SOUTHSIDE BANCSHARES, INC.™

June 16, 2022

The Honorable Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: File Number S7-10-22 – Proposed Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors*

Dear Chairman Gensler:

Southside Bancshares, Inc. ("SBSI" or "Southside"), incorporated in Texas in 1982, is a bank holding company with approximately $7.12 billion in assets that owns 100% of Southside Bank, a Texas chartered state bank headquartered in Tyler, Texas that was formed in 1960.

Southside is a community-focused financial institution that offers a full range of financial services to individuals, businesses, municipal entities and nonprofit organizations in the communities that we serve. The primary market areas we serve are in East Texas, Southeast Texas, as well as the greater Fort Worth, Austin and Houston, Texas markets. Over two thirds of our 56 branches are located outside of major metropolitan markets, mostly in smaller or rural markets throughout East and Southeast Texas.

Southside appreciates the opportunity to respond to the Proposed Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors* ("Proposal"). We understand that climate change may expose us, as well as our customers, communities and investors, to certain climate-related risks, both physical and transition. We also understand that certain investors seek to understand the climate change related risks we face and the potential impact on their investment in our company and that the Securities and Exchange Commission (the "SEC" or "Commission") has an obligation to require disclosures of material and relevant risks. That said, the disclosures and requirements in this Proposal of highly detailed and complex climate-related information is an extraordinary leap into environmental policy that far exceeds that which has historically been considered material for investors to consider prior to making an informed investment decision. This Proposal provides a new definition of materiality and requires vast amounts of seemingly overarching data collection, both of which appear to elevate climate risk above all other risks that the Commission believes a reasonable investor should consider prior to an investment or voting determination.

As a financial institution, defining and quantifying climate change-related impacts on traditional bank risks is a relatively new and complex process, which will require significant investments in staffing, consultants, training, systems, modeling and data collections as well as challenges, to access and monitor climate-related risks as described in this Proposal.

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While efforts to reduce or eliminate greenhouse gas ("GHG") emissions are laudable, efforts of this magnitude should require appropriate legislative action, signed into law, and should not be directed or required using a regulatory framework where the SEC lacks a clear mandate.

We urge the Commission to consider the competitive advantage this Proposal might provide to countries like China and India, with some of the most egregious climate policies where they have demonstrated a complete lack of concern for the overall climate, over U.S. companies.

Southside respectfully urges the withdrawal of the Proposal in its current state and requests consideration for re-proposal based on the concerns brought forth herein.

Disclosure requirements must account for the size and complexity of the registrant and consider that cost of compliance is likely to bring harm to investors.

The Proposal must allow for scalability to the size and complexity of the reporting company. Large accelerated filer status encompasses an array of companies and financial institutions that are not equal in size, capabilities, expertise or financial means. For example, community banks under $10 billion in assets, such as Southside, will be subject to the same undertakings of the Proposal as the largest banks in the U.S. with over $3 trillion in assets, who have substantially more staff and means to implement the Proposal.

The Proposal introduces a very complex and costly compliance requirement and as such will ultimately, harm businesses and investors by increasing compliance costs and presenting disclosures with uncertain and immaterial information, that likely will not add the value intended. Through the Proposal's requirements, companies will be exposed to new litigation threats and litigation costs. The Commission must consider not only the substantial costs of compliance required through the Proposal but also litigation costs, as companies and investors will face harmful consequences from these costs.

The banking industry is unique among registrants as the industry is highly regulated, focusing on safety and soundness, which serves to protect all stakeholders including investors.

As a bank, we are highly regulated and are subject to supervision by regulatory agencies to protect all stakeholders. As a bank holding company under federal law, Southside is subject to regulation, supervision and examination by the Federal Reserve. In addition, under state law, as the parent company of a Texas-chartered state bank that is not a member of the Federal Reserve, Southside is subject to supervision and examination by the Texas Department of Banking ("TDB"). As a Texas-chartered state bank, Southside Bank is subject to regulation, supervision and examination by the TDB, as its chartering authority, and by the Federal Deposit Insurance Corporation ("FDIC"), as its primary federal regulator and deposit insurer.

