



AMERICAN WOOD COUNCIL

May 16, 2022

Attn: 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 Vanessa A. Countryman:

The American Wood Council (AWC) appreciates this opportunity to provide the below comments and information to the Securities and Exchange Commission (SEC) regarding its proposed rules on *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (File Number S7-10-22).

AWC is the voice of North American wood products manufacturing, an industry that provides over 450,000 men and women in the United States with family-wage jobs. AWC represents 86 percent of the structural wood products industry, and members make products that are essential to everyday life from a renewable resource that absorbs and sequesters carbon. Our staff experts develop state-of-the-art engineering data, technology, and standards for wood products to assure their safe and efficient design, as well as provide information on wood design, green building, and environmental regulations. AWC also advocates for balanced government policies that affect wood products.

American wood products provide an off-the-shelf solution for decarbonizing the construction and building sectors, as well as many others. Not only are wood construction products produced in a climate-friendly manner, with lower GHG emissions than many competitor products, they provide a direct carbon storage benefit by storing carbon in the built environment as well as sequestering carbon in forests. Increased deployment of wood-based construction products and technologies will displace GHG emissions associated with other construction materials having a higher GHG intensity, such as concrete and steel.

The built environment is a major source of GHG emissions—but also represents a massive opportunity for reducing embodied GHG emissions and creating carbon storage benefits. While some construction materials high embodied GHG emissions, other materials have much lower embodied carbon profiles, and some construction materials even have the ability to store carbon for the long term, such as wood products.

American wood products today represent an existing, proven pathway to decarbonizing the building and construction sectors, particularly through further deployment in large residential, commercial, and industrial applications. As the federal government already recognizes, working American forests represent an existing nature-based solution to climate change that provide a

222 Catocin Circle, Suite 201, Leesburg, VA 20175
1101 K Street, Suite 700, Washington, DC 20005
202-463-2766 · www.awc.org

range of important ecosystem services such as habitat preservation, biodiversity support, watershed protection, water resources, flood control, and more. Working forests deliver tangible climate benefits as carbon is sequestered in working forests themselves and stored in the wood products derived from those forests. Working forests also provide socioeconomic benefits by supporting recreational opportunities, wood products industries, and good-paying rural jobs.

AWC is working with partners in our sector to identify and quantify – through reporting and other mechanisms – the GHG impacts and benefits of various technologies in comparison to available alternatives throughout the construction sector. We believe that that builders and their customers should evaluate the footprints not only of a building’s GHG emissions during its service life, but also the GHG impacts (or benefits) associated with the extraction/harvesting/recycling of resources, transportation and manufacturing of these resources into building products, and lastly construction of the building up to the point of occupancy. Using life cycle assessment (LCA), it is possible to quantify the potential GHG emissions associated with a given building product through its entire life span, as well as any benefits related to carbon stored or sequestered within that product. Product level LCA’s, through Environmental Product Declarations (EPDs) account for the useful life of each product throughout the service life of the buildings.

Many of AWC’s public members are already providing extensive climate-related disclosures to their investors, and our members recognize the importance of this information to our investors and stakeholders. We generally welcome efforts by the SEC and other agencies to help improve the quality and amount of data about GHG impacts of various technologies, including those like wood products that store carbon sourced from well-managed forests, which serve as natural climate solutions, and which can help to lower the GHG footprint of businesses and other large entities that choose climate smart building solutions.

1. The SEC’s final climate-related disclosure rules should expand the safe harbor to protect registrants from potential liability arising from refinements to accounting practices or changes to the accounting methodologies upon which their GHG emissions disclosures are based.

The SEC’s proposed rules on climate-related disclosures recognize the GHG Protocol as “a leading accounting and reporting standard for greenhouse gas emissions.”¹ The SEC based its proposed GHG emissions disclosure requirement primarily on the GHG Protocol’s concept of scope emissions and related methodology.²

Many companies use the GHG Protocol’s accounting and reporting standards, and calculation tools to account for, report, and mitigate emissions on a voluntary basis.³ The GHG Protocol also develops and publishes guidance on how certain sectors can apply the GHG protocol standards.⁴ GHG Protocol published guidance includes, but is not limited to, Scope 3

¹ SEC Proposed Rules: The Enhancement and Standardization of Climate-Related Disclosures, at p 34.

