effects could not be reliably quantified with the degree of accuracy necessary for presentation in financial statements, particularly for disclosures that are subject to audit review and potential liability under the securities laws, with personal attestation by company management and endorsement by the board of directors.

We also believe the complexities of this proposed disclosure and the individual judgment required will prevent the consistency and comparability across companies the Commission seeks. Every company will need to develop policies and make subjective judgments across individual transactions and events to capture them for external disclosure, and those judgments will result in disclosure that is not comparable across companies. The proposed financial statement disclosure will risk confusing investors, which is the opposite of what the Proposal intends.

Additionally, the proposed 1% threshold for line item disclosure of climate factors – which in itself is well below traditional standards of materiality – in practice represents a much lower threshold. This is because the 1% test applies to the absolute values – positive or negative – of all factors that affect a financial statement line item and would be classified as climate-related. Dozens if not hundreds of such individual factors affect economic inputs such as the price of oil. For example, assume a company determines there are 10 climate or transition-related factors that affect a line item, and is able to quantify them. Assume five of those factors each have a positive impact of 0.1%, and five factors each have a negative impact of 0.1%. In this simplified example, the Proposal would require line item disclosure even though no individual factor has an impact greater than one-tenth of one percent on a particular line item, and even though the net effect of all the factors would be zero. As proposed, this issue exists regardless of the percentage threshold used.

For these reasons, we encourage the SEC to reconsider the Reg. S-X disclosures in the Proposal and ground them in the traditional materiality concept, as it has done historically for any large-scale disclosure like those contemplated here. We believe this approach would best serve investors, companies, and all stakeholders.

3. Scope 1 and 2 Emissions Should be Furnished, Not Filed

ExxonMobil fully supports voluntary reporting by companies of their own GHG emissions (Scope 1 and Scope 2), and we include them in the Advancing Climate Solutions publication. If the SEC believes these disclosures would be important for investors in all reporting companies, then the SEC should permit them to be furnished, rather than filed. Companies who voluntarily disclose climate-related information already have a legal obligation not to make materially misleading statements. There is no practical justification to subject GHG emissions data to additional legal liability by requiring it to be filed in large part because it is subject to a significant degree of technical estimation and numerous assumptions.

We also suggest that the SEC work with the EPA to ensure its standards for Scopes 1 and 2 GHG emissions are sound and consistent. The Proposal acknowledges that the EPA already requires, and makes available to the public, reporting of certain GHG emissions, and we believe the EPA is best positioned to regulate emissions reporting from a scientific standpoint.

Moreover, the EPA's collection of emissions data is not limited to publicly-traded companies as disclosure under the Proposal would be, but extends equally to both public and private businesses. This helps create a level playing field and provides more complete data. Focusing only on public company disclosure could raise the costs of being a public company significantly. As a result, we see fewer companies being willing or able to bear the regulatory burden of accessing the public equity markets, which could discourage private companies from going public. This effect conflicts with the Commission's statutory purpose to facilitate the formation of capital.

The Proposal seeks to address this issue in part through a broad definition of the "value chain" of a public company, under which public companies would be required to obtain and report emissions data from vendors, customers, and others. We believe public companies, by reason of that status, should not be required to act as government intermediaries for collecting and managing emissions data from private actors throughout the economy. Private actors are under no legal obligation to track, record, or provide this data to public companies subject to these proposed rules. Moreover, this approach is unnecessary since the EPA already holds direct jurisdiction over those firms.

In short, although we are not opposed to the SEC requiring companies to furnish Scopes 1 and 2 GHG emissions data, we believe such disclosure should be more comprehensively applied and is best addressed by inter-agency dialogue between the SEC and the EPA. In this manner, each agency can contribute its special expertise: the EPA with respect to emissions data, and the SEC with respect to making information accessible to investors.

4. Reporting Under the Scope 3 Standard Should Be Voluntary

ExxonMobil already voluntarily discloses an estimate of certain Scope 3 GHG emissions, as described in its Advancing Climate Solutions report. One problem with the SEC mandating the disclosure of Scope 3 emissions is that the reporting standard lacks the rigor and reliability that should exist for SEC disclosure – whether furnished or filed.