The Proposal is a significant departure from current proposals by bank regulators. Both the Office of the Comptroller of the Currency and the FDIC have recently issued drafts targeting banks over $100 billion in assets regarding principles for climate-related financial risk management for large banks. The Commission should coordinate with bank regulators to avoid contradictory and unnecessary requirements that increase the costs and the burden of banks.

A new standard of materiality threatens to confuse investors.

The Proposal introduces a new concept or level of materiality by the Commission that conflicts with the long-held understanding of materiality as determined by the management of public companies that has formed the cornerstone for financial reporting and risk management disclosures to investors. Information disclosures that are not material may cloud or confuse investors. This Supreme Court mandated principle considers information material "if there is a **substantial likelihood** that a **reasonable investor** would consider it important when determining whether to buy or sell securities or how to vote."

The Proposal steers towards mandatory disclosures prescribed by regulators and away from disclosures based on management assessment of material risks. Standardizing disclosures based on the determination of regulators and not material risk identified by management would lead to harm to investors through both disclosure of irrelevant information that is not material or omission of material information. Management's determination of what is material to the company remains key to effectively communicate material information to investors.

Safe Harbors must be provided to all climate risk statements. The marketplace lacks expertise of climate-related experts.

The Proposal will invite new litigation against registrants, and as a result, a Safe Harbor is needed for all climate risk statements, and not just the proposed safe harbor for only Scope 3 disclosures, and the assessment of the effectiveness of the internal controls underlying the information for which statements are based.

Furthermore, due to the evolving nature of climate-related risk, there is limited availability of expertise in the current marketplace and no infrastructure for education and certification of climate risk or climate-related financial risk experts. The Proposal assumes the required number of individuals fully qualified to be considered "experts" in climate-related risks needed to assist registrants is immediately available for the large percentage of companies that have no current expertise. We are also concerned there is not a certification process for individuals to be considered experts in climate risk and the limited number of experts appear at this point to be self-identified experts in the field.

Scope 3 Financed Emissions information will be impracticable to obtain and will create adverse market effects through the anti-competitive nature of the Proposal.

The Proposal would require reporting significant levels of climate-related data, risk and strategies, not just for our financial institution but also for financed emissions, if material, within our Form 10-K filing.

Under the Proposal our community bank will not qualify as a "smaller reporting company". As a result, we will be required to report Scope 3 GHG information, if material. Under Scope 3, as a financial institution the only method to determine if the GHG information is material will be to go through the costly and challenging process of collecting, evaluating and calculating the GHG data of entities we finance. As a community bank this would involve gathering GHG information required to be disclosed, if material, from entities that borrow from Southside as well as the entities in which Southside has purchased securities. The Proposal fails to encompass any small business impact analysis on small business borrowers, especially in less metropolitan and more rural areas, like the markets Southside serves in East and Southeast Texas. We urge the Commission to consider that in most cases Southside will lack the legal authority to require these entities to disclose the information required by the Proposal during the legal term delineated in the agreement for these loans and securities. If at renewal or origination we were to seek to require a borrower to provide the required GHG information, many of these borrowers will likely seek financing through non-public financial institutions or other sources, which over time will cause significant harm to our current shareholder base due to the resulting anti-competitive nature of this Proposal on SEC-registered financial institutions.

Southside has a securities portfolio which consists primarily of U.S. Treasury notes, U.S. Agency mortgage-backed securities with thousands of single family homes financed, municipal securities and subordinated debt issued by other financial institutions. The overwhelming majority of our securities have maturities far in excess of the required dates in the Proposal for reporting the GHG information. Unless the U.S.

Government, its agencies and sponsored agencies, all municipal issuers and subordinated debt issuers publish the appropriate information at the individual security level, we are at a loss to know how we can obtain the required data.

We urge the Commission to consider the anti-competitive effect of this Proposal, the resulting harm to existing shareholders and how relevant this information would be to most reasonable investors, prior to making an informed investment decision.

