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

Via: rule-comments@sec.gov

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

Dear Ms. Countryman:

On June 17, 2022, the Travelers Companies, Inc. (“Travelers”) provided comments (the “previous letter”) on proposed rule release Nos. 33-11042, 34-94478, File No. S7-10-22 with the above captioned title (the “proposed rule”)¹. We are providing this comment letter to supplement our previous letter.

Since submitting the previous letter, Travelers has continued to consider the proposed rule in extensive detail as we assess the availability and accuracy of the information needed to implement the proposed rule’s disclosure requirements. As a result, we would like to highlight a significant issue with one of the required disclosures in § 210.14-02 that was not included in our previous letter. Specifically, this letter is intended to highlight issues resulting from the incorporation by reference of the disclosures proposed in Regulation (“Reg.”) S-K into the disclosures proposed in § 210.14-02(i) of Reg. S-X.

The text in proposed § 210.14-02(i) includes the following proposed disclosure in the notes to the audited financial statements:

¹ See Comments of The Travelers Company, Inc., File No. S7-10-22 (June 17, 2022) available at <https://www.sec.gov/comments/s7-10-22/271022-20132324-302883.pdf>.

Impact of identified climate-related risks. A registrant must also include the impact of any climate-related risks (separately by physical risks and transition risks, as defined in § 229.1500(c)), identified by the registrant pursuant to § 229.1502(a), on any of the financial statement metrics disclosed pursuant to paragraphs (c) through (h) of this section.

The proposed disclosure in § 229.1502(a) of Reg. S-K includes the following:

Describe any climate-related risks reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term. If applicable, a registrant may also disclose the actual and potential impacts of any climate-related opportunities when responding to any of the provisions in this section.

The proposed disclosure in § 210.14-02(i) is then incorporated by reference² in the proposed disclosure requirements of § 210.14-02(c), § 210.14-02(d), § 210.14-02(e) and § 210.14-02(f). As a result of this cross-referencing, the proposed rule would require registrants to include climate-related risks³ that are reasonably likely to have a material impact on the financial statements which may manifest over the short, medium, and long term *in* the disclosures of the financial impacts of severe weather events and other natural conditions on any relevant line items in the registrant's consolidated financial statements.

There are significant issues with including the proposed rule's Reg. S-K disclosures in the notes to the audited financial statements.

Climate-related risks that are reasonably likely to have a material impact on the financial statements which may manifest over the short, medium, and long term *do not meet* the criteria for recognition in the financial statements under generally accepted accounting principles in the United States ("U.S. GAAP"). Consider the issue of insured losses accounted for by property casualty insurers. Property casualty insurers are required to apply the accounting guidance in FASB Accounting Standards Codification 944, *Financial Services – Insurance* (Topic 944), which requires insurers to recognize the costs incurred related to *events that have occurred* and prohibits the recognition of costs for *events that have not yet occurred* (e.g., a reserve for future catastrophic events). The proposed rule's requirement to disclose "climate-related risks reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term" is inconsistent with the recognition criteria in Topic 944. Specifically, insurers are only allowed to recognize losses that have been *incurred*, and furthermore, losses can only be *incurred* if an insured event *has occurred* under Topic 944. This is consistent with the use of accrual accounting under U.S. GAAP, which requires all

² See § 210.14-02(b).

³ § 229.1500 of the proposed rule includes the following definition: "*Climate-related risks* means the actual or potential negative impacts of climate-related conditions and events on a registrant's consolidated financial statements, business operations, or value chains, as a whole."

transactions, regardless of their nature, to be recorded when they occur, i.e., when the costs were *incurred*.

Hypothetical Scenario for a Property Casualty Insurer

As an example, consider a property casualty insurer doing business across the United States that is publicly traded and the last day of this registrant's fiscal and accounting year is December 31. Furthermore, consider a scenario where on December 31, there is severe winter weather moving down from Canada over the United States, potentially impacting upper New York state and northern New England with life-threatening freezing temperature conditions. It may be reasonably likely that this storm will manifest in these areas of the United States over the short term, but as of December 31, no insured losses have occurred. Disclosure of the estimated impact of this potential severe weather event in the notes to the audited financial statements would be inconsistent with the current accounting principles of Topic 944 and ASC 450, *Contingencies* (Topic 450).