As many experts recognize, serious flaws exist regarding use of this standard as a metric for accountability to investors. For example, Scope 3 emissions methodology double-counts emissions overall, since "the scope 3 emissions for one organization are the scope 1 and 2 emissions of another organization."[5] Reporting across all 15 categories of Scope 3 emissions will also count the same emissions multiple times by the same party or by different parties in the value chain from initial production to ultimate sale and use of a product.

Much work is being done to develop alternative emission tracking methodologies to enable governments, businesses, investors, consumers, and society as a whole to better judge the real emissions impact of alternative economic choices and the contributions of individual companies. These include approaches to measure full "life-cycle" emissions of a product and to avoid multiple counting of the same emissions. The life-cycle assessment methodology, which takes account of environmental impacts throughout the full life cycle of a product, also allows for intensity based comparisons, which is a more appropriate way to compare companies or products with similar objectives. This is important work that must continue and be encouraged so that a better metric for societal wide emissions is developed.

For example, under a life-cycle assessment, biofuels could have significantly lower overall societal emissions than conventional fuels because the development of the feedstock for production (i.e., various forms of biomass) reduces GHG emissions across

[5] See https://www.epa.gov/climateleadership/scope-3-inventory-guidance.

the life cycle of the product. However, because Scope 3 does not account for or reflect the negative emission aspects of a company's biofuel feedstock production, it treats the ultimate biofuel no differently than fossil fuels, providing companies with no credit for producing these lower GHG emissions products.

The Commission acknowledges the challenges of current Scope 3 methodology in the Proposal and states the Proposal is not intended to limit future developments. But the Proposal as currently written will likely end up enshrining the current, flawed approach as a feature of regulation, with advancement in reporting methodologies contingent on future SEC rulemaking. We suggest a better approach is to allow advancement in this area to continue. We have seen progress in climate-related disclosures as a result of public company engagement with shareholders and with support of constructive volunteer frameworks, such as the TCFD.

More fundamentally, a focus on the Scope 3 measure at the entity-level fails to account for whether the activity of that entity contributes positively or negatively to societal emissions. For example, a natural gas producer will see its Scope 3 emissions rise if its production grows, notwithstanding that such production will significantly reduce societal emissions by substituting for coal in power generation. Thus, from a societal standpoint – or when viewed on an economy-wide basis – we are concerned that simply adding up all Scope 3 emissions for all public companies will tell investors little about society's overall emissions trajectory or a company's individual contributions in reducing society's overall emissions. Scope 3 emissions reporting may lead investors to make misguided investment decisions in response to whether an individual company's Scope 3 emission are increasing or decreasing, notwithstanding that, as noted above, company-level Scope 3 emissions may in fact be uncorrelated or even *inversely* correlated to overall societal emissions.

Moreover, certain individuals and organizations are already attempting to use companies' Scope 3 emissions disclosures to limit oil and gas production or the financing of oil and gas projects through the shareholder proposal process[6] and through litigation. These efforts to constrain the production of oil and gas, products that currently have insufficient practical alternatives, are detrimental to society's efforts to address the complex issues presented by climate change. If successful, these efforts

[6] See, e.g., *Investors reject climate proposals targeting ExxonMobil, Chevron*, Washington Post (May 26, 2022), available at: https://www.washingtonpost.com/politics/2022/05/26/investors-reject-climate-proposals-targeting-exxonmobil-chevron/; and ExxonMobil Notice of 2022 Annual Meeting and Proxy Statement, Shareholder Proposals, *Item 6 – Reduce Company Emissions and Hydrocarbon Sales*, at 71-73 (April 7, 2022) (describing proposal), available at: https://corporate.exxonmobil.com/-/media/Global/Files/investor-relations/annual-meeting-materials/proxy-materials/2022-Proxy-Statement.pdf/.

could increase overall societal emissions if energy production remains with higher emission supply (e.g., coal versus natural gas) or shifts to less-efficient, higher-emission operators – precisely the opposite result of that intended by many proponents of the Proposal. Additionally, using a company's emissions disclosures to force reduced oil and gas production in the face of increased or sustained demand will increase prices for consumers. The SEC rules should not be structured in ways that enable such practices.

