June 22, 2022

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

RE: Comment Letter for File S7-10-22, *The Enhancement and Standardization of Climate-Related Disclosures for Investors (Release Nos. 33-11042 and 34-94478)*

CohnReznick LLP is pleased to have an opportunity to respond to the request for public comment from the Securities and Exchange Commission (the Commission or SEC) on the proposed rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the Proposal). We support the Commission's objective to bring about consistent, comparable and reliable information to investors to enable them to make informed judgments about the material impacts of climate-related risks and mitigation activities of SEC issuers. In this letter, we also express our concerns related to the integrity and auditability of information that the Proposal envisions be included in the scope of SEC issuers' annual audited financial statements (Proposed Article 14 of Regulation S-X). We also encourage the Commission to consider alternative placement of such disclosures and reduction of their granularity.

Background and Perspective of CohnReznick LLP

Our accounting Firm has a long and extensive history of providing professional services to the **affordable housing** and **green energy** business sectors. We support and sponsor many initiatives to make American businesses more sustainable in the long-term when it comes to both their environmental and social impact. For instance, we recently launched the ESG Game Changer Awards and continuously look for opportunities to increase diversity among our Firm's partner rank and Executive Board.[1] The observations and comments expressed in this letter draw primarily on our professional experience with financial statement audit services and advisory services related to financial reporting risk and accounting.

Overall Recommendation

SEC issuers in certain sectors of our economy like oil & gas extraction, chemicals and refining, transportation and manufacturing tend to have a **high carbon footprint** relative to other issuers that operate in sectors like professional services, biotech, software, real estate investment and investment management (**low carbon footprint**). Most rational investors, including their investment management professionals tasked with allocating their funds towards "green" or "climate change mindful" SEC issuers, tend to be interested in climate-change impact metrics and mitigation activities only for issuers in the high carbon footprint sectors. Accordingly, we believe that the proposed climate-change disclosures tend to be material only for investors in SEC issuers in the high-carbon footprint sectors. Mandating the proposed disclosures for all other SEC issuers that operate in the low carbon footprint

[1] For a holistic overview of the ESG initiatives of our firm, please consider reviewing our corporate responsibility webpage: https://www.cohnreznick.com/about/corporate-responsibility.

sectors would likely lead them to incur significant implementation and ongoing compliance costs simply to be in a position to certify in their SEC filings that all or most of the proposed disclosures are "not material" and, accordingly, not provided.

We recommend the Commission **consider allowing each SEC issuer to elect in (or out) of the proposed Climate-Related Disclosure Framework for a period of 10 years based on their consideration of a variety of investor factors present at the issuer level[2]:**

- current composition of public investors and their demonstrated interest in the SEC issuer providing them with metrics related to climate impact
- potential future public investors the SEC issuer is looking to attract and their specific information needs for metrics related to climate impact
- overall high versus low carbon footprint of the industry sector(s), in which the issuer operates
- other issuer operating metrics the Commission identifies are strongly positively correlated to climate impact

The issuers (Category 1) that "opt into" the Climate-Related Disclosure Framework after careful consideration of the investor factors outlined by the Commission would be expected to provide the full suite of disclosures mandated by the SEC. This approach would promote investor comparative analysis for all SEC issuers in the Climate Change Reporting Framework during the initial 10-year period. The Category 1 issuers would incur the cost of developing the required disclosures, and also reap the benefit of reduced cost of capital offered by the growing amount of investor dollars channeled towards "green" and "climate change mindful" business enterprises.

All other SEC issuers (Category 2) that believe their current and potential investors do not find climate-change disclosures material enough to their investment decision making to warrant the high cost of developing such disclosures would "opt out" of the Climate-Related Disclosure Framework during the initial 10-year period. Category 2 issuers should be discouraged from providing any custom, non-SEC specified GHG and climate change metric disclosures to avoid creating the impression that they are looking to tap into "green" public capital without providing comparable disclosure to the Category 1 issuers opting into the Climate-Related Disclosure Framework.

The primary benefits of the initial 10-year opt-in (or opt-out) period would be:

- Establish a sufficiently long track record of consistent climate change disclosures and capital markets security pricing to allow academic and other researchers to measure in a statistically reliable manner the costs and benefits of complying with the proposed Climate-Related Disclosure Framework for the Category 1 pool of SEC issuers.

- Allow the Commission to adopt the Climate Change Framework quickly by the end of 2022 and then monitor implementation challenges, offer examples and supplemental guidance to the Category 1 issuers during the initial 10-year period.

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[2] Response to Proposal Question 175: *Should we exempt SRCs from other proposed disclosures besides the Scope 3 emission? Are there certain types of other registrants, such as EGCs or BDCs that should be excluded from all or some of the proposed climate-related disclosure rules?*

- Allow professional services firms and higher-education institutions to gradually increase the supply of qualified specialists that are adequately prepared to measure **and** attest the GHG emissions and other climate-related financial metrics proposed in the SEC's Climate-Related Disclosure Framework. The gradual transition approach would increase quality of such disclosures by not stirring a sudden massive demand for these highly specialized and currently very costly professional services.

