SUBMITTED BY E-MAIL

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Brussels, 17th June 2022

SUBJECT: Comments of the European Banking Federation on the SEC Proposed Rule on The Enhancement and Standardization of Climate-Related Disclosures for Investors (hereafter the SEC's Proposal) – File number S7-10-22

The EBF welcomes the SEC's Proposal of a framework that will help provide investors in the United States – and around the globe – essential and decision-useful information regarding the disclosure of internationally consistent, comparable, and reliable climate-related information about a registrant's business and financial performance over the short, medium and long term. The EBF supports the SEC's intention of broadly align its disclosure framework with current and emerging international climate disclosure standards, as well as the SEC's cooperation with the International Financial Reporting Standards Foundation's (IFRS) International Sustainability Standards Board (ISSB) in helping craft these standards. EBF notes that there currently is a window of opportunity to align international and local jurisdictional requirements given that proposals from ISSB, SEC and EFRAG are out for consultation at the same time.

The EBF has long advocated for international harmonization and alignment and supports developments of global sustainability mandatory reporting by the ISSB, under robust governance and public oversight as stated by the G20. Increasing consistency and comparability should be the main objective of a harmonized non-financial reporting. Climate action, as well as other sustainability objectives, are global by nature and as such require a global common approach to be defined by international standards on which local jurisdictions can build.

The EBF therefore welcomes the SEC's initiative to build the disclosure regime for registrants based on the Task Force for Climate Disclosures 2021 updated guidelines (hereafter TCFD 2021) recommendations. It will help provide investors with key information about how market participants are addressing climate-related issues through their governance, strategy and risk management processes. European banks having financial activities in the United States have great interest in the SEC initiative given the importance of robust climate disclosures to (i) best serve clients and investors around the world demanding such information, and (ii) to satisfy their own regulatory disclosure requirements. Through building on the existing TCFD 2021 framework, and supporting the integration of emerging international disclosure standards, the SEC will be able to provide investors with the most decision-useful, reliable, consistent and comparable climate-related information about U.S. companies.

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I- Support for the SEC's Proposal

EBF supports the SEC's Proposal, in particular the following initiatives:

- **The use of internationally recognized TCFD 2021 framework and ISSB proposals on IFRS sustainability standards.**

  Alignment with international climate disclosure standards is critical to build a harmonized and therefore effective climate disclosure regime for investors and to ensure global market efficiency.

- **The disclosure of climate-related risks and opportunities and their impacts on the registrant's business, strategy, and outlook.**

- The disclosure of a registrant's direct GHG emissions (**Scope 1**) and indirect GHG emissions from energy used (**Scope 2**), separately disclosed, **not including offsets**, both in absolute value and physical intensity.

- **The disclosure of indirect emissions from upstream and downstream activities in a registrant's value chain (Scope 3), not including offsets**.

  - Scope 3 can represent a large proportion of a registrant's GHG's emissions, and even most of a registrant's emissions in some sectors.
  - Scope 3 is required by investors/stakeholders so that they can make informed decisions.

  We welcome the fact that the SEC requires issuers to disclose Scope 3 greenhouse gas emissions by providing a phase-in approach (in particular for financial institutions), a safe harbour, and an exemption for smaller reporting companies.

- **The disclosure of both qualitative and quantitative information about carbon offsets and/or renewable energy certificates (RECs) being used by a registrant.**

  We support the provision of such information, including the amount of carbon reduction represented by the offsets and/or the amount of generated renewable energy represented by the RECs. Also, we suggest that the SEC requires a detailed disclosure that clearly distinguishes the various sources of offsets (generated by the registrant's own activity vs. purchased from the market) and types of carbon offsets (compliance allowances, afforestation, carbon capture and storage, permanent carbon removals), similarly to what is proposed by the ISSB.

- **The disclosure of a registrant's climate-related targets and transition plan, with relevant metrics and targets used to identify and manage climate-related physical and transition risks.**

  - Banks need detailed information on their clients' transition targets and associated transition plans in order to both assess their own transition to net zero and best serve their clients' financing needs to transition to a low carbon economy. Such transition plans should be evaluated by comparison to benchmark sectoral pathways.

