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Submitted Electronically

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Ms. Vanessa Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

RE: Release Nos. 33-11042; 34-94478; File No. S7-10-22; RIN 3235-AM87
Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Ladies and Gentlemen:

Morningstar welcomes the opportunity to comment on The Enhancement and Standardization of Climate-Related Disclosures for Investors, or Proposed Rule, recently published by the Securities and Exchange Commission, SEC or Commission.[1] Morningstar is a leading provider of independent investment research and has a long history of advocating for transparency in global markets.

Sustainable investing and understanding sustainable business practices are integral to Morningstar's mission of empowering investor success. In our response to the Proposed Rule, we draw from our experience evaluating environmental, social, and governance, or ESG, risks associated with equity issuers and pooled funds as well as our status as a Nasdaq-listed equity issuer. Through our Sustainalytics subsidiary, we track ESG data for individual companies and supply investors with ESG research and data, including the industry's first sustainability rating for funds, a global sustainable index family, and a large span of portfolio analytics that includes carbon metrics and product involvement data. Our acquisition and integration of the Sustainalytics business is a testament to our commitment in the area of sustainable investing and represents our view that investors can benefit from meaningful ESG insights and other nontraditional financial information.

This letter contains: 1) a summary of our views and 2) detailed answers to selected questions posed in the Proposed Rule, attached as Appendix A.

Executive Summary

Morningstar appreciates the Commission's intention to enhance and standardize disclosure of climate-related risks and opportunities by public companies. Climate risks have increasingly become material for many companies within various industries and, as such, disclosures in this area are financially material and a key aspect of investor decision-making.

To further facilitate the Commission's goal, we submit the following comments and suggestions:

1) Morningstar supports the Commission's Proposed Rule because we recognize that it will add depth and standardization to today's voluntary reporting, as mandated reporting on climate-related

[1] SEC. 2022. The Enhancement and Standardization of Climate-Related Disclosures for Investors. https://www federalregister.gov/documents/2022/04/11/2022-06342/the-enhancement-and-standardization-of-climate-related-disclosures-for-investors (Proposed Rule).

information will provide comprehensive, consistent, and comparable information, which supports informed investor decisions.

- To maximize comparability, we agree with the Commission that registrants disclose certain climate-related information under Regulation S-K and Regulation S-X, and we further encourage transitioning to the release of climate disclosures at the same time as annual financial filings in the registrant's annual report, while recognizing that this goal may not be achievable on day one and company-readiness for this temporal alignment needs to be monitored.
- Registrants can choose to prepare a separate "Sustainability Report" to incorporate by reference, but the Commission should ensure that registrants treat the reference as a supplement—not a replacement—for the required disclosures under Regulation S-K.
- In addition to the proposed disclosures, Morningstar would like to see climate-related governance information included in a registrant's proxy statement because we believe strong climate-related governance is simply good corporate governance.

2) We support the Commission in requiring the disclosure of climate-related risks.
    - We support the Commission's use of the Task Force on Climate-Related Financial Disclosures', or TCFD, terminology and definitions, and we encourage alignment with TCFD-based terminology and definitions as much as possible to maximize comparability, integration, and understanding of the new climate disclosures because the framework proposed by the TCFD has gained traction globally. The International Sustainability Standards Board, or ISSB, builds upon the TCFD framework as well in its recent Exposure Draft.[2]
    - Morningstar urges the Commission to go further in mandating disclosures related to a registrant's assets exposed to physical climate risk, as such data is important across economic sectors. While some narrative information about physical risk may be helpful, having access to the quantitative data underlying these narratives is especially important.
    - We ask that the Commission require disclosure about physical risk from a registrant, including a clear statement asserting when this risk is low, with an explanation as to why the registrant believes the risk to be low.
3) We concur with the Commission that registrants should be required to describe any analytical tools used to assess or support the impact of climate-related risks and resilience.
    - We support the Commission's approach to scenario analysis. Morningstar agrees with the Commission that scenario analysis should not be mandated for all registrants at this time.
4) We agree with the Commission that disclosures regarding board and management oversight of climate-related risks should be mandated. Additionally, disclosure of board and management oversight of climate-related opportunities should be mandated.
    - We would also like the Commission to mandate disclosure of how executive remuneration within existing discussion and analysis of incentive pay arrangements in companies' annual proxy statements reflect climate-related goals, including emissions targets.
5) We support mandated disclosure of a registrant's risk assessment process and any transition plans because this disclosure will help investors assess the registrant's resilience and preparedness in the face of climate-related physical and transition risk.

[2] ISSB. March 2022. Exposure Draft on Climate-Related Disclosures. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf (ISSB Exposure Draft).

- In requiring the disclosure of the risk assessment process, the Commission should encourage registrants to provide an organizational diagram so that investors may have an overview of a registrant's internal reporting line.
- The Commission should mandate reporting of the financing of transition plans and impacts on financial statements, as these disclosures serve as a signal of a company's ability to sustain needed transition investments in the event of volatile or recessionary periods.
- Furthermore, the Commission should request updated transition plan disclosures each fiscal year, including progress against targets.
- We view water risks as highly complex and we believe they should be thought of as more than just physical risks. We recommend embedding the disclosure of water risks in transition risks.

6) We support the disclosure of financial metrics, but we encourage the Commission to consider ways to improve the clarity of the disclosed metrics in the eyes of an average investor while containing the reporting burden on registrants.
    - There should be separate disclosures for transition-related risk and physical risk, with narrative and contextual information provided for both.
    - Expenditure metrics should be separated into capitalized versus expensed metrics, with the same threshold as the financial impact metrics.
    - The disclosure of financial estimates and assumptions are decision-useful for investors to evaluate the company's preparedness to address low-carbon transition and physical risk resilience.
7) We agree with the Commission that Scope 1 and Scope 2 greenhouse gas, or GHG, emissions should be disclosed by all registrants. We further agree with the Commission's Proposal to require that Scope 3 emissions only be disclosed by registrants with a Scope 3 emissions-reduction target, or by companies for which those emissions are material. The Commission should provide guidance on materiality for industry standards for firms to reference.
8) Since we rely directly on the quality of the information required by the proposed climate-related disclosures, we agree with the Commission's proposal regarding assurance.
    - Further, while we support voluntary disclosure of Scope 3 emissions, we believe that registrants with material Scope 3 emissions or with Scope 3 targets should be required to obtain assurance.
9) We support the Commission in requiring the disclosure of a registrant's progress against their own targets and goals as these are key to investors' understanding of how climate-related risks may impact the registrant's business operations and financial statements. Such disclosure also provides investors with information regarding how realistic the initial goals were and how aggressively and effectively registrants are pursuing those goals.
    - However, we recommend that the Commission require more specific information, such as whether the target is temperature aligned, or significant factors to understand the credibility and integrity of any offsets—such as assumptions about the permanence of the carbon offset.
10) We support the Commission in limiting the burden on smaller reporting companies, or SRCs, and asset-backed issuers.
    - We support the Commission's proposal to exempt SRCs from the Scope 3 emissions disclosure requirements. We agree with the Commission to have SRCs disclose Scope 1 and 2 emissions.
    - We support the Commission's proposal to exclude asset-backed issuers from the proposed rules. However, we encourage the Commission to promulgate, in due time, a separate rule requiring consistent disclosures from them.

11) To maximize efficiency, all of the disclosures proposed by the Commission, both narrative and quantitative, should be electronically tagged in eXtensible Business Reporting Language, or Inline XBRL.
12) As for compliance dates, we support the Commission's proposed timeline and would also be comfortable with the Commission adjusting deadlines based on a registrant's preparedness and give additional time, such as a year, to SRCs and to registrants that have not previously disclosed emissions data.

I. Morningstar supports the proposed climate-related disclosure framework.

We summarize our views on the overview on the climate-related disclosure below and describe them in further detail in our answers to questions 1-7.

A. Morningstar supports the Commission's proposed climate-related disclosures as an integrated part of a registrant's regular filing requirements.

As the Commission has recognized, the voluntary nature of the current climate-related information reporting scheme does not allow for ease of comparability, which harms investors. Snapshots of climate risk and carbon emissions are insufficient on their own for investors to evaluate the material financial risks a company faces due to climate change or a worldwide shift to low-carbon economies.

Investors benefit the most when relevant information about a registrant is readily accessible and can be easily found. We believe that the proposed climate-related disclosures should be integrated into existing Commission filings as much as possible. Therefore, Morningstar supports, as proposed, the Commission's requirement that registrants disclose certain climate-related information under Regulation S-K and Regulation S-X.

We further encourage the release of new climate disclosures at the same time as annual financial filings in the registrant's annual report. As discussed in our answer to question 5, Morningstar recognizes that such temporal alignment may take some time, perhaps beyond the current proposed compliance timeline. We cannot overstate the importance of temporal alignment of financial and material nonfinancial disclosures as it supports the integration of nonfinancial climate change metrics into investor decision-making. That said, we recognize that registrants may not be prepared for such temporal alignment on day one of the applicability date. We suggest that the Commission will have to monitor issuers for readiness, and it may be necessary to amend the rule to require climate disclosures to initially be submitted after financial disclosures for an interim period until temporal alignment can be achieved.

Regarding climate-related disclosures under Regulation S-K, we agree that registrants may choose to incorporate by reference, but the Commission should be sure to treat such references as supplements, not replacements. As further described in our answer to question 7, climate-related disclosures need not be limited to a registrant's annual report or registration statement. A separate yet accessible "sustainability report" could help investors understand the full scope of the climate-related effects on a public company. Such supplemental information is most helpful if in structured data format, and it should not replace the tagged data that will be part of the registrant's filing. Additionally, we encourage mandated disclosure of climate-related governance on proxy statements as such disclosure would signal to market participants—and the public—that good climate-related governance is in fact, good corporate governance.

B. We support TCFD-aligned climate-related disclosures.

Morningstar recognizes the TCFD framework as widely accepted and that it will likely be—if it is not already—a prevalent and useful framework for climate-related disclosures around the world. As discussed in further detail in our answer to question 3, we expect that alignment with the TCFD framework will facilitate the Commission's goal of eliciting climate-related disclosures that are complete, consistent, and comparable for investors. TCFD disclosure requirements align well with the needs of asset managers, institutional investors, and sustainability ratings organizations, and they bring focus to best practices for disclosures on strategy, governance, scenario analysis, and metrics and targets. Therefore, we strongly believe that TCFD-aligned disclosures will facilitate industry-by-industry material disclosures while simultaneously ensuring that key measures can be compared across companies, industries, and sectors. Such comparability has become increasingly critical as investors examine their exposure to climate change and carbon risk at a portfolio level.

The Commission should monitor the ongoing efforts of the ISSB to integrate and build upon voluntary reporting regimes such as the Sustainable Accounting Standards Board's, or SASB, climate-related, industry-based requirements. We further suggest that the Commission consider incorporating SASB standards into its climate disclosure guidance to elicit industry-specific, financially material metrics.

II. We support the Commission in requiring the disclosure of climate-related risks.

Morningstar supports the Commission in requiring the disclosure of climate risks, and we have some suggestions as to how the disclosures could be improved. We summarize our recommendations below. All of our analysis and recommendations on this topic can be found in our answers to questions 8-18.

A. We strongly urge the Commission to align disclosure requirements on climate-related risks with TCFD-based terminology and definitions as much as possible.

Morningstar views the Commission's ability to provide specific definitions as integral to the Commission's opportunity to elicit meaningful climate-related information. We believe that the degree of specificity the Commission provides will directly affect the usefulness of the disclosures that registrants provide. We support the Commissions effort to mirror TCFD-based terminology and definitions where possible—for example, "climate-related risks," "physical risks," "climate-related opportunities," "transition risks," "chronic risks." Only where the TCFD does not provide a definition should the Commission fill in those gaps. For instance, the Commission could define "short-term," "medium-term," and "long-term," to ensure that registrants provide data in a comparable manner. We also strongly encourage further defining "severe weather events and natural conditions."

B. We urge the Commission to go further in certain areas of disclosure concerning assets exposed to physical risk.

As outlined in our answers to questions 13 and 14, Morningstar would like to see the Commission go further in certain areas of disclosure concerning a registrant's assets affected by physical risks. These areas include disclosure of how acute and chronic risks faced by a company may affect one another, disclosure of assets in flood hazard areas, and disclosure of water stress affecting a registrant's value chain. While some narrative information may be helpful in understanding these reports, it is important that registrants disclose the quantitative data underlying these reports, as the quantitative data is more comparable and less subjective than qualitative discussion. We ask that when this physical risk is apparently low, the Commission require the registrant to include a statement saying that the particular physical risk is low, with a short explanation as to why the registrant believes it is low. Such a disclosure will fill in needed data points rather than having the risk be unknown. We describe our views on the disclosure of climate-related risk in further detail in our answers to questions 8-18.

III. We support and recommend modifications to the Commission's approach regarding the disclosure of the tools utilized in climate impact assessment.

We support the Commission's requirement for registrants to disclose scenario analysis as proposed, if used, and agree that it should not be mandatory for all registrants at this time. We summarize our views with respect to the use and disclosure of analytical tools below and detail them further in our answers to questions 19-30. Specifically, as we mention in our answers to questions 19-21, Morningstar strongly believes in the use of analytical tools to elicit decision-useful climate-related information for investors.

We view scenario analysis as an important analytical tool. Where a registrant chooses to use scenario analysis,[3] the Commission should require the registrant to discuss and describe the actual and potential impact of its material climate-related risks on its strategy, business model, and outlook. Effective scenario analysis will allow investors to 1) better assess the impact of climate-related risks on a registrant's business and consolidated financial statements, and 2) decide whether to support the resilience of the registrant's strategy, governance, and business model. Therefore, as described in our answer to question 30, we believe that some registrants should utilize scenario analysis in their climate-related disclosures.

We further recommend the use of more than one scenario, with one scenario being a worst case, so that the registrant discloses a range of potential risks and possible strategies to adapt. It is helpful for companies to specify *separately* which scenarios they applied to evaluate transition and physical risk and pathways. Registrants should seek reputable providers to conduct or assist with scenario analysis as needed, since it is highly technical. It may be advisable for the SEC to maintain an updatable list of recognized scenario models, such as—but not limited to—those published by the Intergovernmental Panel on Climate Change, or IPCC, the International Energy Agency, or IEA, or the Network for Greening the Financial System, or NGFS.

Our thoughts regarding other analytical tools can be found in our answers to questions 23, 24, and 26. Morningstar further recommends that the Commission require expanded disclosures regarding a registrant's activity to mitigate climate-related risks, more specific disclosures relating to the use of carbon offsets or renewable energy certificates, or RECs, and disclosure of a registrant's internal carbon price and the methodology used. This information will allow investors to assess a registrant's business strategy and model.

IV. The Commission should mandate disclosure regarding climate-related governance and oversight.

Information regarding climate-related governance and management reflects the extent to which management of climate-related risks and opportunities have become an integral part of business practices at a company. We describe our views on governance disclosures in further detail in our answers to questions 34-41.

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[3] The Carbon Disclosure Project, or CDP, has noted that as of March 2021, 54% of companies were already using scenario analysis. CDP. March 2021. "3 common pitfalls of using scenario analysis – and how to avoid them." https://www.cdp.net/en/articles/companies/3-common-pitfalls-companies-make-when-using-scenario-analysis-and-how-to-avoid-them (Common Pitfalls of Scenario Analysis).

As outlined in our answers to questions 34-37, Morningstar endorses mandated disclosure or information about a registrant's board, management, oversight, principal committees, and frequency of meetings. We recommend that the Commission require registrants to disclose whether a dedicated committee or committees with a mandate pertaining to the assessment of physical and transition risk exist. In the absence of such a body or bodies, registrants should identify which committees address sustainability and climate-related issues within the company and provide biographical information detailing the necessary climate and/or organizational-change-management expertise.

We also believe that the Commission should specifically require a registrant to disclose the connection between executive remuneration and the achievement or progress toward climate-related targets and goals, and we strongly encourage the disclosure of the board's oversight of and management's role in assessing and managing climate-related opportunities, as vague and voluntary disclosures have not provided investors with quality information.

V. We support the disclosure of a registrant's risk assessments and any transition plans.

We summarize our views on risk management disclosures below and further detail them in our answers to questions 42-51.

As mentioned in our answers to questions 42-44, Morningstar supports the Commission's proposal that a registrant describes its processes for identifying, assessing, and managing climate-related risks via the items that the Commission has identified. We believe that the disclosure of a company's process will help investors assess the company's preparedness in the face of climate-related risks. As we note in our answer to question 47, we believe that disclosure of how a registrant integrates its processes into its overall risk management system is essential to understanding the processes' effectiveness. We further recommend that registrants disclose an organizational diagram to provide an overview of the different areas and their reporting lines to executive management and board of directors. Registrants should also be required to disclose the third parties on which they rely for risk assessment because such disclosures would allow investors to assess the quality of advice a company receives when it comes to climate-related risk.