² SEC Proposed Rules: The Enhancement and Standardization of Climate-Related Disclosures, at p 40.

³ World Resources Institute, Greenhouse Gas Protocol, <https://www.wri.org/initiatives/greenhouse-gas-protocol>.

⁴ Greenhouse Gas Protocol, Guidance, <https://ghgprotocol.org/guidance-0>.

Calculation Guidance, and Scope 2 Guidance.⁵ Each of these guidance documents provide recommendations to companies and organizations on how to measure their emissions, though companies exercise their independent judgment in applying the recommendations and making reasonable assumptions and estimates.

As entities like the GHG Protocol learn more about emissions data, it is natural to expect changes or updates to existing frameworks and methodologies. The GHG Protocol recently announced that it would assess the need for additional guidance to build on the existing set of corporate GHG accounting and reporting standards for Scope 1, Scope 2, and Scope 3 emissions.⁶ The GHG Protocol is also currently developing new guidance on accounting for greenhouse gas emissions and carbon removals from land use, land use change, bioenergy, and related topics in companies' greenhouse gas inventories.⁷ The GHG Protocol anticipates that the new guidance will be used by companies to: 1) inform mitigation strategies by understanding the GHG emissions/removals impacts of land use, land use change, biogenic products and carbon removal activities; 2) set targets and track performance by including the above activities in GHG targets; and 3) report GHG Inventories including GHG emission and carbon removals and report progress toward GHG mitigation goals.⁸

Application of the GHG Protocol's existing Scope 3 guidance has inherent limitations and uncertainties in the forestry context. Most notably, it does not expressly address how to account for Scope 3 emissions associated with land use change. And while the GHG Protocol's Land Sector and Removals Guidance is expected to contribute to the current dialogue across the wood products sector on how to calculate emissions, particularly (but not exclusively) for Scope 3 emissions in our sector, significant components of this guidance are in flux. It is still in the early stages of development and will not be ready for implementation until early 2023, at the earliest. AWC appreciates the SEC's recognition that work is underway in certain sectors to improve methodologies.⁹ AWC encourages the SEC to continue to recognize these developments and future changes to methodologies when considering GHG emissions disclosures.

As proposed, registrants that disclose Scope 3 emissions under a current methodology, and then disclose those emissions under the modified or updated methodology, are potentially at risk of investors perceiving the change as a misstatement. The SEC's proposed rules recognize the inherent and unique challenges with Scope 3 emissions reporting.¹⁰ To address this, the SEC proposed a safe harbor for Scope 3 emissions data, stating that disclosures of Scope 3 emissions by or on behalf of the registrant would be deemed not to be a fraudulent statement unless it is shown that such statement was made or reaffirmed without a reasonable basis or

⁵ Greenhouse Gas Protocol, Guidance, <https://ghgprotocol.org/guidance-0>.

⁶ GHG Protocol to assess the need for additional guidance building on existing corporate standards, Greenhouse Gas Protocol, <https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards>.

⁷ New Greenhouse Gas Protocol Land Sector and Removals Guidance, <https://ghgprotocol.org/blog/new-greenhouse-gas-protocol-land-sector-and-removals-guidance>.

⁸ Land Sector and Removals Guidance, <https://ghgprotocol.org/land-sector-and-removals-guidance>.

⁹ SEC Proposed Rules The Enhancement and Standardization of Climate-Related Disclosures, at p 210.

¹⁰ SEC Proposed Rules The Enhancement and Standardization of Climate-Related Disclosures, at p 211.

was disclosed other than in good faith.¹¹ AWC appreciates this safe harbor and recommends that this safe harbor expressly encompass changes in future statements made based on refinements to the application of existing methodologies as well as changes to the underlying methodologies themselves. Further, the final rules should make clear that there is no obligation to restate prior reports when a registrant has made such refinements or where the relevant methodological standards have evolved in subsequent years. Ensuring that these statements are covered by the safe harbor will provide registrants the needed assurance that changes in disclosures based on changes in methodologies will not be penalized – and that registrants can avoid the future burden of restating as methodologies evolve – which will incentivize registrants to calculate emissions using the most up-to-date methodologies and provide investors with the most accurate information available.