At the end of year 10, the Commission would re-assess and expand the scope of issuers complying with its Climate-Related Disclosure Framework based on its empirical observations and cost-benefit analysis available from Category 1 issuers during the initial 10-year period.

Anticipated Challenges Related to Complete and Accurate Preparation of the Proposed Disclosure in Article 14 of Regulation S-X

Based on a survey of 190 SEC issuers[3] representing a wide range of sectors and acceleration status (including 24 smaller reporting companies), we understand that the predominant implementation challenges issuers foresee are in the following five areas:

1) Direct compliance cost and the indirect cost of increased cost of public financing due to preparing more extensive SEC disclosure documents
2) Limited qualified human resources to measure and attest GHG emissions and climate-related financial metrics (internal and external to the issuer organization)
3) Accurate information and its auditability
4) Short implementation timeline
5) Competing disclosure requirements by other climate change regulators

We also anticipate that as SEC registrants begin their implementation efforts to accumulate their climate impact metrics, costs and investments related to transition activities and financial statement impact figures, they will be placing information requests with private businesses along their supply chain (e.g., real estate lessors, electricity and fuel providers). As such, the cost to accumulate on a reliable basis the proposed climate change metrics will likely have a significant ripple effect through our economy. On the positive side, the Commission's Proposal has effectively elevated the objective of protecting our climate and environment in the priorities of American corporate leadership.

We anticipate the following three proposed disclosure requirements for the notes of the issuer's audited consolidated financial statements would warrant particularly high investment in financial reporting infrastructure and resources:

[3] The results of this survey are not publicly published but made available to our firm in accordance with our survey sponsorship agreement.

Proposed Disclosure Requirement	Financial Reporting Challenge
The proposed requirement in **Rule 14-02(b)** to disclose climate-related metrics on line items in the issuer's consolidated financial statements, when the sum of the absolute value of all relevant impacts on the line item are equal or greater than 1% of the total line item for the relevant fiscal year	We observe that most cost accounting systems of middle-market and smaller SEC issuers are not currently scaled to capture changes and impacts in absolute value terms. The current accounting systems of smaller and middle-market issuers ordinarily capture only the net of positive and negative items on pre-determined line items. Additional general ledger system modifications and upgrades would have to be implemented to capture the absolute value of the positives separately from the negatives for purposes of the disclosures in Rules 14-02(c) and (d).[4] Instead of the 1% bright-line threshold, we recommend a financial statement materiality threshold (consistent with GAAP materiality guidance) for any disclosures the Commission mandates be included in the scope of the audited financial statements.[5]
The proposed requirement in **Rule 14-02(c)** to disclose the impact (separately for all negative impacts from those for all positive impacts) on a financial statement line item by line item basis of *all*[6] severe weather events and other natural conditions, such as flooding, drought, wildfires and sea level rise. The proposed requirement in **Rule 14-02(d)** to disclose the impact of **any**[7] efforts to mitigate GHG emissions or otherwise to mitigate exposure to transition risks on any relevant line items of the issuer's consolidated financial statements, at a minimum separately for all positive impacts and separately for all negative impacts	These **very granular cost accounting disclosures** would warrant a longer period of transition to allow issuers to 1) scope in their complete list of climate related risks, transition activities and mitigation activities and then **2) scale and re-design their accounting systems** to capture costs, investments and cash flows separately for each such risk and activity. The enhanced cost accounting infrastructure would have to be in place before the first audit year that will be included in the first annual report, where the new disclosures will be required, to allow for full and accurate capture of relevant costs and cash flows and their impact to each consolidated financial statement line item for all comparative annual periods. The proposed adoption time for large accelerated filers in fiscal year 2023 does not allow adequate time to scale cost accounting systems to capture this very

[4] Response to Proposal Question 60: *Would a registrant be able to quantify the proposed disclosure when the impact may be the result of multiple factors?*

[5] Response to Proposal Question 66: *Is the proposed threshold appropriate?*

[6] We understand the absence of a materiality qualifier in proposed Rule 14-02(c) to imply "all" weather events and other natural conditions that impact the issuer's financial statements at the 1% threshold outlined in Rule 14-02(b).

[7] We understand the absence of a materiality qualifier in proposed Rule 14-02(d) to imply "all" efforts to mitigate GHG emissions or mitigate exposure to transition risks at the 1% threshold outlined in Rule 14-02(b).

	granular information for comparative fiscal years 2022 and 2021. Any issuer attempt to assess "disclosure materiality" separately of the positive effects and the negative effects without first quantitatively capturing such effects with enhanced cost accounting infrastructure, would be extremely challenging for financial auditors to independently audit.
The proposed requirement in **Rule 14-02(e)** to disclose separately expenditures expensed versus capitalized to mitigate risks from *all*[6] severe weather events and other natural conditions The proposed requirement in **Rule 14-02(f)** to disclose separately the amount of expenditures expensed versus capitalized during the fiscal year to reduce GHG emissions or otherwise mitigate exposure to transition risks	We observe that many smaller and middle-market issuers utilize standard general ledger accounting packages that offer limited expenditure tracking functionality. Such smaller and middle-market issuers often prepare their cash flow statements on a consolidated basis using simple spreadsheets outside of their general ledger accounting system. The requirements in proposed Rules 14-02(e) and (f) will likely necessitate significant upgrades in the **cash outflow tracking infrastructure** of such issuers to align them with the granularity of costs and investments capturing for each separate risk, transition activity and weather event in proposed Rules 14-02(c) and (d).