Morningstar supports the disclosure of transition plans, as outlined in our answers to questions 46-50. In eliciting more useful transition plan disclosure, we recommend that the Commission require disclosure of the financing of transition plans, such as disclosure of balance sheet strength and cash flow, and the ability to sustain investments during volatile or recessionary periods. We agree with the Commission and believe it is sufficient that registrants update transition plan disclosures each fiscal year with a description of the registrant's progress against identified targets. However, we recommend that the update include a standardized schedule or table for quantitative information. Any material changes in the interim—such as a sizable merger or acquisition, or a significant change to a company's targets—can be disclosed in quarterly reporting and subsequently integrated into the annual transition plan.

Morningstar believes that the role of water is highly complex, and the scope of water risks should be expanded beyond just physical risks. As explained in our answer to Question 47, multiple central banks already recognize that water risks are closely linked to transition risks.[4] Water risks should be mentioned explicitly alongside carbon risks. Given that water is embedded within energy, agriculture, healthcare, and other sectors, it is a medium of climate action and resilience. Water is also a medium of climate impact with over 90% of extreme weather events linked through, by, and with water. We also believe that water is more than just a risk; it provides tremendous value for human rights, economies, and maintaining ecosystems.

[4] NGFS. June 2020. "NGFS Climate Scenarios for central banks and supervisors." https://www ngfs net/sites/default/files/medias/documents/820184 ngfs scenarios final version v6.pdf (NGFS Climate Scenarios).

Water risk considerations lag other climate considerations, partly because these considerations are more localized and more complex.

VI. We support the proposed financial metrics, but we have several suggestions that may help elicit more decision-useful data for investors.

Morningstar's recommendations in this section reflect our objective of containing registrants' reporting burden while simultaneously ensuring that investors receive material information on financial risks. We summarize our recommendations below and outline them in further detail in our answers to questions 52-88.

A. Morningstar encourages the Commission to require registrants to provide contextual information, including a description of significant inputs and assumptions used in calculating the specified metrics.

The usefulness of standardized reporting is itself predicated on both the regulation and veracity of how exactly emissions data is gathered, measured, or in the case of Scope 3 emissions, estimated.

Morningstar recognizes the potential for disclosures to differ between consolidation for emissions reporting (such as under the GHG Protocol) and SEC financial reporting. We encourage the Commission to require registrants to provide an explanation of such differences if a conflict exists between emissions reporting and SEC financial reporting. We also believe that the Commission should require such metrics to be calculated at a reportable segment level when the registrant has more than one reportable segment. We expect such information to be useful to investors and could provide greater comparability across registrants with comparable and overlapping business segments and geographies. Investors could also benefit from emissions data from an asset-by-asset or project-by-project basis, if attainable.

We recommend that climate-related risks and physical risks be disclosed separately with clear indication as to which category the risk falls into, as well as whether that risk is acute or chronic. We further recommend that a narrative should be added to discuss material risks and/or compounding factors, and think that addressing impacts from, and assumptions underlying, a scenario analysis would be beneficial.

We support the Commission's proposal requiring the disclosure of the financial statement metrics in a note to the registrants' audited financial statements. Reference to any other source must be one that lists information consistently. The reporting date should be the same as the financial information.

B. Morningstar supports the Commission in mandating disclosure of impact from climate-related opportunities.

Disclosure of the impact from climate-related opportunities is consistent with the TCFD framework and contributes to understanding strategic or competitive advantages that a company may have in transitioning to a low-carbon economy and in terms of furthering physical risk resilience. However, while we believe that the impact from climate-related events and transition activities can yield decision-useful information for investors, we also recognize that a potential risk exists for an added disclosure burden of information that will not be materially useful to investors. As proposed, this approach potentially discourages companies from disclosing impacts from climate opportunities if these bring a company across the disclosure threshold. Thus, such opportunities should not impact the reporting relevant for the disclosure thresholds. Morningstar notes that the examples provided of line items (such as cost of sales, insured losses, and asset carrying amounts) include subtotals (like operating cash flow). All registrants should disclose their methodology for how they assessed their risk and include third-party verification of a registrant's claims that it fell below the reporting threshold.

To avoid any confusion or doubt, we recommend that registrants provide separate quantitative disclosure for climate-related events and transition activities. In response to question 65,[5] we do not object to using absolute values as long as registrants do not net these values against one another. Fundamentally, disclosure of absolute values should allow investors to distinguish between negative impacts (such as severe weather, regulatory changes) and positive impacts (such as mitigation, resilience, and opportunities). Further, we do not view the actual percentage threshold—whether it be one, three, or five—as significant as the need for a consistent reporting threshold. We believe that any of the alternatives being considered in question 66 are suitable reporting thresholds. For each line item, we recommend having separate lines for climate-related events and transition activities, to ensure that physical and transition related signals can be analyzed independently of one another.

We agree with the Commission's proposal to require registrants to disclose changes to the cost of capital and the underlying assumptions resulting from the climate-related events as such disclosures would be very helpful to elicit decision-useful information for investors. However, given the sensitive nature of this information, we recommend that the company publish them at its discretion.

The proposed examples in the financial impact metrics are helpful but we recommend providing additional written examples of reporting on impairments and decommissioning, related to the line-item examples. We recommend separate lines for physical risks and transition risks.

C. Expenditure metrics could be made more precise.

Morningstar believes that the expenditure metrics should be separated into capitalized versus expensed metrics, while applying the same threshold as for impact metrics in order to promote consistency in reporting. These metrics should be subject to third-party verification. Disclosure of material capitalized and expensed amounts would be helpful and may be provided in a supplement, which would integrate impact and expenditure metrics to avoid overlap, and separated into physical versus transition-related expenditures. A narrative would also be useful for understanding material line items.

To promote clarity, we recommend that the Commission require separate disclosures of expenditure incurred toward material climate events and transition activities. While the proposed terms and examples used in the expenditure metrics are helpful, the examples could include specificity around a few activities or events that demonstrate the difference between capitalized and expensed items rather than being referred to as "Event D, Activity E" and so on.[6]

D. We support the disclosure of financial estimates and assumptions.

We support the Commission's requirement as we believe that disclosure of financial estimates and assumptions is valuable. Investors would use this information to evaluate the company's preparedness to address low-carbon transition and physical risk resilience. Assumptions may extend to naming scenario analyses and third-party data sources or assessments. The assumptions of greatest interest are those that have a material effect on the overall financial performance and outlook of the company.

We believe that disclosure of material changes in estimates is useful. Major events resulting in material disclosure changes should be reported in the quarterly period where they occur, and annually otherwise. We recommend that the company disclose what it considers a material change.

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[5] Proposed Rule, P. 21369.
[6] Proposed Rule, P. 21370.

VII. We support the Commission's proposal to require disclosure of GHG emissions.

Morningstar understands that carbon emissions are a globally systemic issue. Uncontrolled and increasing GHG emissions are a driver of global climate change. As a result, natural cycles on which the economy and society depend have been increasingly—and more frequently—interrupted, which in turn has resulted in more frequent extreme events. Understanding how companies minimize long-term risks associated with traditional business models while transitioning to a low-carbon future increasingly informs investors' investment and voting decisions. We summarize our views and recommendations on GHG emissions disclosure below and further outline them in our answers to questions 94-112.

We believe that GHG emissions should be disclosed both in the aggregate, per scope, and on a disaggregated basis for each type of greenhouse gas included in the proposed definition. As indicated by the Commission,[7] measuring the constituent greenhouse gases is a necessary step in calculating a registrant's total GHG emissions per scope and can be disclosed irrespective of the reporting regime. We recommend that the Commission follow the GHG Protocol when defining "greenhouse gases," as this is the global standard. The Commission should consider using a streamlined process to amend disclosure requirements if the GHG Protocol subsequently considered additional gases.

We recommend that a registrant disclose both its total Scope 1 emissions and Scope 2 emissions on an annual basis, as proposed.

We concur with the Commission that—at a minimum—all companies with a Scope 3 emissions reduction target must disclose their Scope 3 information, as well as companies for which those emissions are material. In order to set some standard regarding what level of Scope 3 emissions is material, we encourage the Commission to provide guidance as to what industry standards firms can look to for materiality thresholds for their industry, such as SASB or evolving international frameworks. We note in its Exposure Draft on Climate-Related Disclosures, the ISSB refers to the SASB standards for industry-specific disclosures.[8] As a result, Morningstar anticipates that the SASB standards—which already identify when Scope 3 emissions are deemed financially material—will become an integral part of the ISSB climate standard. Looking to these standards should allow the Commission to mitigate the risk of abusive use of materiality judgment while ensuring a minimum set of standardized data accessible to investors. We also encourage disclosure of quantified and narrative information on how accelerated and large accelerated companies work with their value chains to reduce or avoid upstream and/or downstream emissions.

We further support the Commission's requirement of disclosure of GHG intensity, and such disclosures should be required as proposed. We believe that disclosure should be expressed in terms of metric tons of carbon dioxide equivalent, or CO_2e, per unit of revenue and production, or another industry-specific measure (such as data-processing capacity). The required intensity metrics should be consistent for each industry.

Scope 1, Scope 2, and Scope 3 emissions should be calculated at a company's fiscal year-end, as proposed. We recommend that companies provide emissions data for the most recently completed year and corresponding historical fiscal years, as proposed.

Morningstar recognizes the potential for streamlining emissions reporting to financial reporting (for example, under Generally Accepted Accounting Principles, or GAAP), in SEC financial reporting. Morningstar observes that the GHG Protocol may be applied more widely globally. Discrepancies in the two protocols may potentially impact reported emissions and expenditure metrics. Morningstar therefore

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[7] Proposed Rule, P. 21375.
[8] ISSB Exposure Draft.

encourages further guidance by the SEC on how to address or report any material discrepancies and their impacts, if any, on disclosed GHG emissions and financial metrics.

Morningstar observes that the GHG Protocol may be applied more widely globally. Since large accelerated and accelerated companies often provide emissions reporting in accordance with the GHG Protocol, Morningstar suggests, in addition to GAAP disclosures, the Commission could provide companies with the option to include non-GAAP Scope 1, Scope 2 and Scope 3 total emissions in the financial statement (in a non-GAAP section), detailing the non-GAAP consolidation approach and/or providing a statement if there are material deviations between the two types of disclosures. This gives investors the opportunity for gauging and investigating material differences.

VIII. We support and encourage the Commission to require a registrant to provide attestation of its Scope 1 and Scope 2 emissions disclosure.

We further detail our comments and suggestions on attestation in our answers to questions 136-166. As we specifically state in our answer to question 135, we agree with the Commission's proposal to require accelerated and large accelerated filers to obtain attestation reports covering their Scope 1 and Scope 2 emission disclosures. We strongly encourage assurance of the metrics in order to improve the overall quality of reporting.

As proposed, we agree with the Commission that the Commission require assurance 1) for accelerated filers and large accelerated filers, 2) with respect to Scope 1 and Scope 2 emissions, and 3) with an initial transition period for limited assurance and a subsequent transition period for reasonable assurance, as proposed.

Morningstar notes that it is not uncommon for accelerated and large accelerated companies to have limited assurance in place already, and the Commission should encourage those companies to work toward obtaining reasonable assurance or disclose a reason for not doing so. Companies that are newer to GHG emissions disclosure may require more time to achieve limited assurance of their attestations.

Morningstar considers emissions intensity and absolute emissions to work well in tandem: Emissions intensity is impervious to economic fluctuations, which can cause variation in absolute emissions for reasons unrelated to transition efforts. Meanwhile, absolute emissions will capture company expansion that, at aggressive levels, may materially curtail emissions reductions stemming from improvements to emissions intensity. We therefore advise attestation of GHG intensity, as proposed.

Morningstar further supports the Commission's proposal of making Scope 3 disclosure voluntary, yet we strongly recommend registrants with material Scope 3 emissions or Scope 3 targets to obtain assurance. Morningstar recognizes that Scope 3 disclosure and accountability are becoming an investor expectation vis-à-vis the largest and leading companies globally and corresponds to the TCFD's goals of documenting risks and opportunities. Transparency with respect to Scope 3 reporting can aid companies in reducing emissions across their value chain and help investors in understanding a company's progress, while allowing for more effective resilience and planning tied to physical risk. If the Commission required the registrant to provide an attestation report covering Scope 3 emissions disclosure, then such a report should be divided into upstream and downstream disclosure, in accordance with the GHG Protocol. We recommend that the Commission require registrants to obtain, at a minimum, limited assurance for such reports.

Further, we believe that the Commission should define terms that may already be generally understood in the marketplace. To clarify expectations, it would also be useful if the Commission provided guidance explaining the differences between the three levels of assurance (GHG disclosure, limited assurance, and reasonable assurance) and the steps required to move from one level to the next.

We agree with the Commission that the assurance provider should be independent and an expert, with no conflicts of interest.

IX. Morningstar supports the disclosure of progress toward targets related to the reduction of GHG emissions.

Morningstar believes that it is critically important that the Commission compel issuers not only to establish clear metrics and targets for managing climate risks and opportunities, but to disclose progress against these metrics as well. Without these disclosures, investors will find it difficult to evaluate a company's progress in executing its climate-related strategies. We summarize our thoughts here and describe them further in our answers to questions 168-173.

We recommend that the Commission require registrants to disclose targets related to the reduction of GHG emissions, as proposed. As further detailed in our answers to questions 168-173, we believe that in its targets and goals disclosures, a registrant should describe the following: the unit of measurement; whether the target is absolute and/or intensity based; the baseline, time horizon, alignment with climate-related treaty, law, regulation, policy, or organization; interim targets and disclosure of how the registrant intends to meet its climate-related targets or goals, including energy efficiency, lower carbon products; carbon offsets or RECs; and carbon removal or storage. We suggest that accelerated or large accelerated companies set a target to have Tier 1 suppliers set a target as well. Disclosures in standardized charts and tables would be helpful, as would standardized placement in reporting.

In addition to the proposed requirements outlined in question 169,[9] Morningstar recommends that a registrant disclose whether the target is temperature aligned, to which estimated temperature pathway its targets align, and which scenario or sector pathway has been used to determine alignment. The Commission could also provide a suggested list of standards on which to base targets, which could include standards like those developed by the Science Based Targets initiative, or SBTi, or other standards developed by industry bodies. Additionally, we encourage the Commission to monitor for the development of science-based water targets. As for disclosures of targets relating to the use of carbon offsets or RECs, in addition to what has been proposed, registrants may also choose to disclose whether the offset has been designed for users to understand the credibility and integrity of the offsets (for example, assumptions about the permanence of the carbon offset). The company's process for monitoring offsets and mitigating risks of reduced impact on emissions reductions (such as forest land exposure to wildfires) would be useful as well.

X. We support maximizing the reach of the Commission's proposal while limiting the burden of reporting on SRCs and asset-backed issuers.

As described in our answer to question 175, Morningstar supports the Commission's proposal to exempt SRCs from the Scope 3 emissions disclosure requirements. We agree with the Commission to have SRCs disclose Scope 1 and 2 emissions.

As discussed in our answer to question 182, Morningstar also supports the Commission in excluding asset-backed issuers from this rule. However, Morningstar believes all financial and nonfinancial corporations should be expected to provide consistent climate-related disclosures with respect to their equity or debt (or debtlike) issuances. We urge the Commission to address the gap in disclosure for asset-backed issuers in a separate rule.

[9] Proposed Rule, P. 21407.

XI. We support the Commission's proposed requirement that registrants tag climate-related disclosures in Inline XBRL.

To increase efficiency and comparability, Morningstar supports the Commission's proposed requirement that registrants electronically tag both narrative and quantitative climate-related disclosures in Inline XBRL, as described further in our answer to questions 190-193. We believe that Inline XBRL is the optimal format as it enables efficient parsing of data while the data is observable within context. Further, the machine-readable format of Inline XBRL will increase efficiencies in capital markets. As new types of information, like GHG emissions and other ESG-related disclosures, become more relevant, providing an efficient way for data providers, researchers, and investors to ingest and analyze this data will allow for an increased and faster flow of relevant, digestible information throughout capital markets.

XII. We encourage the Commission to consider company preparedness when determining compliance dates and deadlines.

As outlined in our answer to question 197, Morningstar encourages the Commission to consider basing compliance dates and deadlines on company preparedness, rather than solely on issuer size and revenue. Looking at the present data, we find that current disclosures vary in their standardization and quality, reinforcing the need for consistent regulation. Clearly, some companies are more prepared than others as they have already been disclosing these emissions. Thus, while we support the current Commission timeline, we would also be comfortable with the Commission giving more time to SRCs and to companies that have not previously disclosed greenhouse gas emissions, perhaps by extending the current timeline by an additional year for these groups. Additionally, we note that accelerated filers and large accelerated filers will need information about the Scope 1 and Scope 2 emissions of companies in their value chains, some of which may be SRCs or private companies, in order to calculate their Scope 3 emissions. The implication of such differences in compliance timelines is that the Commission may have to make allowances for companies required to disclose Scope 3 emissions.