2. The SEC’s proposal strikes the right balance in allowing, but not requiring, registrants to disclose narrative information on climate-related opportunities.

As the SEC has properly recognized in its proposal, climate related conditions and the transition to a lower-carbon economy may also present opportunities for companies and investors. Given the significant opportunities for AWC members regarding stored carbon in the built environment as a pathway to decarbonization, we support the SEC’s proposal to allow registrants to disclose information concerning identified climate-related opportunities when responding to any of the proposed rules’ disclosure requirements relating to governance, strategy, and risk management. AWC members take the position, as reflected in the proposed rules, that disclosures on climate-related opportunities should not be mandatory. While AWC members believe that accounting practices are not sufficiently well-developed to support quantitative disclosures on climate-related opportunities, we do not object to the SEC’s proposal to allow registrants to optionally make such disclosures in light of their own facts and circumstances.

3. Requiring registrants to disclose information regarding the use of emerging analytical tools would be premature and would not further the SEC’s goal of providing “decision-useful” information for investors.

The field of assessing and mitigating climate risk through the use of emerging analytical tools like scenario analysis, transition planning, target setting, and internal carbon pricing is nascent and evolving. Forward-looking and/or qualitative information generated through the use of these tools generally does not lend itself to measurement with a high degree of certainty or accuracy. Climate scenario analyses on the effects of climate change, for example, are typically derived from models that incorporate subjective assumptions about future events, parameters and data choices. It is important to recognize that these models have significant limitations and their outputs are highly sensitive to assumptions and parameters. While consistent and standardized assumptions can be expected to settle over time, more technical work to develop and implement some of these tools is needed before they are incorporated into formal disclosures. The SEC’s proposal to require registrants using these tools to disclose “the financial impacts on the registrant’s business strategy under each scenario” with both “qualitative and quantitative information” and to disclose the details of registrants’ transition plans, in particular, would not be informative to investors and may result in confusing or misleading disclosures.

¹¹ SEC Proposed Rules The Enhancement and Standardization of Climate-Related Disclosures, at p 211.

Further, the SEC's proposal to require such disclosures only for registrants that elect to use these tools would have a disproportionate impact on early adopters and a chilling effect on companies currently considering them. Many AWC members are already using or beginning to explore the use of scenario analysis, transition planning, target setting, and internal carbon pricing and AWC understands from the industry's initial experience that the application of these tools can be particularly nuanced in the forestry context. Rather than penalize early adopters of these tools, the SEC should encourage registrants to explore their complexities without the concern of triggering new disclosure obligations.

The SEC may also have underestimated in particular the costs associated with scenario analysis disclosures for registrants. The SEC has based the proposed rules in part on the TCFD disclosure framework, which the SEC notes has been widely accepted, on the basis that this would help mitigate the compliance burden (and therefore the compliance costs) for registrants. However, recent TCFD Status Reports have indicated, for example, that the percentage of companies disclosing strategy resilience (which includes scenario analysis) is significantly lower than that of the other recommended TCFD disclosure topics. In other words, while companies are beginning to explore scenario analysis and similar tools, current reporting on scenario analysis is not well developed – and would therefore be costly to scale up – even among companies already following the TCFD framework.

AWC takes the position that its members who are registrants should not be required to include such speculative analysis in their SEC periodic reports. AWC prefers a principles-based, flexible approach to disclosures regarding these tools. Such an approach would continue to permit a variety of practices, tailored to the specifics of individual issuers. It would also facilitate SEC oversight by focusing the disclosure requirements on more established aspects of climate reporting, and reducing the likelihood that the SEC would need to update the rules in light of further developments in these areas. As these models evolve, some AWC members and other registrants may choose to report scenario analysis for a variety of reasons particular to their businesses and operations, or in response to specific requests from investors. While AWC recognizes and appreciates the SEC's confirmation that the liability safe harbor protections of the Private Securities Litigation Reform Act may be applicable to certain aspects of these disclosures, AWC urges the SEC to remove any prescriptive requirements to disclose information on scenario analysis, transition planning, target setting, or internal carbon pricing in registrants' SEC filings.

Sincerely,



Jackson Morrill
President & CEO