



March 28, 2023

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

**Re: The Enhancement and Standardization of Climate-Related Disclosures for Investors,
Release No. 33-11042, 34-94478; File No. S7-10-22**

Dear Ms. Countryman:

Attached please find a document, "Summary of Roundtable Discussion of SEC's Proposed Financial Statement Footnote Relating to Climate Change."

As described in the attached Summary, Ceres and the Center for Audit Quality (CAQ) recently sponsored a virtual roundtable discussion of the SEC's proposal to amend Regulation S-X to require footnote disclosure of the financial statement impact of climate related risks. The discussion included representatives from major accounting firms, investors, issuers, and others. The Summary describes the views that were expressed at this gathering.

Please note that while Ceres and the CAQ sponsored the Roundtable, the Summary does not necessarily reflect our views on all matters discussed. Also, the Roundtable did not include a broad range of investors (or issuers). Based on discussions over the past few months, we believe it is likely that some asset managers and asset owners who did not participate in the discussion would disagree with certain of the recommendations. However, the comment letter file does indicate broad investor support for the proposed rule,¹ including support for the major conclusions reached by the Roundtable participants, including, most fundamentally, the importance of a Regulation S-X requirement relating to the impact of climate change. For example, CalPERS' comment letter to the SEC called the Regulation S-X requirement "the most significant in the Proposal".²

Investors favor climate change-related information that allows for company-to-company comparisons and is subject to internal controls and third-party audits, as are the financial statements. In this regard, recent studies have supported the need for improved climate change financial statement information. For example, Ceres' *Lifting the Veil* report presented investor expectations for oil and gas company reporting under existing requirements, including

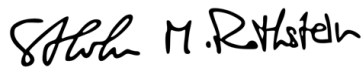
¹ See Ceres, [Analysis shows that investors strongly support the SEC's proposed climate disclosure rule](#) (October 11, 2022).

² [California Public Employees' Retirement System \(CalPERS\) letter to the SEC](#) (June 15, 2022), p. 16.

that “the narrative portion of oil and gas companies’ financial reports should include robust discussion of the effect of climate change and the energy transition on the company and be supported by disclosure in the financial reports”, and “audit committees should reinforce rigorous consideration of climate-related impacts on financial reporting and provide for robust audits.”³

We hope you find this Summary useful as you continue your deliberations on the SEC's climate change disclosure rule. We welcome the opportunity to provide additional background and resources or discuss our comments, and we believe the Roundtable participants would be open to discussion of additional possible approaches to a Regulation S-X proposal. If you would like further information, please contact me at srothstein@ceres.org or Tom Riesenber, Ceres’ Senior Regulatory Advisor, at triesenberg@ceres.org.

Sincerely,



Steven M. Rothstein
Managing Director, Ceres Accelerator for Sustainable Capital Markets
Ceres, Inc.

CC: Chair Gary Gensler

³ Samantha Ross, [Lifting the Veil: Investor Expectations for Paris-aligned Financial Reporting at Oil and Gas Companies](#), Ceres (May 2021), pp. 10, 17.



Summary of Roundtable Discussion of SEC’s Proposed Financial Statement Footnote Relating to Climate Change Disclosures

Introduction

On March 1, 2023, Ceres Accelerator for Sustainable Capital Markets (Ceres) and the Center for Audit Quality (CAQ) convened a virtual roundtable, moderated by Tom Riesenber, Senior Regulatory Advisor, Ceres, to discuss possible alternatives to the proposed Regulation S-X provisions in the proposed rule by the Securities and Exchange Commission (SEC) on climate-related financial disclosures, “The Enhancement and Standardization of Climate-Related Disclosures for Investors” (proposed S-X provisions). The virtual roundtable brought together 18 participants. Seven of the participants represented large public company auditors, and the others for the most part represented institutional investors and public company management. The event was held under the Chatham House Rule, meaning the participants are free to use the information received, but what was heard cannot be attributed to any one individual or organization. We appreciate the thoughtful perspectives shared during this discussion.

The purpose of the roundtable was to discuss the proposed S-X provisions and to see if there exists an alternative approach or approaches that the participants might agree would be preferable. It was also thought likely that we would share the group’s conclusions with the SEC and its staff, which we are doing in this document.

The participants were not reflective of a complete range of interested stakeholders, but they were uniformly committed to improved climate-related disclosure. Importantly, as discussed below, the participants generally agreed that investors would benefit from an SEC rule that includes amendments to Regulation S-X to require disclosure of material climate-related information in the notes to the financial statements. One participant explained that including climate disclosures in audited financial statements improves comparability, significantly lowers the cost of digesting information, and helps investors understand how registrants’ financials are sensitive to climate risks and opportunities.