Conclusion

In summary, we support the Commission's goals of requiring issuers to disclose more information about climate-related risks. Morningstar views these climate-related disclosures as one component of a broader set of ESG disclosures, as such ESG factors are increasingly a core investment theme for a growing number of investors. A broader level of ESG disclosures will become more and more imperative to minimize climate risks and to maximize investor protection in the marketplace. We encourage the Commission to utilize the building-blocks approach in requiring climate-related disclosures first and broader ESG disclosures later on. We have summarized our views above and answer some specific questions from the Proposed Rule in Appendix A.

Morningstar thanks the Commission for the opportunity to comment on the Proposed Rule. We would be pleased to engage with the Commission on an ongoing basis, leveraging our global organization of experts operating in multiple jurisdictions. Should you wish to discuss these and other comments, please do not hesitate to contact either of us as indicated below:

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Sincerely,

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<u>Appendix A: Selected Responses to SEC questions on The Enhancement and Standardization of Climate-Related Disclosures</u>

A. Overview of the Climate-Related Disclosure Framework

1. Should we add a new subpart to Regulation S-K and a new article to Regulation S-X that would require a registrant to disclose certain climate-related information, as proposed? Would including the climate-related disclosure in Regulation S-K and Regulation S-X facilitate the presentation of climate information as part of a registrant's regular business reporting? Should we instead place the climate-related disclosure requirements in a new regulation or report? Are there certain proposed provisions, such as GHG emissions disclosure requirements, that would be more appropriate under Regulation S-X than Regulation S-K?

Morningstar supports, as proposed, the Commission's requirement that registrants disclose certain climate-related information under Regulation S-K and Regulation S-X. We believe that disclosure of climate-related risks and opportunities in these existing regulations will further the Commission's goal of eliciting climate information as part of a registrant's regular business reporting, whereas a new stand-alone regulation or report would interfere with investors' comparability of climate-related disclosures alongside other relevant company financial and nonfinancial information. While we recognize that temporal alignment may not be possible on day one, we believe that investors must receive nonfinancial climate disclosures that are temporally aligned with financial disclosures since such disclosure will aid in the integration of nonfinancial climate change metrics into the investment decision-making process. With this in mind we encourage the Commission to monitor industry readiness for temporal alignment of the climate-related information and financial information. In time, we expect such information to be filed concurrently, but we appreciate that initially climate disclosures will be filed subsequent to financial disclosures with a potential time gap of a few months to a year.

With respect to the reporting of particular items, as a practical matter, Morningstar believes that scenario analysis to explain how a company anticipates addressing climate risks would be more appropriately disclosed in the Risk Factors discussion as required by Regulation S-K, with risks and opportunities able to be discussed in a management discussion and analysis section.

2. If adopted, how will investors utilize the disclosures contemplated in this release to assess climate-related risks? How will investors use the information to assess the physical effects and related financial impacts from climate-related events? How will investors use the information to assess risks associated with a transition to a lower carbon economy?

Investors increasingly recognize the risks posed by climate change, which is now widely acknowledged as a large systemic risk that has affected, and will continue to impact, the global economy. Climate-related risks range from physical effects of global warming to the low-carbon transition that governments and businesses around the world are undertaking in an effort to mitigate the worst effects of global warming. As such, climate and carbon risk has become material within many industries and publicly traded companies and are thus material to the investment decision-making process. Investors consider climate-related issues alongside multiple other data points and information that go into the investment decision-making process. Investors are increasingly taking a leading role in sustainable investing where they emphasize sustainable investment approaches as central to the investment process. Since investors typically do not know the full extent of a company's exposure to climate-related risks, mandated and timely disclosure about climate and carbon risks as well as water-related risks help investors assess, plan, and make better decisions regarding their investments.

In particular, the Commission should facilitate disclosure by public companies of information about material climate-related water issues. Physical risks result from the incidence and increasing severity of extreme acute weather events, the majority of which are water-related, such as hurricanes, droughts, floods, and cyclones. Other chronic impacts entail higher temperatures, sea-level rise, or heat waves. These events are a natural part of the world's weather cycle, but climate change exacerbates them and causes long-term shifts in climate patterns. Increasing competition for water, coupled with growing population, food and energy demand, weak regulation, and the fact that 80% of wastewater enters already-strained freshwater resources untreated are all financially material concerns for companies.[10] Given that water is also a human right and provides essential ecosystem services, companies' social license to operate also poses regulatory and reputational risks across various asset classes. Financial consequences include reduced revenue from decreased production capacity and decreases in revenue, as well as increased costs from negative impacts on workforce, supply chain, water resources, local infrastructure, and capital.

In addition to physical risks, climate change also brings with it transition risk, or carbon risk, which addresses how vulnerable a company is to the transition away from a fossil-fuel-based economy toward a low-carbon economy. Examples of specific carbon risks include policy and legal regulations limiting carbon emissions, pressure on firms to align their strategies with global regulation, switching costs to new technologies, and changing consumer preferences.

Morningstar supports mandating climate-related disclosures when they are financially material to a registrant, inclusive of Scope 1, 2, and 3 GHG emissions, as we believe this level of required transparency will help investors make more informed decisions around climate change. To further provide useful, financially material disclosures, the Commission should compel registrants not only to establish clear metrics and targets for managing climate risks and opportunities, but also to disclose progress against such metrics. Such disclosures will help investors understand how resilient a company's business model is under likely climate scenarios and can help investors monitor the company's progress and effort in executing its strategies. Further, climate governance disclosures will allow an investor to evaluate how well prepared the senior leadership of a company is in ensuring that the company remains competitive as the broader national and global economy transitions to net-zero emissions.

3. **Should we model the Commission's climate-related disclosure framework in part on the framework recommended by the TCFD, as proposed? Would alignment with the TCFD help elicit climate-related disclosures that are consistent, comparable, and reliable for investors? Would alignment with the TCFD framework help mitigate the reporting burden for issuers and facilitate understanding of climate-related information by investors because the framework is widely used by companies in the United States and around the world? Are there aspects of the TCFD framework that we should not adopt? Should we instead adopt rules that are based on a different third-party framework? If so, which framework? Should we base the rules on something other than an existing third-party framework?**

[10] United Nations. 2017. "The United Nations World Water Development Report 2017: Wastewater, The Untapped Resource." https://wedocs.unep.org/handle/20.500.11822/20448.

Morningstar encourages the Commission to model its climate-related disclosure framework on the TCFD, which has gained traction as a prevalent and useful framework for climate-related disclosures. Morningstar expects that alignment with the TCFD will facilitate the Commission's goal of eliciting climate-related disclosures that are complete, consistent, and comparable—and therefore decision-useful—for investors. The Commission should also monitor the ongoing efforts of the ISSB to integrate and build upon voluntary reporting regimes such as SASB's climate-related, industry-based requirements.

As the Commission notes, the TCFD's recommendations have been adopted by, and incorporated into, other voluntary climate disclosure frameworks such as the CDP, Global Reporting Initiative, Climate Disclosure Standards Board, and SASB frameworks. The Commission furthermore notes that the TCFD has formed the framework for the Prototype that the International Financial Reporting Standards Foundation provided to the ISSB as a starting point for its standard setting initiative. In addition, TCFD recommendations form the basis upon which the ISSB is building its climate-related disclosures for the capital markets, as represented by its proposed exposure draft on climate-related disclosure requirements.[11]

The TCFD framework is effective both in terms of depth and breadth as it calls for sophisticated examination of risks. TCFD disclosure requirements align well with the needs of sustainability ratings organizations, asset managers, and institutional investors, and they bring focus to best practices for disclosures on strategy, governance, scenario analysis, and metrics and targets. These disclosures should account for industry-by-industry materiality, while simultaneously ensuring that key measures can be compared across companies, industries, and sectors. Such comparability has become increasingly critical as investors examine their exposure to climate change and carbon risk at a portfolio level.

While the TCFD framework focuses on a corporate reporting standard for cross-industry metrics, the SASB standards offer industry-specific, financially material metrics (including a climate-risk technical bulletin), and an approach to be embedded into the ISSB's standards development process. A mutually reinforcing framework of investor-focused reporting initiatives will aid institutional investors as they consider climate-related risks and management plans in areas such as issuer emissions, emissions trends, regulatory changes on emissions, technological innovation, market trends, physical risks, reputational impacts, governance, strategy, and opportunities.

Exhibit 1 below quantifies the extent to which TCFD-aligned disclosures are already available in many corporate disclosures. The exhibit shows the average strength of disclosures on three TCFD-aligned indicators. The strength of the disclosure is based on the average number of criteria disclosed for each indicator. However, while the exhibit reveals the quantity of information, we caution that issuers disclose data of varying quality.

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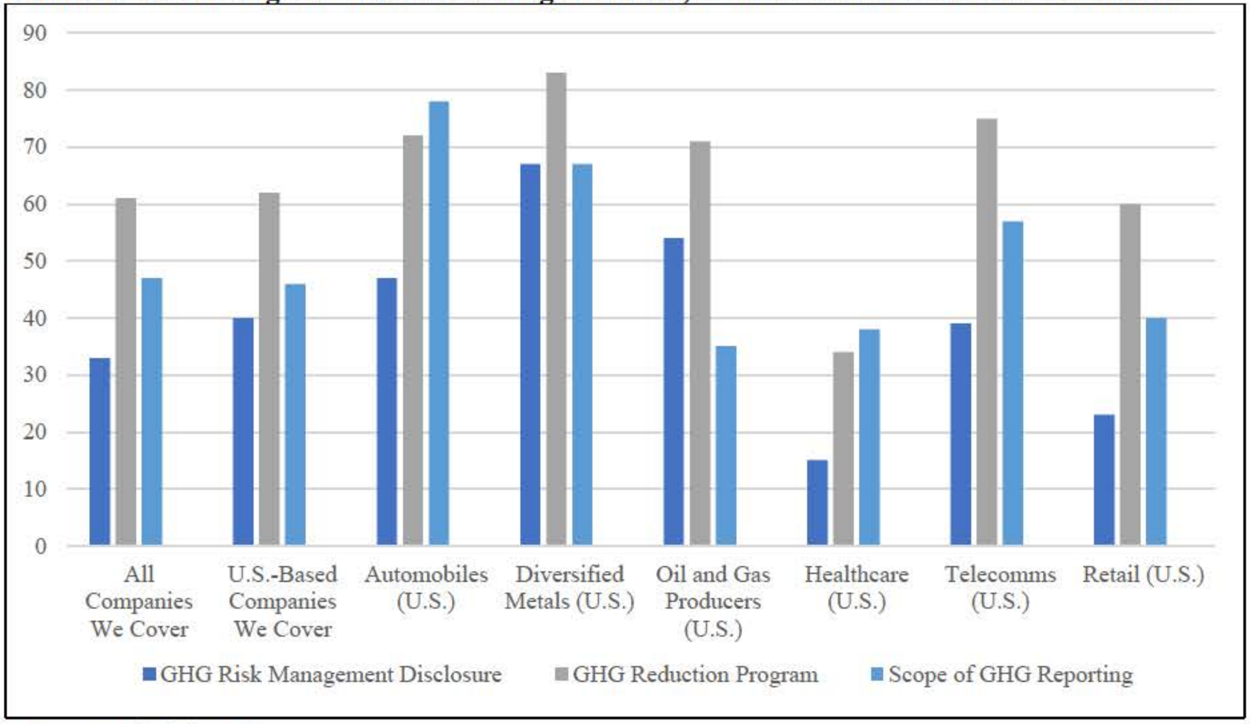
[11] ISSB Exposure Draft.

Exhibit 1: TCFD-Aligned Disclosure Strength Abroad, in the U.S. and in Select U.S. Industries



Source: Sustainalytics Data.
Note: These disclosures are based on a Sustainalytics universe of issuers that face material ESG risk.

4. **Do our current reporting requirements yield adequate and sufficient information regarding climate-related risks to allow investors to make informed decisions? In lieu of, or in addition to the proposed amendments, should we provide updated guidance on how our existing rules may elicit better disclosure about climate-related risks?**

Morningstar does not believe that the Commission's current reporting requirements have yielded adequate, let alone sufficient, information regarding climate-related risks, and as a result, investors struggle to make informed investment and voting decisions. While corporate disclosure of climate-related information is trending upward, progress in this area will remain fragmented and haphazard as long as it remains voluntary. As the Commission has recognized, voluntary disclosures have the additional adverse impact of allowing companies to disclose the good and omit or downplay the challenges.

5. **Should we require a registrant to present the climate-related disclosure in an appropriately captioned, separate part of the registration statement or annual report, as proposed? Should this disclosure instead be presented as part of the registrant's MD&A?**

We support the Commission's proposal to require the release of new climate disclosures at the same time as annual financial filings in the registrant's annual report. We recognize that temporal alignment may take time and that the Commission may need to transition to filings where registrants disclose climate information along with company financials. We believe that the industry is moving toward this alignment, and we encourage the Commission to further such alignment while monitoring industry capabilities to allow the transition to fit industry needs. If, in the short term, temporal alignment is not possible and climate data has to be filed later than financial data, we recommend that the Commission be clear in its expectation and facilitation of a movement toward full alignment in the future on an implementable timeline.

Such annual temporal alignment of financial and material nonfinancial information in the form of climate change disclosures is the best way, we believe, to help investors integrate nonfinancial climate change metrics into their decision-making. This alignment also supports the notion of integrated reporting—which many framework providers view as the future of nonfinancial disclosure—closely aligning this detail with financial metrics. Having said this, we suggest that the Commission require registrants to disclose transition and physical risk information in their own, separate sections of filings to help investors in understanding the information.

Currently, a lack of clear disclosure standards for the timing of "sustainability reports," which is the primary source for emissions data, greatly hinders investor knowledge. For example, some registrants released 2021 reports—detailing 2020 data—as late as November 2021. It would be better for investors if the timing of sustainability reports were closer aligned to the timing of annual reports. If contemporaneous filing is too burdensome, giving companies extra time, such as an extra quarter, to file sustainability information in the interim (until temporal alignment is achieved) could be a workable solution.

6. **Should we permit a registrant to incorporate by reference some of the climate-related disclosure from other parts of the registration statement or annual report, as proposed? Should we permit a registrant to incorporate by reference climate-related disclosure that appears in a sustainability report if the registrant includes the incorporated by referenced disclosure as an exhibit to the registration statement or annual report? Are there some climate-related disclosure items, such as GHG emissions data, that we should not permit a registrant to incorporate by reference? Would requiring a registrant to include all of the proposed climate-related disclosures in a separate, appropriately captioned section, while precluding a registrant from incorporating by reference some or all of the climate-related disclosures, promote comparability and ease of use of the climate-related information for investors?**

We believe that any incorporation by reference to climate-related disclosure from other parts of the registration statement, annual report, or sustainability report, should be treated as supplements—not replacements—of meaningful climate-related information. Such documents would be most helpful to investors if they are submitted in Inline XBRL format. However, unless the Commission requires that incorporated references be structured in Inline XBRL format, we stress that such references should not be used to replace the standardized disclosures within the business filings.

7. **Should we permit a registrant to provide certain of the proposed climate-related disclosures in Commission filings other than the annual report or registration statement? For example, should we permit a registrant to provide information about board and management oversight of climate-related risks in its proxy statement?**

Morningstar believes that the Commission need not limit climate-related disclosures to a registrant's annual report or registration statement. For example, a separate but comprehensive sustainability report would likely increase accessibility—and as a result, comparability—of climate-related information since investors would have the necessary disclosures in one document. This would be most helpful if such a filing is structured through Inline XBRL.

We further urge that the Commission not just permit, but mandate, that a registrant provide information about board and management oversight of climate-related risks in its proxy statement. We believe that climate-related governance is important to the investor decision-making process—which includes investor voting—because we view climate governance as an integral part of best practices and good corporate governance as a whole.

B. Disclosure of Climate-Related Risk

8. Should we require a registrant to disclose any climate-related risks that are 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, as proposed? If so, should we specify a particular time period, or minimum or maximum range of years, for "short," "medium," and "long term?" For example, should we define short term as 1 year, 1-3 years, or 1-5 years? Should we define medium term as 5-10 years, 5-15 years, or 5-20 years? Should we define long-term as 10-20 years, 20-30 years, or 30-50 years? Are there other possible years or ranges of years that we should consider as the definitions of short, medium, and long term? What, if any, are the benefits to leaving those terms undefined? What, if any, are the concerns to leaving those terms undefined? Would the proposed provision requiring a registrant to specify what it means by the short, medium, and long term mitigate any such concerns?