Auditability Concerns Related to the Proposed Disclosures in Article 14 of Regulation S-X

In our view, the anticipated upgrades and re-design of cost accounting and cash outflow tracking infrastructure for smaller and middle-market issuers to derive the proposed disclosures outlined in the table above would increase the scope of financial statement audit work and fees for this group of issuers well above the $15,000 estimate included in Section V.B of the Proposal, *Summary of the Proposed Amendments' Effects on the Collection of Information*. Accordingly, our overall recommendation is that the proposed suite of disclosures in Article 14 of Regulation S-X be relocated to reside outside the annual audited financial statements[8] and/or revised to reduce their granularity to reduce the extent of effort around upgrading accounting systems for both SEC issuers and their financial statement auditors.

In our professional capacity of financial statement auditors, we are very concerned about the newly proposed requirements in **Rules 14-02(c)** and **Rule 14-02(e)** for SEC issuers to make highly subjective estimates of what portion of their costs and cash outflows experienced should be attributable to what list of weather and natural events without established cost accounting guidance in this area by the FASB or other general accounting standard setter (e.g., the IASB) acceptable to the SEC.

Independent registered public accounting firms that currently are responsible for auditing the financial statements of issuers for compliance with generally accepted accounting principles, would be

challenged to obtain sufficient appropriate audit evidence regarding such attribution estimates to weather events and other natural conditions (in the context of their financial statement and internal control over financial reporting (ICFR) audits) due to:

(1) Not being currently engaged to understand and assess the complete supply chain of an issuer to identify a **complete and appropriate list of weather events and natural conditions** that would reasonably likely impact the issuer's consolidated financial statements. The issuer's registered public accounting firm would need to independently develop (or purchase) a complete and appropriate list of weather events and natural conditions (specific to the SEC issuer) to adequately assess the completeness and accuracy of the issuer's disclosures under proposed Rules 14-02(c) and 14-02(e), regardless of whether working with the bright-line 1% threshold described in proposed Rule 14-02(b) or the financial statement audit materiality we recommend.

(2) Unlikely to have as independent audit evidence an environmental expert's professional report on the complete and appropriate list of issuer-specific weather and other natural events immediately after the fiscal year-end, to have sufficient time to design and execute their audit on the financial metric disclosures for such list of weather events and natural events.

(3) **Not being guided by any PCAOB standard** in the performance of assurance work related to the direct and indirect costs and expenditures related to weather events and natural conditions.

We believe any audits of expenditures and costs related to weather events and other natural conditions as those outlined in proposed Rules 14-02(c) and (e) should be separate assurance engagements outside the scope of the current financial statement and financial statement internal control audits conducted by the issuer's registered public accounting firm. Those separate assurance engagements should be governed by clearly defined weather-related cost accounting standards acceptable to the Commission and an appropriately tailored PCAOB assurance standard that provides implementation examples on ascertaining the completeness of issuer-specific weather and natural events, among other relevant topics.

Should the Commission wish to mandate the financial metrics disclosures specified in proposed Rules 14-02(c) and (e) before such PCAOB standard setting is finalized, we recommend such disclosure metrics be placed outside the scope of the annual audited financial statements, whereby the Issuer may engage an assurance provider that may or not be the same as the registered public accounting firm that is engaged to audit the issuer's financial statements and its ICFR.[8]

Alternatively, we recommend that the Commission consider limiting the disclosures of financial impact to only a specified list of weather and environmental events, which the Commission updates on a monthly or quarterly basis, to reduce potentially wide diversity in similarly impacted issuers capturing different weather events and natural conditions in their metric disclosures.[9]

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[8] Response to Proposal Question 89: *Should we require disclosure to be provided outside the financial statements?* and Question 91: *What, if any, additional guidance or revisions to such standards would be needed in order to apply PCAOB auditing standards to the proposed financial statement metrics?*

[9] This last recommendation is responsive to

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We would be happy to be of service to the SEC staff by engaging in dialogue related to the comments and observations in this letter. Please contact Polia A. Nair, CPA, CFA - National Director for SEC Matters at Cohn Reznick LLP at polia.nair@cohnreznick.com or +1 301-280-3757.

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Proposal Question 61: *Should we require a registrant to disclose the impacts of only certain examples of severe weather events and other natural conditions? If so, should we specify which severe weather events and other natural conditions the registrant must include?* and to Proposal Question 63: *Is it clear which climate-related events would be covered by "severe weather events and other natural conditions"?* and to Proposal Question 74: *Should we require a registrant to disclose the expenditures incurred toward only certain examples of severe weather events and other natural conditions?*