Discussion

The discussion centered around three options the SEC could consider:

- 1) Adopt the final rule’s Regulation S-X provisions as proposed, or with minor modifications.
- 2) Adopt the Regulation S-X provisions as suggested in a comment letter to the SEC, where a company set forth an alternative where the aggregate amounts of certain discrete and separable expenses relating to severe weather events and climate-related transition activities would be reported in the financial statement footnotes.¹
- 3) Adopt an alternative approach.

¹ [Amazon.com, Inc. letter to the SEC](#) (June 17, 2022).

Option #1: The SEC Should Adopt the Final Climate Rule’s Regulation S-X Provisions as Proposed

In discussing the first option presented to participants, the participants agreed that the SEC should not adopt the climate-related Regulation S-X provisions precisely as proposed. Among the more significant issues was the 1% threshold for disclosure, but other problems were identified as well. However, in discussing the proposal, participants agreed any final SEC rule including certain S-X provisions could provide a consistent framework for registrants to apply in climate-related disclosures in the notes to the financial statements. Participants expressed a view that including such a note would enable investors to obtain climate-related information that is (1) subject to internal controls, (2) audited (reliable), and (3) more comparable from company to company.

Option #2: The SEC Should Adopt the Regulation S-X Provisions as Suggested in One Comment letter

One company filed a comment letter that advocated for tabular climate-related disclosure of the aggregate amount of discrete and separable expenses from severe weather events that represented 1% of total expenses or 1% of capitalized expenses. Few participants supported this approach (although there was appreciation for the pro-active effort of this company). It was highlighted that some industries could have more difficulty than others with the tables suggested in the comment letter as it relates to transition activities and climate related impacts. Some participants noted that they liked the suggestion that the financial impacts should be “discrete” (i.e., driven primarily by climate-related conditions) and “separable” (i.e., not an integral component of an overall activity or asset, such as construction materials) expenses, although there was some concern expressed that this criterion would result in minimal disclosures as very few expenditures are purely driven by climate concerns.

One participant said that the suggestion could be given to the Financial Accounting Standards Board (FASB) to come up with guidance on how companies could consistently apply the suggested disclosure. On the other hand, another participant stated that companies in certain industries are investing a lot more money in their IT systems and infrastructure than they are in climate alone and wondered why there is not interest in that sort of information when it is potentially more significant than amounts being spent by companies related to climate.

Ultimately, there was general consensus that option #2 could be improved but was a reasonable starting point and was headed in the right direction.

Option #3: The SEC Should Adopt an Alternative Approach

There was broad support for the proposition that an SEC requirement of some type is needed. A number of possible changes to the proposed S-X provisions were discussed, including:

- Incorporate into the S-X provisions a description of the types of costs to be reported based on terminology used in other SEC guidance and familiar to preparers. For example, material “isolated and objectively measurable” impacts or those “directly attributable...and factually supportable.”
- Clarify certain definitions such as climate-related impact or severe weather event.
- Move the climate related provisions in S-X to S-K requirements.
- Ask the FASB to take on a near-term project to determine financial statement requirements for climate-related disclosures.
- Consider additional SEC staff communications (e.g., Staff Accounting Bulletins) that reiterate interpretive guidance on existing accounting standards currently located in the release accompanying the proposed rules.
- Exclude the financial impacts from transition risks from any S-X requirements.

While participants had varied views on these issues the discussion centered on the following basic concepts and themes that the participants generally agreed the SEC should consider as it finalizes the climate-related S-X provisions:

- **Disclosure of financial impacts from climate-related activities should be derived from transactions and amounts recorded in the books and records underlying the financial statements.** It is important that any required disclosure be derived from the books and records (and subject to applicable internal controls) underlying the financial statements. There was a view expressed that deriving the disclosure from the books and records would help alleviate some of the concerns around “hypothetical information” (e.g., lost revenue, estimated cost savings) being disclosed. At least one participant did, however, believe it important to inform investors of estimated cost savings resulting from expenditures made to ameliorate the impact of climate change.
- **Threshold for climate-related disclosure should be based on materiality as generally used in financial reporting context, including relevant guidance.**² The participants were supportive of replacing the 1% threshold with traditional materiality, a concept that is well understood by financial statement users and consistently used in applying accounting and auditing standards. It was discussed that raising the threshold for disclosure to a higher percentage would not be a sufficient modification by itself. For example, as discussed below there would still be need for clarity in the definitions so there is consistency in what is measured and disclosed. (We note in this regard that traditional materiality could result in disclosure of impacts that are either more than 1% of a particular item or, in some instances, be less than 1%).³
- **A need for greater clarity around terms/definitions in the final provisions.** Participants discussed a need for greater clarity in the terms and definitions in a final Regulation S-X in order for there to be comparability as to what companies measure and disclose. For example, definitions are needed as to what constitutes a climate-related impact or severe weather event and what differentiates such impacts or events from non-climate related impacts and events.
 - Note: The above three bullets could also contribute to global convergence as although the International Sustainability Standards Board (ISSB) does not include a similar requirement, material direct impacts to the financial statements would likely get disclosed under International Financial Reporting Standards (IFRS).
- **A requirement for registrants to indicate in the notes to the financial statements if they considered risks associated with and any material impacts of climate-related matters on the financial statements.** Participants discussed that investors are seeking information about how the actions registrants are taking to address climate related risks affect the preparation of audited financial statements. The time horizon for which climate-related risks materialize will vary by company and industry; therefore, while risks may exist, the magnitude of the impact on the current-period financial statements will vary. Some climate-related risks may directly affect amounts and/or information reported and disclosed in the financial statements, while others may only indirectly affect information included or disclosed in the financial statements, and still others