Morningstar supports the proposal to require a registrant to disclose any climate-related risks that are reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements. While some narrative information could help investors understand these risks, it is important that registrants also provide the quantitative data underlying these reports. The underlying quantitative data is more comparable and could better help investors understand the underlying risks. Further, Morningstar strongly urges the Commission to specify a particular time period, or minimum or maximum range of years, for "short," "medium," and "long term." We believe that such definitions will provide uniformity and standardization of the data that registrants provide, which, in turn, will assist comparability for investors. For instance, the Commission could formulate definitions consistent with the European Financial Reporting Advocacy Group which has defined short term as up to five years from the reporting year, medium as between five and 10 years from the reporting year, and long term as more than 10 years from the reporting year but before 2050.[12] If such time frames are not feasible to set uniformly, then Morningstar encourages setting them at the industry level.

9. Should we define "climate-related risks" to mean 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 proposed? Should we define climate-related risks to include both physical and transition risks, as proposed? Should we define physical risks to

[12] European Financial Reporting Advisory Group. April 2022. Exposure Draft: ESRS E1 Climate Change. https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_E1.pdf. Note that we are referencing only one of ESRS's definitions for these time periods.

include both acute and chronic risks and define each of those risks, as proposed? Should we define transition risks, as proposed? Are there any aspects of the definitions of climate-related risks, physical risks, acute risks, chronic risks, and transition risks that we should revise? Are there other distinctions among types of climate-related risks that we should use in our definitions? Are there any risks that we should add to the definition of transition risk? How should we address risks that may involve both physical and transition risks?

Morningstar supports the Commission's proposal to define "climate-related risks" to mean the actual or potential negative impacts of climate-related conditions and events on a registrant's consolidated financial statements, business operations, or value chains. We believe that in incorporating the TCFD framework, the Commission should mirror definitions provided by the TCFD. As the Commission has recognized, basing definitions of "climate-related risks," "physical risks," "climate-related opportunities," and "transition risks," will provide a common terminology and improve the comparability of these disclosures for investors.

11. **Some chronic risks might give rise to acute risks, e.g., drought (a chronic risk) that increases acute risks, such as wildfires, or increased temperatures (a chronic risk) that increases acute risks, such as severe storms. Should we require a registrant to discuss how the acute and chronic risks they face may affect one another?**

Morningstar supports the Commission's proposal to require registrants to disclose any compounding or interrelated effects of acute and chronic risks. As the Commission has recognized, many of these physical risks have impacted and may continue to impact registrants across economic sectors, including registrants' access to important resources such as water.

12. **For the location of its business operations, properties or processes subject to an identified material physical risk, should we require a registrant to provide the ZIP code of the location or, if located in a jurisdiction that does not use ZIP codes, a similar subnational postal zone or geographic location, as proposed? Is there another location identifier that we should use for all registrants, such as the county, province, municipality or other subnational jurisdiction? Would requiring granular location information, such as ZIP codes, present concerns about competitive harm or the physical security of assets? If so, how can we mitigate those concerns? Are there exceptions or exemptions to a granular location disclosure requirement that we should consider?**

Morningstar supports the Commission's proposal to require ZIP codes, or equivalent subnational postal zones if abroad, of the locations of business operations, properties, or processes subject to an identified material physical risk. As noted by the Commission, disclosing the location of assets helps to inform of a registrant's exposures to physical risks, which are geographically specific. Concerns about competition and physical security are not significant, as some issuers are already reporting latitude and longitude coordinates where local addresses are unavailable. Further, the majority of assets can be identified via freely available satellite imagery.

13. **If a registrant determines that the flooding of its buildings, plants, or properties is a material risk, should we require it to disclose the percentage of those assets that are in flood hazard areas in addition to their location, as proposed? Would such disclosure help investors**

evaluate the registrant's exposure to physical risks related to floods? Should we require this disclosure from all registrants, including those that do not currently consider exposure to flooding to be a material physical risk? Should we require this disclosure from all registrants operating in certain industrial sectors and, if so, which sectors? Should we define "flood hazard area" or provide examples of such areas? If we should define the term, should we define it similar to a related definition by the Federal Emergency Management Agency ("FEMA") as an area having flood, mudflow or flood-related erosion hazards, as depicted on a flood hazard boundary map or a flood insurance rate map? Should we require a registrant to disclose how it has defined "flood hazard area" or whether it has used particular maps or software tools when determining whether its buildings, plants, or properties are located in flood hazard areas? Should we recommend that certain maps be used to promote comparability? Should we require disclosure of whether a registrant's assets are located in zones that are subject to other physical risks, such as in locations subject to wildfire risk?

Morningstar supports the Commission's proposal to require registrants to disclose flood hazard area information. Morningstar recommends granularity in any flooding risk disclosure requirements that the Commission adopts. This insight will help in the evaluation of a registrant's exposures to physical risks. We also encourage the Commission to require disclosures by registrants that are not exposed to flood areas, as this will fill needed data points rather than having that information be left unknown. Morningstar further supports the standardization of flooding tools and mapping disclosures, which will facilitate comparability.

14. **If a material risk concerns the location of assets in regions of high or extremely high water stress, should we require a registrant to quantify the assets (e.g., book value and as a percentage of total assets) in those regions in addition to their location, as proposed? Should we also require such a registrant to disclose the percentage of its total water usage from water withdrawn in high or extremely high water stressed regions, as proposed? If so, should we include a definition of a "high water stressed region" similar to the definition provided by the World Resource Institute as a region where 40-80 percent of the water available to agricultural, domestic, and industrial users is withdrawn annually? Should we similarly define an "extremely high water stressed area" as a region where more than 80 percent of the water available to agricultural, domestic, and industrial users is withdrawn annually? Are there other definitions of high or extremely high water stressed areas we should use for purposes of this disclosure? Would these items of information help investors assess a registrant's exposure to climate-related risks impacting water availability? Should we require the disclosure of these items of information from all registrants, including those that do not currently consider having assets in high water-stressed areas a material physical risk? Should we require these disclosures from all registrants operating in certain industrial sectors and, if so, which sectors?**

Morningstar supports disclosure about assets located in regions of high or extremely high-water stress, in accordance with SASB/World Resource Institute or World Wildlife Fund Water Risk Filter definitions/guidelines, and disclosure if a registrant is not exposed to water stress, as this will fill needed data points rather than having that information left unknown. Similarly, Morningstar furthermore encourages disclosure of water stress in a company's value chain, again specifying if such risk is absent. Scenario analysis may further an understanding of a company's exposure to water-scarcity risks.

SASB's Climate Risk Technical Bulletin provides specific recommendations regarding disclosure on water-related financially material risks within each subindustry.[13]

16. Are there other areas that should be included as examples in the definitions of acute or chronic risks? If so, for each example, please explain how the particular climate-related risk could materially impact a registrant's operations or financial condition.

We refer the Commission to the technical screening criteria of the European Union, or EU, Taxonomy Regulation (Reg (EU) 2020/852), which provides additional examples of classification of climate-related hazards.[14]

17. Should we include the negative impacts on a registrant's value chain in the definition of climate-related risks, as proposed? Should we define "value chain" to mean the upstream and downstream activities related to a registrant's operations, as proposed? Are there any upstream or downstream activities included in the proposed definition of value chain that we should exclude or revise? Are there any upstream or downstream activities that we should add to the definition of value chain? Are there any upstream or downstream activities currently proposed that should not be included?

Morningstar supports the Commission's proposal to include negative value chain impacts in the definition of climate-related risks and recommends that upstream and downstream activities correspond to the categories defined under the GHG Protocol.

18. Should we define climate-related opportunities as proposed? Should we permit a registrant, at its option, to disclose information about any climate-related opportunities that it is pursuing, such as the actual or potential impacts of those opportunities on the registrant, including its business or consolidated financial statements, as proposed? Should we specifically require a registrant to provide disclosure about any climate-related opportunities that have materially impacted or are reasonably likely to impact materially the registrant, including its business or consolidated financial statements? Is there a risk that the disclosure of climate- related opportunities could be misleading and lead to "greenwashing"? If so, how should this risk be addressed?

Morningstar strongly encourages the disclosure of opportunities, which would be consistent with the intent of the TCFD framework and would provide investors with decision-useful information about the preparedness and adaptability of a company's business model and strategy to a low-carbon economy and physical risk challenges. Greenwashing concerns may potentially be addressed by virtue of a company reporting on the progress it is making with respect to its material opportunities.

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[13] See a comprehensive list of water management accounting metrics in SASB. April 2021. "Climate-Related Risk – Technical Bulletin." P. 24. https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/.

[14] Regulation (EU) 2020/852 of the European Parliament and the Council. June 2020. "On the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088." *Official Journal of the European Union* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN (EU Taxonomy).

C. Disclosure Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook

19. Should we require a registrant to describe the actual and potential impacts of its material climate-related risks on its strategy, business model, and outlook, as proposed? Should we require a registrant to disclose impacts from climate-related risks on, or any resulting significant changes made to, its business operations, including the types and locations of its operations, as proposed?

Morningstar encourages the Commission to mandate meaningful climate-related disclosures, which include scenario analysis, where registrants use this tool. The Commission should ensure that a registrant discusses and describes the actual and potential impacts of its material climate-related risks on its strategy, business model, and outlook.

Morningstar further supports the Commission's Proposal to require a registrant to disclose impacts from climate-related risks on, and any resulting significant changes made to, business operations, including the types and locations of its operations. We believe that registrants should be required to describe, in detail, business strategies and project revenue if, for example, regulators introduced a new carbon tax, or if new technology allowed other firms to produce similar products with fewer emissions.

20. Should we require a registrant to disclose climate-related impacts on, or any resulting significant changes made to, its products or services, supply chain or value chain, activities to mitigate or adapt to climate-related risks, including adoption of new technologies or processes, expenditure for research and development, and any other significant changes or impacts, as proposed? Are there any other aspects of a registrant's business operations, strategy, or business model that we should specify as being subject to this disclosure requirement to the extent they may be impacted by climate-related factors?

We strongly encourage the Commission to require disclosure of climate-related impacts, or any resulting significant changes made to, a registrant's business operations, strategy, or business model. This has the added benefit of encouraging suppliers to disclose their own data as well, which increases the availability of decision-useful, comparable, and consistent data.

21. Should we require a registrant to specify the time horizon applied when assessing its climate-related impacts (i.e., in the short, medium, or long term), as proposed?

Morningstar supports the Commission's Proposal to specify the time horizon applied when assessing climate-related impacts. Disclosure of time horizons is appropriate, as applying time horizons when assessing climate-related impacts is useful for developing and explaining a company's business strategy, financial planning, and determining capital allocation.

23. Should we require the disclosures to include how the registrant is using resources to mitigate climate-related risks, as proposed? Should the required discussion also include how any of the metrics or targets referenced in the proposed climate-related disclosure subpart of Regulation S-K or Article 14 of Regulation S-X relate to the registrant's business model or business strategy, as proposed? Should we require additional disclosures if a

registrant leverages climate-related financing instruments, such as green bonds or other forms of "sustainable finance" such as "sustainability-linked bonds," "transition bonds," or other financial instruments linked to climate change as part of its strategy to address climate-related risks and opportunities? For example, should we require disclosure of the climate-related projects that the registrant plans to use the green bond proceeds to fund? Should we require disclosure of key performance metrics tied to such financing instruments?

Morningstar supports the Commission's proposal requiring disclosure of how a company uses its resources to mitigate climate-related risks. Expanding on the information that a company would typically disclose for a capital markets day or medium/term plan would be helpful, including the company's expected leverage ratio(s) under the business plan, with the understanding that this forward-looking information may be subject to safe harbor provisions. With respect to financing instruments, Morningstar suggests that a company disclose information on conditions to which the company is subject in the notes to the financial statements under Regulation S-X. Such information could include climate targets and timeframes, and the percentage of facility drawdowns that have been applied toward addressing climate-related risks and opportunities.

24. **If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the role that the offsets or RECs play in its overall strategy to reduce its net carbon emissions, as proposed? Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way? Are there specific considerations about the use of carbon offsets or RECs that we should require to be disclosed in a registrant's discussion regarding how climate- related factors have impacted its strategy, business model, and outlook?**

Morningstar supports the Commission's proposed disclosure on the role offsets/RECs play in overall strategy to reduce net carbon emissions. Quantification of the offset or RECs would be helpful as well as any other significant factors necessary for users to understand the credibility and integrity of the offsets (for example, assumptions about the permanence of the carbon offset). The company's process for monitoring offsets and mitigating risks of reduced impact on emissions reductions (such as forest land exposure to wildfires) would be useful as well.

25. **Should we require a registrant to provide a narrative discussion of whether and how any of its identified climate-related risks have affected or are reasonably likely to affect its consolidated financial statements, as proposed? Should the discussion include any of the financial statement metrics in proposed 17 CFR 210.14-02 (14-02 of Regulation S-X) that demonstrate that the identified climate-related risks have had a material impact on reported operations, as proposed? Should the discussion include a tabular representation of such metrics?**

We support the Commission's proposal requiring that a registrant provide a narrative discussion of whether and how any of its identified climate-related risks have affected or are reasonably likely to affect its consolidated financial statements. While the narrative is valuable, it would be more helpful to have the quantitative data underlying the report, since that is more easily comparable. When appropriate to the discussion of materiality, the proposed financial metrics should be included.

26. **Should we require registrants to disclose information about an internal carbon price if they maintain one, as proposed? If so, should we require that the registrant disclose:**
    a. **The price in units of the registrant's reporting currency per metric ton of CO_2e;**
    b. **The total price;**
    c. **The boundaries for measurement of overall CO_2e on which the total price is based if different from the GHG emission organizational boundary required pursuant to 17 CFR 210.14-03(d)(4); and**
    d. **The rationale for selecting the internal or shadow carbon price applied, as proposed**

    Should we also require registrants to describe the methodology used to calculate its internal carbon price?

We support the Commission's proposal requiring the disclosure of information relating to an internal carbon price, including the methodology calculating the internal carbon price, if maintained, by a registrant. As the Commission has noted, many public companies use internal carbon prices to assess climate-related risks and opportunities. Information about an internal carbon price, if maintained, will allow investors to assess a registrant's business strategy and model.

27. **Should we also require a registrant to disclose how it uses the described internal carbon price to evaluate and manage climate-related risks, as proposed? Should we further require a registrant that uses more than one internal carbon price to provide the above disclosures for each internal carbon price, and disclose its reasons for using different prices, as proposed? Are there other aspects regarding the use of an internal carbon price that we should require to be disclosed? Would disclosure regarding any internal carbon price maintained by a registrant elicit important or material information for investors? Would requiring the disclosure of the registrant's use of an internal carbon price raise competitive harm concerns that would act as a disincentive from the use of an internal carbon price? If so, should the Commission provide an accommodation that would mitigate those concerns? For example, are there exceptions or exemptions to an internal carbon price disclosure requirement that we should consider?**

We support the Commission's proposal requiring the disclosure of how a registrant uses their internal carbon price to evaluate and manage risks, because we think it is helpful to investors to understand how a company uses its internal carbon price to evaluate and manage climate-related risks and investments.

30. **Should we require a registrant to disclose analytical tools, such as scenario analysis, that it uses to assess the impact of climate-related risks on its business and consolidated financial statements, and to support the resilience of its strategy and business model, as proposed? What other analytical tools do registrants use for these purposes, and should we require disclosure of these other tools? Are there other situations in which some registrants should be required to conduct and provide disclosure of scenario analysis? Alternatively, should we require all registrants to provide scenario analysis disclosure? If a registrant does provide scenario analysis disclosure, should we require it to follow certain publicly available scenario models, such as those published by the IPCC, the IEA, or NGFS and, if so, which scenarios? Should we require a registrant providing scenario analysis disclosure to include the scenarios considered (e.g., an increase of global temperature of no greater than 3 º, 2 º, or 1.5 ºC above pre-industrial levels), the parameters, assumptions, and analytical choices, and the projected**

principal financial impacts on the registrant's business strategy under each scenario, as proposed? Are there any other aspects of scenario analysis that we should require registrants to disclose? For example, should we require a registrant using scenario analysis to consider a scenario that assumes a disorderly transition? Is there a need for us to provide additional guidance regarding scenario analysis? Are there any aspects of scenario analysis in our proposed required disclosure that we should exclude? Should we also require a registrant that does not use scenario analysis to disclose that it has not used this analytical tool? Should we also require a registrant to disclose its reasons for not using scenario analysis? Will requiring disclosure of scenario analysis if and when a registrant performs scenario analysis discourage registrants from conducting scenario analysis? If so, and to the extent scenario analysis is a useful tool for building strategic resilience, how could our regulations prevent such consequences?