5. Proposed New Climate Disclosure Section Should Be More Principles-Based

As described above, ExxonMobil fully appreciates the need to keep its investors informed about the risks and opportunities we see in connection with climate change and the energy transition, as well as our actions, investments, and strategies for addressing these issues. We provide this disclosure today, informed by well-established principles of materiality, in our Form 10-K, and we also provide more detailed disclosure on these issues, for investors and other stakeholders alike, through the ACS, including a description of how our business might evolve under the IEA Net Zero by 2050 scenario. These disclosures continue to evolve, informed by the ongoing work of our management and board of directors in progressing the company's objectives; policy, market, and technology developments across the world; and ongoing dialogue with our investors.

The Proposal's mandatory disclosure of all climate related targets and goals, scenarios, and carbon pricing, however, could have a chilling effect on companies adopting best practices when it comes to managing climate-related risks as additional immaterial disclosure can be avoided by not adopting these best practices.

The Proposal's lengthy list of prescriptive requirements is also likely to overwhelm investors with granular, speculative, and immaterial information. From requirements for zip-code-level disclosures regarding physical facilities; to granular description of internal communication procedures and employee backgrounds; to detailed listing of the assumptions and decisions underlying hypothetical scenarios used and internal goals set, the requirements would generate voluminous quantities of information.

But our concerns about these requirements are not limited to the prescriptive detail. Much of the proposed disclosure will necessarily be highly speculative. It is one thing for companies to discuss, in general terms, risks and trends they foresee. If material, such disclosure is required today. The Proposal goes far beyond such current requirements, however, to require detailed and in many cases quantified disclosures regarding laws yet to be adopted, technologies yet to be developed, and changes in markets yet to occur, over a period of up to 30 years or more in the future. Any such disclosure will involve a high degree of speculation, is likely to be significantly different than the actual course of developments over coming decades, is unlikely to be relevant under any reasonable investment horizon, and will vary considerably from one company to another. We therefore believe much of this information will be more distracting than informative for investors. Publishing this type of information in SEC-filed documents would imply to investors a level of accuracy the data would not support, and would unnecessarily expose registrants to potentially frivolous law suits based on highly speculative disclosures about unknown facts far into the future.

The SEC, therefore, should allow issuers to furnish, rather than file, information discussing climate and transition-related risks and opportunities, within the framework of a principles-based, rather than prescriptive, reporting regime grounded in materiality.

6. ***Due to the Significant Costs and Efforts to Implement the Proposal, the SEC Should Allow More Time for Companies to Comply***

Should the Commission proceed with final rules comparable to the Proposal, our initial work indicates the cost of implementation and compliance for issuers will be orders of magnitude greater than the estimates in the Proposal. Those costs are amplified by the Proposal's extremely short implementation schedule.

Specifically, we estimate the required one-time costs to rework our accounting and financial reporting systems and processes to allow tagging and aggregated reporting of climate-related effects, by line-item, to be a multiple of the combined costs required to implement two recent FASB Standards – *Leases* and *Revenue from Contracts with Customers*, both of which were multi-year projects that cost tens of millions of dollars and were significantly simpler than the Proposal. The cost of significant structural changes to existing enterprise resource planning systems for large corporations can easily reach into the hundreds of millions of dollars. In addition, the increase in staffing and training that will be required to make climate-related judgments regarding each element of revenue, costs, and capital spending will result in significant and burdensome ongoing costs.

The work effort for the implementation actions described above will require substantial time: at least three years from the date of adoption to the beginning of the first period for which disclosures consistent with the Proposal would be required. The availability of consultants, contractors and others with the required expertise will be in short supply as companies ramp-up efforts to overhaul their financial systems and prepare for reporting. We note the effective date of 2023 for large filers under the Proposal actually represents a *retroactive* effective date, since disclosures would be required for each historical year included in the financial statements. Thus, for the 2023 10-K filed in 2024, required new disclosures would include 2022 and 2021.

There is simply no way to retroactively collect the data necessary to comply with these requirements for periods of time that have already passed. Disclosure requirements that require implementation of these entirely new systems and processes to collect information from prior periods are, therefore, inherently unreasonable and will undermine the integrity of reporting.

For the reasons described above, we have provided an alternative approach to enhancing climate-related disclosures. We appreciate the opportunity to comment on the SEC's Proposal and would be pleased to discuss these matters further at your convenience.

Sincerely,