If the severe winter weather ultimately results in insured losses after December 31 but before the filing of the property casualty insurer's Form 10-K, the insurer may disclose an estimate of incurred losses as a subsequent event, depending on the magnitude of the estimated losses and subject to the disclosure requirements of FASB Accounting Standards Codification 855, *Subsequent events* (Topic 855). However, the disclosure would be limited to weather losses that occurred *after* December 31 through the filing date of the Form 10-K and would not include projections of losses that have not yet occurred. As a result, by including projections of losses that have not yet occurred, the proposed rule's disclosure pursuant to § 210.14-02(i) would also be inconsistent with the disclosure guidance of Topic 855. Additionally, by including such projections, any disclosure of this potential severe weather event would be inconsistent with the proposed rule's § 210.14-01(c)(2) requirement to apply the same accounting principles that a registrant is required to apply in preparation of the rest of its consolidated financial statements included in the filing⁴.

Using the example above, another issue would be the estimation of the impact of a potential severe weather event on any relevant line items in the registrant's consolidated financial statements. Since damage from this potential winter storm has not yet occurred, estimation of losses is highly problematic, will likely be incorrect, and will be misleading to users of the financial statements.

The example above of severe winter weather on December 31 is just one example of a weather-related risk that may manifest over the short-term. As noted in our previous letter, the proposed rule uses the terms "climate" and "weather" interchangeably without regard to the important and commonly accepted distinction between these two terms. Therefore, many insured events, depending on their severity, could be subject to disclosure by property casualty insurers under the proposed rule even though the

⁴ See § 210.14-01(c)(2). "Whenever applicable, apply the same accounting principles that it is required to apply in preparation of the rest of its consolidated financial statements included in the filing."

costs associated with the event may not be material or the events may never manifest. Other examples include a property casualty insurer's incurred losses from hurricanes or wildfires that are reasonably likely to manifest over the short or medium term *after* the insurer has filed the Form 10-K. It would be nearly impossible to estimate the financial impact of such events until the event occurs.

As this example illustrates, and consistent with this letter's earlier discussion, the proposed rule's new disclosure requirements would create contradictions and inconsistencies with current guidance, interpretation, and practice pursuant to U.S. GAAP. If the requirements of the proposed rules are finalized, this would create many questions and confusion for registrants and investors.

Another significant issue with the proposed rule's requirement in § 210.14-02(i) to include disclosure of climate-related risks that are reasonably likely to manifest over the short, medium, and long term in the notes to the audited financial statements is that such a disclosure is forward-looking. This may be acceptable for disclosures outside of the financial statements that are subject to safe harbor rules, but such safe harbor rules do not apply to the financial statements. Disclosures of financial impacts of climate-related risks *reasonably likely* to manifest over longer periods of time will almost always yield incorrect estimates for events that have not yet occurred, subjecting the registrant to almost certain litigation when better estimates become available after an event has occurred.

In general, forward-looking information in the notes to financial statements is not permitted by U.S. GAAP and would not be auditable. Travelers is not aware of (1) any other areas where risk factors would result in an accounting disclosure, or (2) any area of U.S. GAAP or Reg. S-X that looks to Reg. S-K to determine disclosure requirements. Travelers also believes this is inconsistent with the SEC's general position against financial statements incorporating by reference, or cross-referencing to, information outside of the financial statements.

Travelers believes that it would not be feasible for property casualty insurer registrants to provide adequate evidential matter to their auditors to substantiate any disclosed impacts required by proposed § 210.14-02(i). Estimates of financial impacts of events that may not happen until sometime in the future will be very subjective or may be subject to the use of models that by their very nature will not have the estimation certainty equivalent to the estimation of losses which have actually occurred and may not meet the criteria for recognition in the financial statements.

In addition, most of the policies issued by property casualty insurer registrants renew annually. As a result, insurers are able to respond to changing climate conditions over time by adjusting underwriting strategy, product pricing and related policy terms and conditions, and/or non-renewing policies, as appropriate. While this mitigates the risk of changing climate conditions to insurers, it makes estimating the impact of risks beyond one year even more difficult. It would also require estimating a level of profits in order to provide investors with an estimated net impact. Given the number of variables associated with such an estimate, including the requirement to obtain

regulatory approval for rate increases, such disclosure would be highly speculative and would likely lead to confusion or the unintentional misleading of investors.

For these reasons, Travelers recommends that proposed § 210.14-02(i) not be included in any final version of the proposed rule.

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We thank you for the opportunity to further comment on the proposed rule and would be pleased to discuss our views with the SEC in any forum the SEC may choose. If you have any questions or would like to discuss our comments, please feel free to call me at

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Sincerely,

Handwritten signature of D. Keith Bell in cursive script.