Morningstar supports the Commission's proposal to require registrants to disclose analytical tools used to assess the impact of climate-related risks on their business. We view scenario analysis as an important analytical tool in which companies may project their performance and results subject to various changes, including, but not limited to, policy interventions, technological advancement, or environmental and physical challenges. Such analysis and projections would help investors understand circumstances under which the value of a company could be at risk, and how a company's strategy may—or may not—move it forward toward long-term value creation and sustainability. Simply put, using the scenario analysis, investors will be able to 1) better assess the impact of climate-related risks on a registrant's business and consolidated financial statements; and 2) understand the level of preparedness and resilience of the registrant's strategy, governance, and business model. Further, according to the CDP, 54% of reporting companies were already using scenario analysis as of March 2021.[15]

It may be advisable for the Commission to maintain an updatable list of recognized scenario models (for example, online), such as, but not limited to, those published by the IPCC, the IEA, or NGFS, and require information about the temperature, parameters, assumptions, analytical choices, and projected principal financial impacts on the registrant's business strategy under each scenario, as proposed.

For both transition and physical risk, we recommend the use of more than one scenario—with one scenario being a worst case—so that registrants disclose a range of potential risks and possible strategies to adapt. It is also helpful for companies to specify *separately* which scenarios they have applied to evaluate transition and physical risk.

Scenario analysis can be highly technical, and registrants should seek reputable providers to conduct or assist with such assessments, as necessary. We recommend that if any registrants choose to make these assessments in-house, that the Commission require those registrants to disclose in sufficient detail the technical resources utilized in the assessment in order to convey confidence in the assessment. That being said, not all registrants may need to conduct scenario analysis, and it should therefore not be mandated for all registrants. However, we support the Commission's proposed requirement for scenario analysis to be disclosed when utilized.

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[15] Common Pitfalls of Scenario Analysis.

D. Governance Disclosure

34. Should we require a registrant to describe, as applicable, the board's oversight of climate-related risks, as proposed? Should the required disclosure include whether any board member has expertise in climate-related risks and, if so, a description of the nature of the expertise, as proposed? Should we also require a registrant to identify the board members or board committee responsible for the oversight of climate-related risks, as proposed? Do our current rules, which require a registrant to provide the business experience of its board members, elicit adequate disclosure about a board member's or executive officer's expertise relevant to the oversight of climate-related risks?

Morningstar supports the Commission's proposal requiring that a registrant provide clarity about the formal oversight responsibility of the board regarding climate-related risks, whether and how it delegates oversight to any board members or committee and what the role of the board has in relation to setting and monitoring progress on climate-related strategic targets and goals.

We do not believe it is necessary to specifically require that boards to disclose how frequently they discuss climate risks at the board or committee level or how they incorporate climate risk considerations into discussions around business strategy, risk management and financial oversight as these requirements may lead to "boilerplate" or "tick-box" disclosures. Where boards offer these details voluntarily, investors may value the color that boards provide. What is important is that registrants clarify the formal oversight obligations of the board with respect to climate risks and with respect to setting climate-related targets and goals.

35. Should we require a registrant to disclose the processes and frequency by which the board or board committee discusses climate-related risks, as proposed?

We do not believe it is necessary to specifically require disclosure of the processes or frequency by which the board or board committee discusses climate-related risks. These disclosures would be subjective and therefore not easily comparable.

36. Should we require a registrant to disclose whether and how the board or board committee considers climate-related risks as part of its business strategy, risk management, and financial oversight, as proposed? Would the proposed disclosure raise competitive harm concerns? If so, how could we address those concerns while requiring additional information for investors about how a registrant's board oversees climate-related risks?

Morningstar supports the Commission's proposal requiring a registrant to disclose whether and how the board or committee considers climate-related risks as part of business strategy, management, and financial oversight.

Morningstar supports alignment with the TCFD framework and recognizes that disclosure of climate-related priorities in board meetings may further the understanding of the level of advancement that companies have in addressing climate-related risks and opportunities.

37. Should we require a registrant to disclose whether and how the board sets climate-related targets or goals, as proposed? Should the required disclosure include how the board oversees progress against those targets or goals, including whether it establishes any interim targets or goals, as proposed? Would the proposed disclosure raise competitive harm concerns? If so, how could we address those concerns while requiring additional information for investors about how a registrant's board oversees the setting of any climate-related targets or goals?

Morningstar supports transparency around the oversight of climate-related targets at the board level.

38. Should we require a registrant to describe, as applicable, management's role in assessing and managing climate-related risks, as proposed? Should the required disclosure include whether certain management positions or committees are responsible for assessing and managing climate-related risks and, if so, the identity of such positions or committees, and the relevant expertise of the position holders or members in such detail as necessary to fully describe the nature of the expertise, as proposed? Should we require a registrant to identify the executive officer(s) occupying such position(s)? Or do our current rules, which require a registrant to provide the business experience of its executive officers, elicit adequate disclosure about management's expertise relevant to the oversight of climate-related risks?

Morningstar supports the Commission's proposal requiring the disclosure of management's role in assessing and managing climate-related risks. Climate risk and opportunities are increasingly addressed via multiple business functions, such as strategy and planning, enterprise risk management, and corporate sustainability. Therefore, we think it would be helpful for the Commission to require registrants to provide organizational diagrams that may provide an overview of the different areas and their reporting lines to executive management and board of directors. Identification of key executive officers with climate-related oversight is helpful, as is added biographical information describing climate-related experience and past leadership in transformative change.

40. Should we specifically require a registrant to disclose any connection between executive remuneration and the achievement of climate-related targets and goals? Is there a need for such a requirement in addition to the executive compensation disclosure required by 17 CFR 229.402(b)?

Morningstar supports disclosure of the connection between executive remuneration and the achievement of, or progress toward, climate-related targets and goals. Registrants' compensation disclosures and analysis provided in proxy statements should identify which components of incentive pay contain climate targets and what metrics they use to evaluate performance against targets. Ideally, the investor should be able to ascertain the weight assigned to climate targets within short-term and/or long-term incentive plans and be able to understand how climate targets embedded in incentive pay link to the registrant's short-, medium- and long-term climate goals.

Furthermore, Morningstar supports disclosure of clawbacks, if any, in the event that registrants do not achieve their targets. We believe the existence of such clawbacks shows management's commitment to achieving their targets; therefore, disclosure of such incentive mechanisms holds management accountable to investors.

41. **As proposed, a registrant may disclose the board's oversight of, and management's role in assessing and managing, climate-related opportunities. Should we require a registrant to disclose these items?**

Morningstar encourages disclosure of the board's oversight of, and management's role in, assessing, managing and addressing climate-related opportunities. Items regarding management of climate risk by the board should be required so that disclosure is complete, consistent, and comparable. Voluntary disclosures have not provided investors with sufficient quality information.

E. Risk Management Disclosure

42. **Should we require a registrant to describe its processes for identifying, assessing, and managing climate-related risks, as proposed?**

Morningstar supports the Commission's proposal requiring a registrant to describe its process for identifying, assessing, and managing climate-related risk, because we believe that disclosure of a company's process may help investors assess the company's preparedness in identifying, assessing and managing climate-related risks.

43. **When describing the processes for managing climate-related risks, should we require a registrant to disclose, as applicable, as proposed:**
    - **How it decides whether to mitigate, accept, or adapt to a particular risk?**
    - **How it prioritizes climate-related risks?**
    - **How it determines to mitigate a high priority risk?**

    Are there other items relevant to a registrant's management of climate-related risks that we should require it to disclose instead of or in addition to the proposed disclosure items?

Morningstar supports the Commission's proposed disclosures and would further support disclosure of a transition plan and the governance information we have already addressed under Section D.

44. **When describing the processes for managing climate-related risks, should we require a registrant to disclose, as applicable, as proposed:**
    - **How it decides whether to mitigate, accept, or adapt to a particular risk?**
    - **How it prioritizes climate-related risks?**
    - **How it determines to mitigate a high priority risk?**

    Are there other items relevant to a registrant's management of climate-related risks that we should require it to disclose instead of or in addition to the proposed disclosure items?

Morningstar supports the Commission's proposed disclosure requirements regarding the process for managing climate-related risks.

45. **Should we require a registrant to disclose whether and how the processes described in response to proposed 17 CFR 229.1503(a) are integrated into the registrant's overall risk management system or processes, as proposed? Should we specify any particular aspect of**

this arrangement that a registrant should disclose, such as any interaction between, and corresponding roles of, the board or any management committee responsible for assessing climate-related risks, if there is a separate and distinct committee of the board or management, and the registrant's committee in charge, generally, of risk assessment and management?

Morningstar supports the Commission in requiring disclosure of how the registrant integrates the process into its overall risk management system because that information is essential to understanding its effectiveness. An organizational diagram may provide an overview of the different areas and their reporting lines to executive management and board of directors. In addition, it would be helpful for a company to disclose the third parties on which it relies for risk assessment. Information about third parties relied on for risk assessment would allow investors to evaluate the quality of advice registrants receive. Knowledge about the quality of advice registrants received relating to risk assessment would allow investors to better evaluate how prepared registrants are to deal with climate-related risks.

46. **If a registrant has adopted a transition plan, should we require the registrant to describe the plan, including the relevant metrics and targets used to identify and manage physical and transition risks, as proposed? Would this proposed disclosure requirement raise any competitive harm concerns and, if so, how can we mitigate such concerns? Would any of the proposed disclosure requirements for a registrant's transition plan act as a disincentive to the adoption of such a plan by the registrant?**

Morningstar supports the Commission's proposed disclosures requiring registrants to describe the transition plan, including relevant metrics, if the registrant has adopted any. Registrants may integrate transition plans into formats akin to medium-term plans or capital markets-day presentations, where they have historically been able to present forward-looking information without raising a competitive harm concern.

47. **If a registrant has adopted a transition plan, should we require it, when describing the plan, to disclose, as applicable, how the registrant plans to mitigate or adapt to any identified physical risks, including but not limited to those concerning energy, land, or water use and management, as proposed? Are there any other aspects or considerations related to the mitigation or adaption to physical risks that we should specifically require to be disclosed in the description of a registrant's transition plan?**

Morningstar believes that the inclusion of physical risk mitigation and/or adaptation activities signals greater preparedness and potential viability with respect to the company's execution of the transition plan. For example, companies may be vulnerable to severe weather events, such as energy infrastructure and services, which may face disruptions. Companies may also face risk from a water-energy nexus perspective, such as when utilities or other heavy industry require water for cooling, or when water scarcity disrupts hydropower operations. Land use represents an intrinsic part of the agricultural value chain.

Other impacts from physical risks may include water quality from anaerobic consequences (e.g., algae), anoxic conditions (such as oxygen depletion), increases in evapotranspiration from heat (that is, greater water evaporation and absorption of water by plants and land), which may reduce water levels and in turn can increase the concentration of pollutant discharges. Water also has significant downstream risks, such as negative externalities on the environment, including risk for tailings facilities.

Morningstar strongly recommends utilizing scenario analysis to estimate the escalation of future physical risks and integrating such risks into its transition risk and physical risk planning. Morningstar also notes the importance of forests as a carbon sink and disclosure for companies for which utilization of forest areas form part of the transition plan—for example, a provider of soy products grown in rainforests. For companies that utilize offsets in transition planning, Morningstar suggests disclosure on whether the company has considered potential adverse impacts from physical risks and steps taken to mitigate any loss of offset value or effect.

Water risks have been already recognized by multiple central banks as closely linked to transition risks, as they are related to government regulatory action.[16]

48. If a registrant has adopted a transition plan, should we require it to disclose, if applicable, how it plans to mitigate or adapt to any identified transition risks, including the following, as proposed:

- **Laws, regulations, or policies that:**
    - **i. Restrict GHG emissions or products with high GHG footprints, including emissions caps; or**
    - **ii. Require the protection of high conservation value land or natural assets?**
- **Imposition of a carbon price?**
- **Changing demands or preferences of consumers, investors, employees, and business counterparts?**

Are there any other transition risks that we should specifically identify for disclosure, if applicable, in the transition plan description? Are there any identified transition risks that we should exclude from the plan description?

We view the Commission's proposed areas of focus, as outlined in Question 49, as helpful for investors to understand a registrant's transition plan. In addition, Morningstar believes that it is useful to understand the financing of a registrant's transition plan and therefore encourage the requirement of such disclosures, including disclosure of balance sheet strength and cash flow, as signals of the ability to sustain investments during volatile or recessionary periods. For certain industries, such as electrical and water utilities, disclosure of efficiency and affordability of core elements, such as water and electricity, are also helpful.

Water-related transition risks include government action aiming at regulating water supply through various restrictions in order to optimize water availability for all types of needs, including agriculture, industries, and domestic purposes. These restrictions include the reallocation of water resources, water infrastructure, factory shutdowns, tighter wastewater-discharge permits (or even zero-pollution regulations), and water-pricing schemes. Further, transition risks can also include increased cost of raw materials or the banning of products with high-water footprints, which can lead to increased production costs due to changing input prices, including energy and water, or litigation risks arising from community opposition.

[16] NGFS Climate Scenarios.

49. If a registrant has adopted a transition plan, when describing the plan, should we permit the registrant also to discuss how it plans to achieve any identified climate-related opportunities, including, as proposed:

- **The production of products that facilitate the transition to a lower carbon economy, such as low emission modes of transportation and supporting infrastructure?**
- **The generation or use of renewable power?**
- **The production or use of low waste, recycled, or environmentally friendly consumer products that require less carbon intensive production methods?**
- **The setting of conservation goals and targets that would help reduce GHG emissions?**
- **The provision of services related to any transition to a lower carbon economy?**

Should we require a registrant to discuss how it plans to achieve any of the above, or any other, climate-related opportunities when describing its transition plan?

Morningstar encourages discussion of all the above climate-related opportunities in a registrant's transition plan. The discussion of opportunities aligns with the TCFD framework, and we encourage it in order for investors to understand the level of preparedness and adaptability of the company to a low-carbon economy.

50. If a registrant has disclosed its transition plan in a Commission filing, should we require it to update its transition plan disclosure each fiscal year by describing the actions taken during the year to achieve the plan's targets or goals, as proposed? Should we require a registrant to provide such an update more frequently, and if so, how frequently? Would the proposed updating requirement act as a disincentive to the adoption of a transition plan by the registrant?

Morningstar supports the Commission's proposal to update transition-plan disclosure every fiscal year. We believe it is sufficient for the Commission to require a registrant to update its transition-plan disclosure each fiscal year. The annual update should include progress against targets, with a standardized schedule or table for quantitative information. Should there be a material change to the transition plan, in the interim, it can be disclosed in quarterly reporting and subsequently integrated into the annual transition plan. Examples of material changes would be a sizable merger or acquisition, or a significant change to a company's targets.

51. To the extent that disclosure about a registrant's transition plan constitutes forward- looking information, the PSLRA safe harbors would apply. Should we adopt a separate safe harbor for transition plan disclosure? If so, what disclosures should such a safe harbor cover and what should the conditions be for such a safe harbor?

Morningstar supports the Commission's proposed approach toward safe harbor provisions.

F. Financial Statement Metrics

52. Should we require a registrant to provide contextual information, including a description of significant inputs and assumptions used, and if applicable, policy decisions made by the registrant to calculate the specified metrics, as proposed? Should we revise the proposed requirement to provide contextual information to require specific information instead? We

provide some examples of contextual information disclosure in Sections II.F.2 and II.F.3 below. Would providing additional examples or guidance assist registrants in preparing this disclosure?

Morningstar supports the Commission's proposal to require registrants to provide contextual information, including a description of significant inputs and assumptions used in calculating the specified metrics.

As an illustrative example, we consider that while U.S. Oil and Gas exploration and production companies, or E&Ps, are held to Environmental Protection Agency, or EPA, Subpart W, the gaps in that regulatory framework create a dissonance in reporting, which in turn makes it difficult for investors to compare.[17] For instance, E&Ps typically break down Scope 1 emissions by carbon dioxide and methane, with some also including nitrous oxide (which generally made up a negligibly small proportion of aggregate emissions). However, the reporting of these emissions varies widely. Because reporting Scope 1 emissions via process is optional, many choose to give a distribution via source, such as flaring, venting, or combustion. Unfortunately, this treatment is not universal, and some registrants disclose this information using distinct categorization methods, such as a combination of venting/flaring in one figure, or the addition of an "other" category. Adding further confusion, neither Scope 2 nor Scope 3 emissions are required.

All of this said, the usefulness of standardized reporting is itself predicated on both the regulation and veracity of how exactly emissions data is gathered, measured, or estimated in the case of Scope 3 emissions.