Governance disclosures under the Proposal far surpass requirements for more relevant issues to issuers and present challenges to obtaining and retaining board and management talent.

Under the current Proposal, public registrants would be required to disclose specific board members and specific members of management responsible for the oversight of climate-related risk, along with a description of their climate-related expertise, their titles and frequency of their reporting to the board. With very limited expertise in the area of climate risk, obtaining board and management talent with climate-related expertise will present a significant challenge to many community banks such as Southside. Additionally, with the absence of a Safe Harbor for these individuals, members of the board and management will likely be resistant to assuming these risks on an individual basis.

Attestation requirements are premature and qualified attestation experts and methodologies will be difficult to obtain.

The attestation requirements in the Proposal are premature, without qualified providers and assurance methodologies.

Under the Proposal, a qualified attestation provider is required to have expertise. As previously mentioned, this is an emerging area without many, if any, who possess the knowledge and experience to be an expert. Under the current requirements and timeline, qualified attestation providers will lag behind the demand due to the time needed to develop industry experts and processes for certifying or otherwise confirming their expertise. In addition, the Proposal does not provide assurance standards for such consultants to follow. Climate-related assurance methodologies are still in development and far from mature.

It appears there is not a large-scale demand for assurance from investors to make informed investment decisions. Rather, the demand for such assurance appears to be brought forth by purported assurance providers who hope to benefit from the additional revenue.

The current compliance timeline is extremely aggressive and threatens the integrity of data and disclosures.

As mentioned previously, compliance with the Proposal will require a significant investment in staffing, training, accounting systems, modeling and data collection. As currently proposed, and based on the expectation of final SEC approval by the end of 2022, large accelerated filers would have only a few weeks to design and implement internal controls to identify all of the necessary reportable items and track them over the course of 2023 for potential inclusion in a footnote to their audited financial statements for the 2023 fiscal year. The Large Accelerated filer category consists of banks of widely differing asset sizes and complexity, and as such, not all have the financial resources or expertise for cost-effective timely compliance. Southside certainly does not.

In addition, climate-related principles, data collection, analysis and methodologies are still evolving and are not yet standardized across companies and industries. The uncertainty and potential unreliability of climate-related data and procedures could lead to disclosures which are incomplete or inaccurate, misleading investors and exposing companies to costly litigation. Information reported at this point would be highly inconsistent and of little use to a reasonable investor when comparing company disclosures. As such, the current compliance timeline poses a threat to standardization of methodologies for climate-related information which is imperative to the integrity of data and disclosures.

While some of the disclosures and assurance requirements of the Proposal would be phased in over time based on filer status, the phase-in requirements are meager at best and do not come close to the phased-in timeline allowed with certain other accounting pronouncements. For example, the Current Expected Credit Loss accounting standard ("CECL"), which was issued in 2016, at this time is still not adopted by all financial institutions. While the adoption of CECL was complex, the subject matter was highly relevant to our industry and did not require accounting and disclosures that so dramatically exceeded the expertise of our management or the availability of consultants and accounting systems to assist in the adoption and implementation. In addition, the data required by CECL was information that was readily accessible and did not present barriers to adoption. The required adoption of CECL, even for Large Accelerated registrants was not effective until January 1, 2020, nearly four years after final approval.

In a recent article published in the Harvard Law School Forum on Corporate Governance, the author stated that feedback from many public-company clients, with experience in reporting climate-related information, indicated the proposed compliance timeline is simply impossible to meet.[1] An extended timeline is necessary to ensure proper procedures and data collection are in place.

We urge the Commission to withdraw this Proposal and consider a climate proposal that is less far reaching, takes into consideration the climate-related information readily available today, and uses the current long-standing materiality standard that would inform, instead of confuse, a reasonable investor.

Thank you for your consideration of our comments.

Sincerely,

Lee R. Gibson
President and CEO

[1] Harvard Law School Forum on Corporate Governance - The SEC's Climate Proposal: Top Ten Points for Comment. Posted by Nick Grabar, Cleary Gottlieb Steen & Hamilton LLP, on Saturday June 11, 2022.