² Guidance for determining materiality includes SEC Staff Accounting Bulletin Topic 1.M *Assessing Materiality*; and FASB Financial Statement of Accounting Concept No. 8 Chapter 3 *Qualitative Characteristics of Useful Financial Information*.

³ We understand that some stakeholders have suggested the use of materiality in addition to another possible threshold, so that the requirement might contain language such as “or if otherwise material.” We did not explore this suggestion at the Roundtable.

may have limited to no impact on the financial statements. Without a specified footnote, participants believed that investors and other users of the financial statements may assume (correctly or incorrectly) a registrant that does not disclose climate-related impacts has not considered climate related matters. Requiring a disclosure if a registrant has considered material climate-related risks and impacts to the financial statements (including assumptions) could provide clarity and transparency to investors and other users of the financial statements regarding the extent management has considered climate related matters.

Conclusion

The Ceres/CAQ roundtable supported the view, widely expressed in comment letters, that the proposed S-X provisions would raise significant practical implementation challenges and may not fulfill the objective of providing comparable information to financial statement users. Perhaps more significantly, the participants at the meeting did generally believe that climate-related financial statement disclosure is doable. In our view, this would be a major step forward in establishing a “through line” between companies’ sustainability and climate disclosures and their financial position and results. We encourage the SEC to continue to consider alternatives to the regulation S-X provisions that will focus registrants on preparing meaningful cost-effective climate-related disclosures that are comparable and reliable for investor decision making. The disclosures should be anchored in information that is derived from the financial statements and based on existing materiality concepts as currently utilized by financial statement users and preparers.

Ceres and the CAQ are happy to meet and elaborate on any of the concepts we offer in this summary report. Please feel free to reach out to Tom Riesenber at Ceres (triesenber@ceres.org) or Dennis McGowan at the CAQ (dmcgowan@thecaq.org) for any questions about this summary report.

About the Ceres Accelerator for Sustainable Capital Markets

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world’s greatest sustainability challenges. The Ceres Accelerator for Sustainable Capital Markets is a center of excellence within Ceres that aims to transform the practices and policies that govern capital markets to reduce the worst financial impacts of the climate crisis. It spurs action on climate change as a systemic financial risk—driving the large-scale behavior and systems change needed to achieve a net zero emissions economy through key financial actors including investors, banks, and insurers. The Ceres Accelerator also works with corporate boards of directors on improving governance of climate change and other sustainability issues. For more information, visit ceres.org and ceres.org/accelerator and follow [@CeresNews](https://twitter.com/CeresNews).

About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

Appendix

Participant Listing

The participant list is provided as background and does not indicate an endorsement of the conclusions in this summary.

Name	Title	Organization
Jim Burton	Partner, ESG & Sustainability	Grant Thornton
Rich Davisson	Director of Northeast Regional Professional Practice Office	RSM
Charles Hernick	Head of ESG Policy	Amazon
Bob Hirth	Senior Managing Director	Protiviti
Wes Kelly	Partner	Crowe
Mark Mahar	Partner	EY
Randi Mail	Director of Campaigns	Ceres Accelerator (Organizer)
Aeisha Mastagni	Portfolio Manager	CalSTRS
Laura McCracken	Partner	Deloitte
Dennis McGowan	Vice President, Professional Practice	CAQ (Organizer)
Tom Riesenber	Senior Regulatory Advisor	Ceres Accelerator (Moderator)
Samantha Ross	Founder	AssuranceMark (Organizer)
Julie Santoro	Partner	KPMG
Michael Tovey	Corporate Sustainability Controller	Bank of America
Valerie Wieman	Assurance Partner	PwC
Steven Rothstein	Managing Director	Ceres Accelerator
Piers Hugh Smith	Investment Stewardship Manager	Franklin Templeton