In terms of water metrics, water withdrawal and water consumption require higher-quality, standardized water disclosure. Only 7% of companies within Sustainalytics' global coverage universe disclosed data on water withdrawal in 2019. Corporate disclosure of water consumption was even less prevalent, with only 3% of companies in the Sustainalytics coverage universe disclosing data. Water intensity measures how many cubic meters of water a company must withdraw from the surface, ground, or sea in order to generate a dollar of revenue. It is a key indicator for benchmarking industries against each other to establish their dependency on water resources, and it is an important pillar in accounting for water-related financially material risk.

53. **The proposed rules would specify the basis of calculation for the climate-related financial statement metrics. Is it clear how to apply these accounting principles when calculating the proposed climate-related financial statement metrics, or should we provide additional guidance? Should we require a registrant to report these metrics with reference to its consolidated financial statements, as proposed? If not, how should registrants report these metrics? If we were to establish accounting principles (e.g., the basis for reporting these metrics) in a manner that differs from the principles applicable to the rest of the consolidated financial statements, would the application of those principles to the proposed metrics make climate-related disclosures less clear, helpful, or comparable for investors?**

Morningstar encourages further guidance on how to address or disclose any material discrepancies and their impacts, if any, on disclosed GHG emissions and financial metrics, because the rules for determining organizational boundaries may differ between the GHG Protocol and consolidated financial statements.

[17] EPA. 2019. Title 40, Chapter I, Subchapter C, Part 98, Subpart W: Petroleum and Natural Gas Systems. https://www.ecfr.gov/current/title-40/chapter-I/subchapter-C/part-98/subpart-W?toc=1.

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 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- 41? How would investors use such information?

Morningstar expects that having these metrics calculated at a reportable segment level would be useful to investors to provide greater comparability across registrants with comparable and overlapping business segments and geographies. Investors could also benefit from emissions and other environmental data such as water on an asset-by-asset or project-by-project basis, if attainable.

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?

We view the disclosure of financial impact metrics, as proposed, to be decision-useful for investors, but we recommend that climate-related risks and physical risks be disclosed separately. We further recommend that a narrative be added to discuss material risks and/or compounding factors; the disclosures would be improved by addressing impacts from, and assumptions underlying, scenario analysis.

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?

The proposed approach potentially discourages companies from disclosing impacts of climate opportunities. Morningstar supports inclusion of line-item examples as provided by the Commission in the Proposed Rule (such as cost of sales, insured losses, and asset carrying amounts).[18] Morningstar notes that current examples also include subtotals (such as operating cash flow), which would represent the impact of multiple line items. For each line item, we recommend having separate lines for climate-related events and transition activities (for example, a line for Cost of Revenue—Physical, and another for Cost of Revenue—Transition), to ensure that signals from the two areas can be analyzed independently of one another.

[18] Proposed Rule, P. 21367.

We believe that all companies should disclose their methodology for how they assessed their risk and that there should be third-party verification of company claims if a company falls below the reporting threshold.

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?**

Morningstar encourages considerations of climate-related risks as defined, rather than limiting, disclosure.

62. **Should impact from climate-related opportunities be required, instead of optional, as proposed? We are proposing to require a registrant that elects to disclose the impact of an opportunity to do so consistently (e.g., for each fiscal year presented in the consolidated financial statements, for each financial statement line item, and for all relevant opportunities identified by the registrant). Are there any other requirements that we should include to enhance consistency? Should we only require consistency between the first fiscal period in which opportunities were disclosed and subsequent periods?**

Morningstar recommends that the Commission mandate disclosure of the impact of climate-related opportunities. Disclosure of the impact of climate-related opportunities is consistent with the TCFD framework and contributes to understanding strategic or competitive advantages that a company may have vis-à-vis a low-carbon economy and in terms of physical-risk resilience.

63. **Is it clear which climate-related events would be covered by "severe weather events and other natural conditions"? If not, should we provide additional guidance or examples about what events would be covered? Should we clarify that what is considered "severe weather" in one region may differ from another region? For example, high levels of rainfall may be considered "severe weather" in a typically arid region.**

Morningstar strongly encourages further defining "severe weather events and natural conditions." For example, the technical screening criteria of the EU Taxonomy Regulation (Reg (EU) 2020/852) provides additional examples of the classification of climate-related hazards.[19] The severity of the impact from the weather event is sufficient to determine whether to include it, irrespective of its location. However, location information may provide the potential for compounding severe weather risks (such as drought and forest fires).

64. **Are the proposed requirements for calculating and presenting the financial impact metrics clear? Should the analysis be performed and disclosed in a manner other than on a line-by-line basis referring to the line items of the registrant's consolidated financial statements?**

[19] EU Taxonomy.

Morningstar believes that the line items are well described.

65. **We are proposing to allow a registrant to aggregate the absolute value of negative and positive impacts of all climate-related events and, separately, transition activities on a financial statement line item. Should we instead require separate quantitative disclosure of the impact of each climate-related event or transition activity? Should we require separate disclosure of the impact of climate- related opportunities that a registrant chooses to disclose?**

Morningstar recommends that the Commission require separate quantitative disclosure for climate-related events and transition activities. Morningstar does not object to using absolute values so long as registrants do not net these values against one another. Fundamentally this disclosure should allow investors to distinguish between negative impacts (such as severe weather, regulatory changes) and positive impacts (such as mitigation, resilience, and opportunities).

66. **The proposed financial impact metrics would not require disclosure if the absolute value of the total impact is less than one percent of the total line item for the relevant fiscal year. Is the proposed threshold appropriate? Should we use a different percentage threshold (e.g., three percent, five percent) or use a dollar threshold (e.g., less than or greater than $1 million)? Should we use a combination of a percentage threshold and a dollar threshold? Should we only require disclosure when the financial impact exceeds the threshold, as proposed, or should we also require a determination of whether an impact that falls below the proposed quantitative threshold would be material and should be disclosed?**

Morningstar encourages the Commission to adopt a consistent reporting threshold. The core objective is to contain the reporting burden while ensuring that investors receive material information on financial risks, while also discouraging a disproportionate reporting burden and ineffective signals. As such, we do not view the actual percentage threshold—whether it be one, three, or five—to be as significant as the need for a consistent reporting threshold. We believe any of the alternatives considered in this question are suitable reporting thresholds.

69. **Should we require a registrant to disclose changes to the cost of capital resulting from the climate-related events? If so, should we require a registrant to disclose its weighted average cost of capital or any internal cost of capital metrics? Would such disclosure elicit decision-useful or material information for investors?**

Morningstar encourages the Commission to require registrants to disclose changes to the cost of capital and the underlying assumptions resulting from the climate-related events, as such disclosures would be very helpful to elicit decision-useful information for investors.

70. **We have not proposed defining the term "upstream costs" as used in the proposed examples for the financial impact metrics and elsewhere. Should we define that term or any others? If so, how should we define them?**

Morningstar believes the Commission should define and classify "upstream costs" in accordance with the GHG Protocol.

71. **Are the proposed examples in the financial impact metrics helpful for understanding the types of disclosure that would be required? Should we provide different or additional examples or guidance?**

Morningstar believes that providing written examples of reporting on impairments and decommissioning could be helpful relative to line-item examples such as the one provided in the Proposed Rule.[20] We recommend separate lines for climate-related events and transition activities, and we advise against netting opportunities against risks.

72. **Should we require registrants to disclose the expenditure metrics, as proposed? Would presenting the expenditure metrics separately in one location provide decision-useful information to investors? Is there a different type of metric that would result in more useful disclosure of the expense or capitalized costs incurred toward climate-related events and transition activities or toward climate-related risks more generally?**

Morningstar is of the view that the expenditure metrics should be separated out into capitalized versus expensed metrics while applying the same threshold as for impact metrics in order to promote consistency in reporting. These metrics should be subject to third-party verification. Disclosure of material capitalized and expensed amounts would be helpful and may be provided in a supplement, which would integrate impact and expenditure metrics to avoid overlap and separated into climate-related (including physical) versus transition-related expenditures. A narrative would also be useful for understanding material line items identified in the Proposed Rule.[21]

73. **Would the disclosure required by the expenditure metrics overlap with the disclosure required by the financial impact metrics? If so, should we require the disclosure to be provided pursuant to only one of these types of metrics?**

Morningstar suggests that the disclosure required by the expenditure metrics should be made according to the financial impact metrics, with expenditures being capitalized or expensed. Any overlap can be addressed by having a single schedule listing each impact only once, then indicating whether it will be expensed or capitalized. We recommend providing separate quantitative disclosure for climate-related events and transition activities.

74. **Should the same climate-related events (including severe weather events and other natural conditions and identified physical risks) and transition activities (including identified transition risks) that we are proposing to use for the financial impact metrics apply to the expenditure metrics, as proposed? Alternatively, should we not require a registrant to disclose expenditure incurred towards identified climate-related risks and only require disclosure of expenditure relating to severe weather events and other natural conditions? Should we require a registrant to disclose the expenditure incurred toward 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 expenditure relating to a smaller subset of climate-related risks be**

[20] Proposed Rule, P. 21367.
[21] Proposed Rule, P. 21370.

easier for a registrant to quantify without sacrificing information that would be material to investors?

Morningstar supports the Commission's proposal because it promotes consistency throughout the proposed disclosures. As such, we believe that the same climate-related events should apply to the financial impact and expenditure metrics.

76. **Should we apply the same disclosure threshold to the expenditure metrics and the financial impact metrics? Is the proposed threshold for expenditure metrics appropriate? Should we use a different percentage threshold (e.g., three percent, five percent) or use a dollar threshold (e.g., less than or greater than $1 million)? Should we use a combination of a percentage threshold and a dollar threshold? Should we only require disclosure when the amount of climate-related expenditure exceeds the threshold, as proposed, or should we also require a determination of whether an amount of expenditure that falls below the proposed quantitative threshold would be material and should be disclosed? Should we require separate aggregation of the amount of expense and capitalized costs for purposes of the threshold, as proposed? Should we require separate aggregation of expenditure relating to the climate-related events and transition activities, as proposed?**

Morningstar recommends applying the same threshold to financial impact and expenditure metrics.

77. **Instead of including a quantitative threshold, as proposed, should we require disaggregated disclosure of any amount of expense and capitalized costs incurred toward the climate-related events and transition activities, during the periods presented? Alternatively, should we just use a materiality standard?**

Morningstar believes that a materiality standard may reduce the reporting burden while providing investors useful information.

78. **Are the proposed requirements for calculating and presenting the expenditure metrics clear? Should the analysis be performed and disclosed in a different manner, other than separately based on capitalized costs and amount of expenditure expensed and separately based on the climate-related events and transition activities? Should disclosure of expenditure incurred be required for both the amount of capitalized costs and the amount of expenditure expensed if only one of the two types of expenditure meets the disclosure threshold? Should we require separate disclosure of expenditure incurred toward each climate-related event and transition activity?**

Morningstar recommends that separate disclosure be provided of expenditure incurred toward material climate events and transition activities.

79. **The proposed rule does not specifically address expensed or capitalized costs that are partially incurred towards the climate-related events and transition activities (e.g., the expenditure relates to research and development expenses that are meant to address both the risks associated with the climate-related events and other risks). Should we prescribe a particular approach to disclosure in such situations? Should we require a registrant to provide a**

reasonable estimate of the amount of expense or capitalized costs incurred toward the climate-related events and transition activities and to provide disclosure about the assumptions and information that resulted in the estimate?

A reasonable estimate would be acceptable so long as it would form part of the third-party review process.

80. **Are the proposed terms and examples used in the expenditure metrics helpful for understanding the types of disclosures that would be required? Should we provide different or additional examples?**

The proposed terms and examples used in the expenditure metrics are helpful, but the examples (such as "Event D," "Activity E," and so on) could include greater detail in order to demonstrate the difference more clearly between capitalized costs and expenses.[22]

81. **Should we require disclosure of financial estimates and assumptions impacted by the climate-related events and transition activities (including disclosed targets), as proposed? How would investors use this information?**

We support the Commission's requirement of disclosing financial estimates and assumptions impacted by the climate-related events and transition activities, as we believe that disclosure of financial estimates and assumptions is valuable. Investors would use this information to evaluate the company's preparedness to address low-carbon transition and physical-risk resilience. Assumptions may extend to naming scenario analyses and third-party data sources or assessments. The assumptions of greatest interest are those that have a material effect on the overall financial performance and outlook of the company.

86. **For the proposed financial statement metrics, should we require a registrant to disclose material changes in estimates, assumptions, or methodology among fiscal years and the reasons for those changes? If so, should we require the material changes disclosure to occur on a quarterly, or some other, basis? Should we require disclosure beyond a discussion of the material changes in assumptions or methodology and the reasons for those changes? Do existing required disclosures already elicit such information? What other approaches should we consider?**

We believe that disclosure of material changes in estimates is useful. Major events resulting in material disclosure changes should be reported in the quarterly period where they occur, and annually otherwise.

88. **Instead of requiring the financial statement metrics to be disclosed in a note to the registrant's audited financial statements, should we require a new financial statement for such metrics? For example, should a "consolidated climate statement" be created in addition to the consolidated balance sheets, statements of comprehensive income, cash flows, and other traditional financial statements? Would including the proposed metrics in a new financial statement provide more clarity to investors given that the metrics are intended to follow the structure of the existing financial statements (including the line items)? What complications or unintended consequences may arise in practice if such a climate statement is created?**

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[22] Proposed Rule, P. 21370.

We support the Commission's proposal requiring the disclosure of financial statement metrics in a note to the registrant's audited financial statements. The reporting date should be the same as the financial information.

We concur that registrants should provide disclosure for their most recently completed fiscal year and for the historical fiscal year(s) included in the registrant's audited financial statements in the applicable filing, as proposed.

We agree that registrants may choose to incorporate information by reference, but the Commission should be sure to treat such references as supplements, not replacements.

G. GHG Emissions Metrics Disclosure

93. How would investors use GHG emissions disclosures to inform their investment and voting decisions? How would such disclosures provide insight into a registrant's financial condition, changes in financial condition, and results of operations? How would such disclosures help investors evaluate an issuer's climate risk-related exposure? Would such disclosures enable investors to better assess physical risks associated with climate-related events, transition risks, or both types of risks?

Like most market participants, Morningstar understands carbon emissions are a globally systemic issue. Uncontrolled and increasing GHG emissions are a driver of global climate change. As a result, natural cycles on which the economy and society depend have been increasingly—and more frequently—interrupted, resulting in more frequent extreme events. Understanding how companies minimize long-term risks associated with traditional business models while transitioning to a low-carbon future is increasingly informing investors' investment and voting decisions.

94. Should we require a registrant to disclose its GHG emissions both in the aggregate, per scope, and on a disaggregated basis for each type of greenhouse gas that is included in the Commission's proposed definition of "greenhouse gases," as proposed? Should we instead require that a registrant disclose on a disaggregated basis only certain greenhouse gases, such as methane (CH4) or hydrofluorocarbons (HFCs), or only those greenhouse gases that are the most significant to the registrant? Should we require disaggregated disclosure of one or more constituent greenhouse gases only if a registrant is obligated to separately report the individual gases pursuant to another reporting regime, such as the EPA's greenhouse gas reporting regime or any foreign reporting regime? If so, should we specify the reporting regime that would trigger this disclosure?

Morningstar supports the Commission's proposal to require disclosure of GHG emissions both in the aggregate, per scope, and disaggregated basis for each type of greenhouse gas included in the proposed definition. As indicated by the SEC, measuring the constituent greenhouse gases is a necessary step in calculating a registrant's total GHG emissions per scope and can be disclosed irrespective of the reporting regime.

95. **We have proposed defining "greenhouse gases" as a list of specific gases that aligns with the GHG Protocol and the list used by the EPA and other organizations. Should other gases be included in the definition? Should we expand the definition to include any other gases to the extent scientific data establishes a similar impact on climate change with reasonable certainty? Should we require a different standard to be met for other greenhouse gases to be included in the definition?**

We recommend that the Commission follow the GHG Protocol as a recognized global standard. Adopting a streamlined process to amend disclosure requirements if the GHG subsequently considered additional gases would be beneficial.

96. **Should we require a registrant to express its emissions data in CO2e, as proposed? If not, is there another common unit of measurement that we should use? Is it important to designate a common unit of measurement for GHG emissions data, as proposed, or should we permit registrants to select and disclose their own unit of measurement?**

We support the Commission's proposal to require expressing the data in carbon dioxide equivalent, or CO2e, since that conforms with the GHG Protocol. We further recommend including information on disaggregated greenhouse gases.

97. **Should we require a registrant to disclose its total Scope 1 emissions and total Scope 2 emissions separately for its most recently completed fiscal year, as proposed? Are there other approaches that we should consider?**

Morningstar supports the Commission's proposed requirement that a registrant disclose both its total Scope 1 emissions and Scope 2 emissions on an annual basis.

