April 16, 2022

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

Re: File Number S7-10-22
The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman,

We are academic accounting researchers with research interest in the area of climate risk. We write to comment on the proposed rule of The Enhancement and Standardization of Climate-Related Disclosures for Investors (hereafter "the proposal").

Our paper titled "The impact of climate risk on firm performance and financing choices: An international comparison" (Huang, H. Kerstein, J & Wang, C. 2018. *Journal of International Business Studies*, 49, 633-696.) (see attached the paper) shows mainly that:

(1) Loss from extreme weather conditions such as major storms, flooding, heat waves, etc. is associated with lower and more volatile earnings and cash flows for affected firms. This can be somewhat mitigated by insurance coverage.

(2) Firms located in countries characterized by higher climate risk are likelier to hold more cash so as to build financial slack and thereby organizational resilience to climatic threats.

(3) Firms facing climatic threats also tend to have less short-term debt but more long-term debt, and to be less likely to distribute cash dividends.

(4) Certain industries are less vulnerable to extreme weather and so face less climate-related risk.

(5) The above results apply to U.S. multinational firms that face varying levels of climate risk across countries for their overseas subsidiaries.

The proposal will require disclosure on "How any climate-related risks identified by the registrant have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term" (p. 44 of the proposal). Our above finding (1) supports this requirement as such impact on earnings and cash flow can be material.

The proposal will require disclosure on "How any identified climate-related risks have affected or are likely to affect the registrant's strategy, business model, and outlook; The registrant's processes for identifying, assessing, and managing climate-related risks and whether any such

processes are integrated into the registrant's overall risk management system or processes;" (p. 44 of the proposal) Our above findings (2) and (3) indicate that firms do employ the strategy of building up financial slack and organizational resilience to combat climatic threats by holding higher amount of cash and reducing dividend and short-term debt. This is part of risk management and has market implications. We support the above disclosure requirement and would suggest adding disclosure on organizational resilience in combating climatic threats.

The proposal will require disclosure on "The impact of climate-related events (severe weather events and other natural conditions as well as physical risks identified by the registrant) and transition activities (including transition risks identified by the registrant) on the line items of a registrant's consolidated financial statements and related expenditures, and disclosure of financial estimates and assumptions impacted by such climate-related events and transition activities." (p. 44 of the proposal). Our above finding (1) shows that severe weather can lead to material negative financial impact and it is possible to quantity the impact as a line item in the financial statement. Similarly, our findings also support:

> "The term "climate-related risks" would be defined, in part, as the actual or potential negative impacts of climate-related conditions and events on a registrant's consolidated financial statements. "Climate-related risks" would also be defined to include physical risks, such as extreme weather events, and transition risks" (p. 121) and "Specific examples of such severe weather events and natural conditions may include the following: Flooding; Drought; Wildfires; Extreme temperatures; and Sea level rise." (p. 123)

The proposal seeks comment on "54. Should we also require such metrics to be calculated at a reportable segment level when a registrant has more than one reportable segment (as defined by the FASB ASC Topic 280 *Segment Reporting*)? In addition, should we require such metrics to be presented by geographic areas that are consistent with the registrant's reporting pursuant to FASB ASC Topic 280-10-50" (p. 119 of the proposal). Our above finding (5) support disclosure at geographic level especially for multi-national firms (e.g., Apple Inc. that uses geographic segments) as their overseas subsidiaries face varying levels of climate threats.

The proposal states, "There could be situations, however, where such events result in positive impacts. For example, if a registrant's business is to conduct post-disaster cleanup and reconstruction, the occurrence of such severe weather events would generate additional revenues for the registrant." Our above finding (4) indicates that not all industries suffer from the climate impact, which is consistent with this statement.

The proposal seeks comment on "59. Should we require registrants to disclose the financial impact metrics, as proposed? Would presenting climate-specific financial information on a separate basis based on climate-related events (severe weather events and other natural conditions and identified physical risks) and transition activities (including identified transition risks) elicit decision-useful or material information for investors? Are there different metrics that would result in disclosure of more useful information about the impact of climate-related risks and climate-related opportunities on the registrant's financial performance and position?" (p. 134) We support such requirement. Our findings suggest that such disclosure will elicit decision-useful information (e.g., estimating future earnings and cash flow volatility) for investors. We recommend to also mandate disclosure on (1) the impact on cash flow as our evidence indicates

that climate-risk management centers on cash flow; and (2) climate-risk related insurance coverage (per our above finding (1)) as there is much uncertainty on firm-specific insurance coverage, which impede investors' assessment on climate risk management.

The proposal seeks comment on "60. Would the impact from climate-related events and transition activities yield decision-useful information for investors? Would the climate-related events (including the examples provided) and transition activities result in impacts that are easier to quantify or disaggregate than climate-related risks more generally? Would a registrant be able to quantify and provide the proposed disclosure when the impact may be the result of a mixture of factors (*e.g.*, a factory shutdown due to an employee strike that occurs simultaneously with a severe weather event)? If there are situations where disaggregation would not be practicable, should we require a registrant to disclose that it was unable to make the required determination and why, or to make a reasonable estimate and provide disclosure about the assumptions and information that resulted in the estimate?" We believe there are two types of costs associated with a climate-related event: direct cost arising from the property and human loss and the indirect cost arising from the operating loss (e.g., the loss of production). While the former can be quantified, the latter would involve some inherent estimation. We would agree with the approach to allow companies especially small public companies to disclose that it was unable to make the required determination. Plus, all companies should disclose the assumptions and information if they choose to estimate the financial impact.

The proposal seeks comment on "61. Alternatively, should we not require disclosure of the impacts of identified climate-related risks and only require disclosure of impacts from severe weather events and other natural conditions? Should we require a registrant to disclose the impact on its consolidated financial statements 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? Would requiring disclosure of the impact of a smaller subset of climate-related risks be easier for a registrant to quantify without sacrificing information that would be material to investors?" Disclosure on climate-related risk can be qualitative and includes regulatory impact (e.g., regulations on carbon emission reduction) while disclosure on the impact of severe weather events can be quantitative. Also, the impact of severe weather can serve as an indicator of future climate risk. Thus, these two types of disclosure complement each other and both should be disclosed. Based on our research, we believe that a guideline should be provided on which severe weather events should be included (e.g., providing a non-exhaustive list of such events) since sometimes it is confusing as to whether an event is climate related.

One additional important point we want to make is that our study indicates that firms are aware of the climate risk and have acted efficiently by choosing the right financing decisions (e.g., using long-term debt and not using cash dividend) to buttress their cash reserve and their organizational resilience. As a result, our study suggests that firms can act efficiently in their management of climate risk even without regulations. Thus, the benefits of the proposed rules are likely to come from providing better information to investors than from improving managerial risk management.

In sum, based on our peer-reviewed empirical evidence, we believe that overall this proposal will provide more necessary information for investors to assess financial consequence

and risk management on climate risk and climate-related events. We thus offer our strong support for this proposal.

Sincerely yours,

Henry Huang Ph.D. LL.M.
Associate Professor of Accounting
Sy Syms School of Business
Yeshiva University
215 Lexington Avenue, Suite 604
New York, NY 10016
Tel: 646-592-4910
Email: Henry.Huang@yu.edu

Joseph Kerstein Ph.D.
Professor of Accounting
Sy Syms School of Business
Yeshiva University
Tel: 212-960-5400 x5456
Email: Joe.Kerstein@yu.edu

Chong Wang
Assistant Professor, School of Accounting and Finance
M837, Li Ka Shing Tower
The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong
T: +852-2766-4246
Email: chong.wang@polyu.edu.hk