98. **Should we require a registrant to disclose its Scope 3 emissions for the fiscal year if material, as proposed? Should we instead require the disclosure of Scope 3 emissions for all registrants, regardless of materiality? Should we use a quantitative threshold, such as a percentage of total GHG emissions (e.g., 25%, 40%, 50%) to require the disclosure of Scope 3 emissions? If so, is there any data supporting the use of a particular percentage threshold? Should we require registrants in particular industries, for which Scope 3 emissions are a high percentage of total GHG emissions, to disclose Scope 3 emissions?**

We support the Commission's proposal that GHG emissions disclosures be made mandatory where they are material, and we further think they should be encouraged by regulators in other cases. The widely debated issues of "double materiality" versus "financial materiality" with respect to ESG sustainability reporting and disclosures is of relevance here and a contested point amongst thought leaders in the industry. Given the pace of industry development, Morningstar advocates a building block approach: proceeding initially with disclosure focused on "financial materiality," then subsequently expanding, in time-boxed elements to impact-oriented metrics as echoed by both TCFD and SASB approaches (the latter as relating to broader ESG risks). Morningstar applauds the recent creation of the ISSB and its stated intention to leverage both TCFD and SASB frameworks for reporting climate-related and broader ESG risks and opportunities. Morningstar believes that the framework proposed by the Commission will naturally encompass criteria developed by a global sustainability standards body, such as the ISSB.

Morningstar recognizes the disclosure of Scope 3 emissions as part of the GHG Protocol and that it is an important element for investors to evaluate how companies and financial institutions address transition and physical risks and opportunities throughout their value chains. Morningstar concurs that—at a minimum—all companies with a Scope 3 emissions-reduction target must disclose their Scope 3 information, as well as companies for which those emissions are material.

In order to set some standard regarding what level of Scope 3 emissions is material, we encourage the Commission to provide guidance as to what industry standards firms can look toward for materiality thresholds for their industry, such as SASB or other evolving international frameworks. We further encourage disclosure of quantified and narrative information on how accelerated and large accelerated companies work with their value chains to reduce or avoid upstream and/or downstream emissions.

102. Should we require a registrant to disclose its Scope 3 emissions for each separate significant category of upstream and downstream emissions as well as a total amount of Scope 3 emissions for the fiscal year, as proposed? Should we only require the disclosure of the total amount of Scope 3 emissions for the fiscal year? Should we require the separate disclosure of Scope 3 emissions only for certain categories of emissions and, if so, for which categories?

Morningstar supports the Commission's proposed requirement that registrants disclose Scope 3 information for each separate significant category of upstream and downstream emissions as well as a total amount of Scope 3 emissions for the fiscal year.

105. Should we require the calculation of a registrant's Scope 1, Scope 2, and/or Scope 3 emissions to be as of its fiscal year end, as proposed? Should we instead allow a registrant to provide its GHG emissions disclosures according to a different timeline than the timeline for its Exchange Act annual report? If so, what should that timeline be? For example, should we allow a registrant to calculate its Scope 1, Scope 2, and/or Scope 3 emissions for a 12-month period ending on the latest practicable date in its fiscal year that is no earlier than three months or, alternatively, six months prior to the end of its fiscal year? Would allowing for an earlier calculation date alleviate burdens on a registrant without compromising the value of the disclosure? Should we allow such an earlier calculation date only for a registrant's Scope 3 emissions? Would the fiscal year end calculations required for a registrant to determine if Scope 3 emissions are material eliminate the benefits of an earlier calculation date? Should we instead require a registrant to provide its GHG emissions disclosures for its most recently completed fiscal year one, two, or three months after the due date for its Exchange Act annual report in an amendment to that report?

Morningstar supports the Commission's proposal that a company calculate Scope 1, Scope 2, and Scope 3 emissions at its fiscal year-end.

106. Should we require a registrant that is required to disclose its Scope 3 emissions to describe the data sources used to calculate the Scope 3 emissions, as proposed? Should we require the proposed description to include the use of: (i) emissions reported by parties in the registrant's value chain, and whether such reports were verified or unverified; (ii) data concerning specific activities, as reported by parties in the registrant's value chain; and (iii) data derived

from economic studies, published databases, government statistics, industry associations, or other third-party sources outside of a registrant's value chain, including industry averages of emissions, activities, or economic data, as proposed? Are there other sources of data for Scope 3 emissions the use of which we should specifically require to be disclosed? For purposes of our disclosure requirement, should we exclude or prohibit the use of any of the proposed specified data sources when calculating Scope 3 emissions and, if so, which ones?

Morningstar supports the Commission's proposed requirement that a registrant who must disclose its Scope 3 emissions must also describe the data sources used to calculate those emissions.

107. Should we require a registrant to provide location data for its disclosed sources of Scope 1, Scope 2, and Scope 3 emissions if feasible? If so, should the feasibility of providing location data depend on whether it is known or reasonably available pursuant to the Commission's existing rules (Securities Act Rule 409 and Exchange Act Rule 12b-21)? Would requiring location data, to the extent feasible, assist investors in understanding climate-related risks, and in particular, likely physical risks, associated with a registrant's emissions' sources? Would a requirement to disclose such location data be duplicative of any of the other disclosure requirements that we are proposing?

Please see our response to Question 12 explaining how disclosure of location data would help investors understand the climate-related risks to which registrants are exposed.

108. If we require a registrant to provide location data for its GHG emissions, how should that data be presented? Should the emissions data be grouped by zip code separately for each scope? Should the disclosure be presented in a cartographic data display, such as what is commonly known as a "heat map"? If we require a registrant to provide location data for its GHG emissions, should we also require additional disclosure about the source of the emissions?

Please see our response to Question 12 asking for location data to be presented as zip codes, or other equivalent subnational postal code if located abroad.

109. Should we require a registrant to disclose the intensity of its GHG emissions for the fiscal year, with separate calculations for (i) the sum of Scope 1 and Scope 2 emissions and, if applicable (ii) its Scope 3 emissions (separately from Scopes 1 and 2), as proposed? Should we define GHG intensity, as proposed? Is there a different definition we should use for this purpose?

Morningstar supports the Commission's requirement of disclosure of GHG intensity, and such disclosures should be required as proposed.

111. Should we require the disclosed GHG intensity to be expressed in terms of metric tons of CO2e per unit of production, as proposed? Would such a requirement facilitate the comparability of the disclosure? Should we require a different economic output measure of GHG intensity and, if so, which measure? For example, should GHG intensity be expressed in terms of metric tons of CO2e per number of employees? Should we require the GHG

intensity to be expressed per unit of production relevant to the registrant's business (rather than its industry)? Is further guidance needed on how to comply with the proposed requirement? Would requiring GHG intensity to be expressed in terms of metrics tons of CO2e per unit of production require disclosure of commercially sensitive or competitively harmful information?

We believe that disclosure should be expressed in terms of metric tons of CO2e per unit of revenue and production or another industry-specific measure (such as data-processing capacity). The required intensity metrics should be consistent for each industry.

112. Should we require a registrant with no revenue or unit of production for a fiscal year to disclose its GHG intensity based on, respectively, another financial measure or measure of economic output, as proposed? Should we require such a registrant to use a particular financial measure, such as total assets, or a particular measure of economic output, such as total number of employees? For registrants who may have minimal revenue, would the proposed calculation result in intensity disclosure that is confusing or not material? Should additional guidance be provided with respect to such instances?

We support the calculation as proposed (that is, calculating the ratio of metric tons of CO2e produced to total assets).

113. Should we permit a registrant to disclose other measures of GHG intensity, in addition to the required measures, as long as the registrant explains why it uses the particular measure of GHG intensity and discloses the corresponding calculation methodology used, as proposed?

We recommend that any other measures of GHG intensity disclosed, other than the required metrics, are consistent across industries and pre-revenue businesses.

114. Should we require GHG emissions disclosure for the registrant's most recently completed fiscal year and for the appropriate, corresponding historical fiscal years included in the registrant's consolidated financial statements in the filing, to the extent such historical GHG emissions data is reasonably available, as proposed? Should we instead only require GHG emissions metrics for the most recently completed fiscal year presented in the relevant filing? Would requiring historical GHG emissions metrics provide important or material information to investors, such as information allowing them to analyze trends?

We recommend companies provide emissions data for the same number of years as is required to provide data on the most recently completed year and corresponding historical fiscal years, as proposed. Companies should report the data in Inline XBRL.

115. Should we require a registrant to disclose the methodology, significant inputs, and significant assumptions used to calculate its GHG emissions metrics, as proposed? Should we require a registrant to use a particular methodology for determining its GHG emission metrics? If so, should the required methodology be pursuant to the GHG Protocol's Corporate Accounting and Reporting Standard and related standards and guidance? Is

there another methodology that we should require a registrant to follow when determining its GHG emissions? Should we base our climate disclosure rules on certain concepts developed by the GHG Protocol without requiring a registrant to follow the GHG Protocol in all respects, as proposed? Would this provide flexibility for registrants to choose certain methods and approaches in connection with GHG emissions determination that meet the particular circumstances of their industry or business or that emerge along with developments in GHG emissions methodology as long as they are transparent about the methods and underlying assumptions used? Are there adjustments that should be made to the proposed methodology disclosure requirements that would provide flexibility for registrants while providing sufficient comparability for investors?

Morningstar supports the Commission's proposed requirement of the use of the GHG Protocol and disclosure of the methodology, significant inputs, and assumptions to calculate GHG emissions metrics.

121. The proposed operational boundaries disclosure is based largely on concepts developed by the GHG Protocol. Would requiring a registrant to determine its organizational boundaries pursuant to the GAAP applicable to the financial statement metrics included in the financial statements but its operational boundaries largely pursuant to concepts developed by the GHG Protocol cause confusion? Should we require a registrant to apply the GAAP applicable to its financial statements when determining whether it "controls" a particular source pursuant to the definition of Scope 1 emissions, or particular operations pursuant to the definition of Scope 2 emissions, as proposed? If not, how should "control" be determined and would applying a definition of control that differs from applicable GAAP result in confusion for investors?

Morningstar recognizes the potential for disclosures to differ between consolidation for emissions reporting (for example, under the GHG Protocol) and SEC financial reporting. We encourage the Commission to require registrants to provide an explanation of such differences if there is a conflict between emissions reporting and SEC financial reporting.

Morningstar observes that the GHG Protocol may be applied more widely globally, while discrepancies in organizational boundaries may potentially impact reported emissions as well as impact and expenditure metrics. Morningstar therefore encourages further guidance by the SEC on how to address or report any material discrepancies and their impacts, if any, on disclosed GHG emissions and financial metrics.

H. Attestation of Scope 1 and Scope 2 Emissions Disclosure

135. Should we require accelerated filers and large accelerated filers to obtain an attestation covering their Scope 1 and Scope 2 emissions disclosure, as proposed? Should we require accelerated filers and large accelerated filers to obtain an attestation report covering other aspects of their climate-related disclosures beyond Scope 1 and 2 emissions? For example, should we also require the attestation of GHG intensity metrics, or of Scope 3 emissions, if disclosed? Conversely, should we require accelerated filers and large accelerated filers to obtain assurance covering only Scope 1 emissions disclosure? Should any voluntary

assurance obtained by these filers after limited assurance is required be required to follow the same attestation requirements of Item 1505(b)–(d), as proposed?

Morningstar supports the Commission's proposal to require accelerated and large accelerated filers to obtain attestation reports covering their Scope 1 and Scope 2 emission disclosures. We strongly encourage assurance of the metrics in order to improve the overall quality of reporting. Some reporting frameworks/standards already are already making space for an assurance process.

Morningstar notes that it is not uncommon for accelerated and large accelerated companies to have limited assurance in place already, and the Commission should encourage those companies to work toward obtaining reasonable assurance or disclose a reason for not doing so. Companies that are newer to GHG emissions disclosure may require more time to achieve limited assurance.

Morningstar considers emissions intensity and absolute emissions to work well in tandem: Emissions intensity is impervious to economic fluctuations, which can cause variation in absolute emissions for reasons unrelated to transition efforts. Meanwhile, absolute emissions will capture company expansion that at aggressive levels may materially curtail emissions reductions stemming from improvements to emissions intensity. We therefore advise attestation of GHG intensity.

Morningstar encourages the Commission to require registrants that would be required to disclose their Scope 3 emissions to obtain, at a minimum, limited assurance over their attestation reports covering their Scope 3 emissions. Morningstar recognizes that Scope 3 disclosure and accountability are becoming an investor expectation vis-à-vis the largest and leading companies globally and corresponds to the TCFD intent of documenting risks and opportunities. Transparency with respect to Scope 3 reporting can aid companies in reducing emissions across their value chain, and investors in understanding a company's progress, while allowing for more effective resilience and planning tied to physical risk.

136. If we required accelerated filers and large accelerated filers to obtain an attestation report covering Scope 3 emissions disclosure, should the requirement be phased-in over time? If so, what time frame? Should we require all Scope 3 emissions disclosure to be subject to assurance or only certain categories of Scope 3 emissions? Would it be possible for accelerated filers and large accelerated filers to obtain an attestation report covering the process or methodology for calculating Scope 3 emissions rather than obtaining an attestation report covering the calculations of Scope 3 emissions? Alternatively, is there another form of verification over Scope 3 disclosure that would be more appropriate than obtaining an attestation report?

If the SEC were to require an attestation report covering Scope 3 emissions disclosure, then it would benefit from being divided into upstream and downstream disclosures, in accordance with the GHG Protocol, and focus on a company's material Scope 3 emissions to be verified by a third party at a limited assurance level.

138. Instead of requiring only accelerated filers and large accelerated filers to include an attestation report for Scope 1 and Scope 2 emissions, should the proposed attestation requirements also apply to registrants other than accelerated filers and large accelerated filers? If so, should the requirement apply only after a specified transition period? Should such registrants be required to provide assurance at the same level as accelerated filers and

large accelerated filers and over the same scope of GHG emissions disclosure, or should we impose lesser requirements (*e.g.*, only limited assurance and/or assurance over Scope 1 emissions disclosure only)?

We recommend that filers other than accelerated and large accelerated filers provide attestation on a voluntary basis.

139. Should we require accelerated filers and large accelerated filers to initially include attestation reports reflecting attestation engagements at a limited assurance level, eventually increasing to a reasonable assurance level, as proposed? What level of assurance should apply to the proposed GHG emissions disclosure, if any, and when should that level apply? Should we provide a one fiscal year transition period between the GHG emissions disclosure compliance date and when limited assurance would be required for accelerated filers and large accelerated filers, as proposed? Should we provide an additional two fiscal year transition period between when limited assurance is first required and when reasonable assurance is required for accelerated filers and large accelerated filers, as proposed?

Morningstar supports the Commission's proposed requirement to obtain assurance 1) for accelerated filers and large accelerated filers, 2) with respect to Scope 1 and Scope 2 emissions, and 3) with an initial transition period for limited assurance and a subsequent transition period for reasonable assurance.

140. Should we provide the same transition periods (from the Scopes 1 and 2 emissions; disclosure compliance date) for accelerated filers and large accelerated filers, as proposed? Instead, should different transition periods apply to accelerated filers and large accelerated filers? Should we provide transition periods with different lengths than those proposed? Should we require the attestation to be at a reasonable assurance level without having a transition period where only limited assurance is required? Should we instead impose assurance requirements to coincide with reporting compliance periods?

Morningstar recommends allowing companies that are newer to GHG disclosure more time to integrate these requirements.

141. Under prevailing attestation standards, "limited assurance" and "reasonable assurance" are defined terms that we believe are generally understood in the marketplace, both by those seeking and those engaged to provide such assurance. As a result, we have not proposed definitions of those terms. Should we define "limited assurance" and "reasonable assurance" and, if so, how should we define them? Would providing definitions in this context cause confusion in other attestation engagements not covered by the proposed rules? Are the differences between these types of attestation engagements sufficiently clear without providing definitions?

Morningstar thinks that, to clarify expectations, it would be useful if the SEC were to provided guidance explaining the differences between the three levels (GHG disclosure, limited assurance, and reasonable assurance) and the steps required to move from one level to the next.

144. Should we require a registrant to obtain a GHG emissions attestation report that is provided by a GHG emissions attestation provider that meets specified requirements, as proposed? Should one of the requirements be that the attestation provider is an expert in GHG emissions, with significant experience in measuring, analyzing, reporting, or attesting to GHG emissions, as proposed? Should we specify that significant experience means having sufficient competence and capabilities necessary to: (a) perform engagements in accordance with professional standards and applicable legal and regulatory requirements and (b) enable the service provider to issue reports that are appropriate under the circumstances, as proposed? Should we instead require that the GHG emissions attestation provider have a specified number of years of the requisite type of experience, such as 1, 3, 5, or more years? Should we specify that a GHG emissions attestation provider meets the expertise requirements if it is a member in good standing of a specified accreditation body that provides oversight to service providers that apply attestation standards? If so, which accreditation body or bodies should we consider (*e.g.*, AICPA)? Are there any other requirements for the attestation provider that we should specify? Instead, should we require a GHG emissions attestation provider to be a PCAOB-registered audit firm?

Morningstar concurs with the SEC's stated proposal, including that the attestation provider should be independent and expert, with no conflicts of interest.

147. Should we specify that the factors the Commission would consider in determining whether a GHG emissions attestation provider is independent include whether a relationship or the provision of a service creates a mutual or conflicting interest between the attestation provider and the registrant, including its affiliates, places the attestation provider in the position of attesting to such attestation provider's own work, results in the attestation provider acting as management or an employee of the registrant, including its affiliates, or places the attestation provider in a position of being an advocate for the registrant and its affiliates, as proposed? Should we specify that the Commission also will consider all relevant circumstances, including all financial and other relationships between the attestation provider and the registrant, including its affiliates, and not just those relating to reports filed with the Commission, as proposed?

We support the Commission's clarifications as to the independence of a GHG emissions attestation provider as proposed.

150. Should the term "attestation and professional engagement period" be defined in the proposed manner? If not, how should "attestation and professional engagement period" be defined? Alternatively, should the Commission specify a different time period during which an attestation provider must meet the proposed independence requirements.

Morningstar concurs with the SEC's proposed definition of the term "attestation and professional engagement period."

160. Should we require certain items of disclosure related to the attestation of a registrant's GHG emissions to be provided by the registrant in its filing that includes the attestation report (where the GHG emissions and other climate-related disclosures are presented), based on

relevant information obtained from the GHG emissions attestation provider, as proposed? Should these additional items of disclosure instead be included in the attestation report?

Morningstar concurs with the location of these additional disclosures as proposed. We believe it would assist investors in evaluating the qualifications of the GHG emissions attestation provider selected by the registrant.

166. As proposed, a registrant would be required to disclose any oversight inspection program to which the service provider is subject, such as the PCAOB's inspection program or the AICPA's peer review program. Are there other oversight programs that we should provide as examples? Would such disclosure provide decision-useful information to an investor? Is it clear what "any oversight inspection program" would include?

Morningstar supports the Commission's proposal requiring the disclosure of oversight programs because we believe such disclosures would provide decision-useful information to investors.

I. Targets and Goals Disclosure

168. Should we require a registrant to disclose whether it has set any targets related to the reduction of GHG emissions, as proposed? Should we also require a registrant to disclose whether it has set any other climate-related target or goal, *e.g.*, regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products, in line with anticipated regulatory requirements, market constraints, or other goals, as proposed? Are there any other climate-related targets or goals that we should specify and, if so, which targets or goals? Is it clear when disclosure under this proposed item would be triggered, or do we need to provide additional guidance? Would our proposal discourage registrants from setting such targets or goals?

We support the Commission's requirement that registrants disclose targets related to the reduction of GHG emissions, describing the unit of measurement, whether the target is absolute and/or intensity based, the baseline, time horizon, alignment with climate-related treaty, law, regulation, policy, or organization, interim targets, and disclosure of how the registrant intends to meet its climate-related targets or goals, including energy efficiency, lower-carbon products, carbon offsets or RECs, and carbon removal or storage. For water-related corporate targets, timelines, and indicators, the scope should be clearly defined for investors and connected to the overall strategy, business risks and opportunities. Additionally, we encourage the Commission to monitor for the development of science-based water targets. Initiatives such as the CEO Water Mandate or the Science-Based Targets initiative recommend contextual and science-based targets. Targets should be measured by key performance indicators, discussed with stakeholders, and aligned with international goals at multiple levels. Progress could be expressed in terms of:

1. Percentage of clean water replenished in hotspot basins in relation to the water consumed (that is, net positive), or
2. Value or percentage of investments and of research and development that is focused on improving water efficiency or on preserving water ecosystems in hotspot basins.

For a registrant operating in a water-stressed area, with the goal of reducing its freshwater needs, the discussion could include a strategy to increase the water efficiency of its operations, such as by recycling wastewater or, if in agriculture, engaging in bioengineering techniques to make crops more resilient and less water dependent.

169. Should we require a registrant, when disclosing its targets or goals, to disclose:

   a. The scope of activities and emissions included in the target;

   b. The unit of measurement, including whether the target is absolute or intensity based;

   c. The defined time horizon by which the target is intended to be achieved, and whether the time horizon is consistent with one or more goals established by a climate-related treaty, law, regulation, or organization;

   d. The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;

   e. Any intervening targets set by the registrant; and

   f. How it intends to meet its targets or goals, each as proposed?

Are there any other items of information about a registrant's climate-related target or goals that we should require to be disclosed, in addition to or instead of these proposed items? Are there any proposed items regarding such targets or goals that we should exclude from the required disclosure? If a registrant has set multiple targets or goals, should it be permitted to establish different base years for those targets or goals?

In addition to the above requirements, Morningstar recommends that a registrant disclose whether the target is temperature aligned, to which estimated temperature pathway its targets align, and which scenario or sector pathway was used to determine alignment. We also encourage the Commission to provide guidance on which standards registrants should use to develop their targets. Such guidance could include standards like those developed by the SBTi and standards developed by other industry bodies.

170. Should we require a registrant to discuss how it intends to meet its climate-related targets or goals, as proposed? Should we provide examples of potential items of discussion about a target or goal regarding GHG emissions reduction, such as a strategy to increase energy efficiency, a transition to lower carbon products, purchasing carbon offsets or RECs, or engaging in carbon removal and carbon storage, as proposed? Should we provide additional examples of items of discussion about climate-related targets or goals and, if so, what items should we add? Should we remove any of the proposed examples of items of discussion?

Morningstar supports the Commission's proposed requirement that registrants disclose how they intend to meet their climate-related targets or goals. As discussed above, Morningstar believes that it is critically important that the Commission compel issuers not only to establish clear metrics and targets for managing climate risks and opportunities, but to disclose progress against these metrics as well. Without these disclosures, investors will find it difficult to evaluate a company's progress in executing its climate-related strategies. Also, the points raised about opportunities in Question 48 about opportunities lists additional potential items of discussion for a target or goal.

171. Should we require a registrant, when disclosing its targets or goals, to disclose any data that indicates whether the registrant is making progress towards meeting the target and how such progress has been achieved, as proposed?

We support the Commission's proposed requirement that registrants publish data reflecting progress toward goals or targets.

172. Should we require that the disclosure be provided in any particular format, such as charts? Would certain formats help investors and others better assess these disclosures in the context of assessing the registrant's business and financial condition? What additional or other requirements would help in this regard?

Standardized charts and tables would be very helpful, as would standardized placement in reporting.

173. If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, the nature and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs, as proposed? Are there other items of information about carbon offsets or RECs that we should specifically require to be disclosed when a registrant describes its targets or goals and the related use of offsets or RECs? Are there proposed items of information that we should exclude from the required disclosure about offsets and RECs?

Please see our answer to Question 24 expressing support for the Commission's proposed disclosures on RECs.

J. Registrants Subject to the Climate-Related Disclosure Rules and Affected Forms

175. Should the proposed climate-related disclosures be required in Exchange Act reports and registration statements, as proposed? Should we exempt SRCs from all of the proposed climate-related disclosure rules instead of exempting them solely from Scope 3 emissions disclosure requirements, as proposed? Should we exempt SRCs from certain other proposed climate-related disclosure requirements and, if so, which requirements? For example, in addition to the proposed exemption from Scope 3 emissions disclosure, should we exempt SRCs from the proposed requirement to disclose Scopes 1 and 2 emissions? Are there certain types of other registrants, such as EGCs or business development companies ("BDCs"), that should be excluded from all or some of the proposed climate-related disclosure rules?

We support the Commission's exemption of SRCs from Scope 3 disclosures. We also support the Commission's proposal to require SRCs to report other disclosures, including Scopes 1 and 2 emissions.

177. Should we require a registrant to disclose any material changes to the climate-related disclosure provided in its registration statement or annual report in its Form 10-Q or Form 6-K, as proposed? Are there any changes that should be required to be reported on Form 8-K?

Morningstar believes that any changes that would materially impact a company's Scope 1-3 emissions disclosure should be reported at least in its Form 10-K, if not in its quarterly reports, as this information could significantly impact an investors' decision-making.

182. The proposed rules would not apply to asset-backed issuers. The Commission and staff are continuing to evaluate climate-related disclosures with respect to asset-backed securities. Should we require asset-backed issuers to provide some or all of the disclosures under proposed Subpart 1500 of Regulation S-K? If so, which of the proposed disclosures should apply to asset- backed issuers? Are other types of climate disclosure better suited to asset-backed issuers? How can climate disclosure best be tailored to various asset classes?

Morningstar agrees with the Commission that this rule should not cover asset-backed issuers. However, in the future, Morningstar urges the Commission to consider a separate rule proposal that would cover asset-backed issuers. We believe all financial and nonfinancial corporations should be expected to provide consistent climate-related disclosures with respect to their equity or debt (or debtlike) issuances. A more tailored, risk-based approach (to the extent that the relevant transaction parties have not already provided the relevant disclosures at the operating entity level) may be more appropriate for climate-related disclosures with respect to securitizations.

189. An International Sustainability Standards Board (ISSB) has recently been created, which is expected to issue global sustainability standards, including climate-related disclosure standards. If we adopt an alternative reporting provision, should that provision be structured to encompass reports made pursuant to criteria developed by a global sustainability standards body, such as the ISSB? If so, should such alternative reporting be limited to foreign private issuers, or should we extend this option to all registrants? What conditions, if any, should we place on a registrant's use of alternative reporting provisions based on the ISSB or a similar body?

Morningstar applauds the recent creation of the ISSB and its stated intention to leverage both TCFD and SASB frameworks for the reporting of climate-related and broader ESG risks and opportunities. Both frameworks are globally recognized and offer detailed guidance. As we have previously noted, both frameworks leverage a building-block approach, proceeding initially with disclosure that is focused on financial materiality, then subsequently expanding in time-boxed elements to impact-oriented metrics. Given the widespread and established use of the TCFD framework, Morningstar believes that the framework proposed by the Commission will naturally encompass criteria developed by a global sustainability standards body, such as the ISSB.

K. Structured Data Requirement

190. Should we require registrants to tag the climate-related disclosures, including block text tagging and detail tagging of narrative and quantitative disclosures required by Subpart 1500 of Regulation S-K and Article 14 of Regulation S-X in Inline XBRL, as proposed? Should we permit custom tags for the climate-related disclosures?

Morningstar supports the Commission's proposed requirement that registrants electronically tag both narrative and quantitative climate-related disclosures in Inline XBRL. We believe that Inline XBRL is the optimal format, as it enables efficient data parsing while the data is observable within context. Further, the machine-readable format of Inline XBRL will increase efficiencies in capital markets. As new types of information like GHG emissions and other ESG-related disclosures become more relevant, providing an efficient way for data providers, researchers, and investors to ingest and analyze this data will allow for an increased and faster flow of relevant, digestible information throughout capital markets. That said, Morningstar recommends that the Commission avoid custom tags within the Inline XBRL schema because they erode the comparability of the climate-related disclosures.

191. Should we modify the scope of the proposed climate-related disclosures required to be tagged? For example, should we only require tagging of the quantitative climate-related metrics?

The Commission should not modify the scope of the proposed climate-related disclosures required to be tagged. Tagging of narrative disclosures is as valuable to the public's ability to examine and compare public companies as the quantitative data disclosures.

193. Should we require issuers to use a different structured data language to tag climate- related disclosures? If so, what structured data language should we require? Should we leave the structured data language undefined?

The Commission should not require issuers to use a different structured data language to tag climate-related disclosures. We view Inline XBRL as an appropriate markup language to use for the disclosures of this data, provided that the XML Schema Definition schema is sufficiently fine-grained and well-defined.

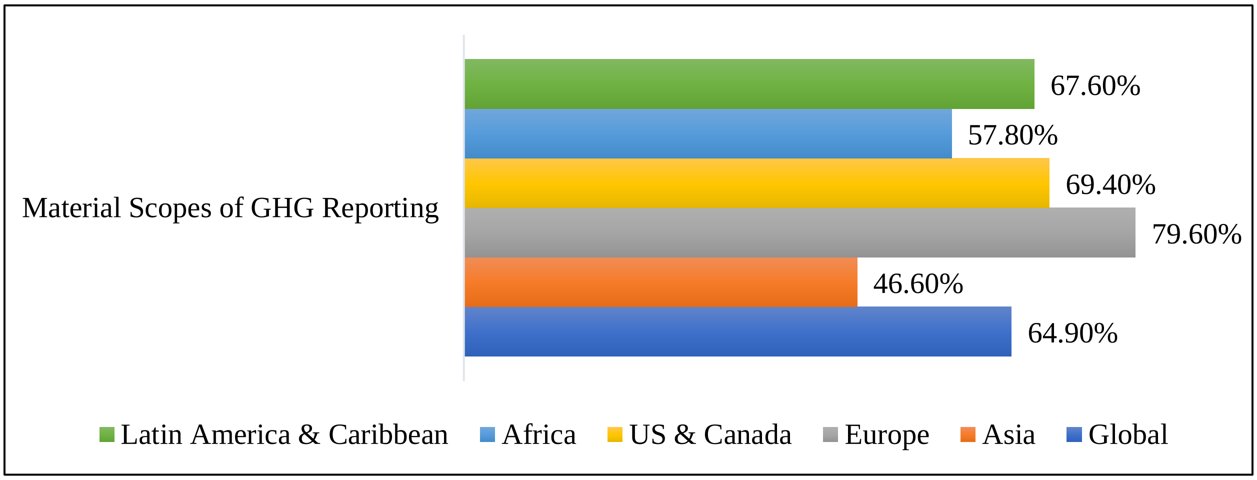
M. Compliance Date

197. Should we provide different compliance dates for large accelerated filers, accelerated filers, non-accelerated filers, or SRCs, as proposed? Should any of the proposed compliance dates in the table above be earlier or later? Should any of the compliance dates be earlier so that, for example, a registrant would be required to comply with the Commission's climate-related disclosure rules for the fiscal year in which the rules become effective?

Morningstar encourages the Commission to consider basing compliance dates and deadlines on company preparedness rather than solely on issuer size and revenue. As shown in Exhibit 2, disclosures in the United States on climate issues are incomplete, but they are not far behind other markets with more regulation. Exhibit 3 demonstrates variation in the U.S. across sectors as to the typical level of disclosure and shows the rates of Scope 1, 2, and 3 emissions where material, by industry. Looking at the present data, we find that disclosures, particularly around Scope 3, vary in their standardization and quality, reinforcing the need for consistent regulation. However, clearly some companies are more prepared than others as they have already been disclosing these emissions. Thus, while we support the current Commission timeline, we would also be comfortable with the Commission giving more time to companies that have not previously disclosed Scope1-3 emissions, as well as SRCs—perhaps a year for each of these groups in addition to the current timeline.

We also recognize that accelerated filers and large accelerated filers will need information about Scope 1 and Scope 2 emissions from companies in their value chain, which may include SRCs and private companies, in order to calculate their Scope 3 emissions. As a result, the data necessary to calculate Scope 3 emissions may become available to them on a different timeline, or in some cases not at all. We are not sure what the best solution for this problem is, but the Commission may have to make allowances for these limitations while the disclosures are being phased in.

Exhibit 2: Disclosure Rates (Percentage) of Quantitative GHG Emissions



Source: Sustainalytics data.

Exhibit 3: Disclosure Rates of Material Scopes of GHG Emissions by Industry in the U.S.

Disclosure Type	Companies Covered	Disclosure Rates (%)
Paper and Forestry	6	100
Precious Metals	4	100
Automobiles	151	94.0
Diversified Metals	9	88.9
Construction and Engineering	8	87.5
Containers and Packaging	29	86.2
Industrial Conglomerates	19	84.2
Energy Services	11	81.8
Transportation	56	71.4
Utilities	108	70.4
Household Products	13	69.2
Food Products	62	62.9
Construction Materials	8	62.5
Chemicals	47	61.7
Building Products	10	60.0
United States	1,100	59.5
Semiconductors	22	59.1
Auto Components	7	57.1
Telecommunication Services	41	53.7
Technology Hardware	65	52.3
Consumer Services	51	47.1
Oil and Gas Producers	46	45.7
Traders and Distributors	22	45.5
Food Retailers	17	41.2
Refiners and Pipelines	34	41.2
Machinery	61	39.3
Consumer Durables	13	38.5
Electrical Equipment	13	38.5
Aerospace and Defense	38	36.8
Healthcare	49	36.7
Retailing	23	34.8
Commercial Services	16	31.3
Software and Services	27	14.8
Homebuilders	8	12.5
Steel	6	0

Source: Sustainalytics data.