- We welcome the fact that the SEC encourages corporate issuers to disclose transition plans, in line with TCFD 2021 recommendations. In the TCFD 2021 consultation, 96% of users responded that organizations' disclosure of transition plans would be "very useful" or "somewhat useful". In an effort to be consistent with TCFD 2021, transition plans should be included in the business strategy section rather than in the risk management framework.

II- Specific recommendations

We would like to propose the following specific recommendations:

II.1a Need for the SEC to create an outcomes-based substituted compliance regime to allow foreign private issuers (FPIs) to rely on comparable home country requirements, and an option for both FPIs and U.S. registrants to use international standards as an alternative reporting mechanism

As a practical matter, any SEC substituted compliance regime should be streamlined, and should avoid creating a cumbersome process of line-by-line comparisons between the SEC climate disclosure regime and the climate disclosure rules of the foreign jurisdiction. Such a cumbersome process wastes regulatory resources from the SEC and international authorities, presents a cumbersome and unnecessarily expensive burden for market participants, and does not further the SEC policy objectives to ensure a robust disclosure framework consistent with the SEC's goals. Instead, the SEC policy objectives can be far better accomplished with a broad degree of deference to an international regime so long as certain key pillars and policy goals are satisfied.

As the SEC plans to require disclosures from FPIs in addition to U.S.-domiciled firms, the SEC should design an equivalence or substituted compliance regime. Issuers should be exempted from producing duplicative disclosures if their required home country disclosures on climate-related issues are broadly comparable to the SEC's Proposal. This streamlined substituted compliance process would be for the SEC to allow an upfront "Recognition of Alternative Reporting Regimes" for foreign jurisdictions with disclosure regimes comparable to the SEC, similar to how the SEC structured its December 16, 2020 Final Rule for "Disclosure of Payments for Resource Extraction Issuers." Having an upfront decision in the SEC's finalized climate disclosure rule (or through a contemporaneous SEC order) about which international frameworks the SEC generally deems comparable to its own would reduce administrative burdens for the SEC, international regulators, and FPIs. This approach would avoid unnecessary line-by-line evaluation of international rules for jurisdictions that satisfy the same outcomes and objectives sought by the SEC climate disclosure regime.

In addition, and as referenced in SEC's Proposal question 189, EBF recommends that the SEC, in close liaison with international standard setters, creates a framework to permit U.S. and non-U.S. multinational companies, to have the option of complying with the ISSB standards as an alternative means of complying with the SEC's climate disclosure requirements. The SEC should allow registrants to comply with the SEC climate disclosure requirements by using the ISSB climate standards, as an alternative reporting regime.

Should the SEC finalize its climate disclosure framework before the ISSB standards are finalized, all registrants should be allowed to use the TCFD 2021 revised standards as an alternative to the SEC requirements during the interim period before the ISSB standards become effective. The SEC's Proposal is closely aligned with the TCFD 2021 revised standards, therefore the TCFD 2021 framework would be an adequate substitute while the ISSB climate-related standards are being developed. Furthermore, the TCFD 2021 standards also form the basis of the ISSB climate reporting framework so it is unlikely that there would be significant deviations in the long run between the SEC's Proposal and the ISSB climate-related standards once the ISSB climate standards become the alternative reporting regime.

Such an alternative reporting regime option should be extended to all registrants – including FPIs and U.S. registrants, who may wish to comply with the ISSB (or in the interim TCFD 2021) standards instead of the SEC's climate disclosure framework. Such an option would significantly simplify compliance for both FBIs and U.S.-domiciled issuers, would support international alignment of standards, and would improve the consistency of global disclosures to the benefit of U.S. and global investors, and strengthen overall market efficiency.

Similarly, the SEC could allow a FPI to certify that their home country regime is generally consistent with ISSB (or in the interim TCFD 2021) standards. This approach could be similar to the straightforward process in which the Board of Governors of the Federal Reserve System (FRB) allows FBOs to comply with the FRB single counterparty credit limits (SCCL) rule by certifying that the FBO is complying with home country SCCL rules based on the large exposure framework recommended by the Basel Committee.

II.1b Need to avoid changes in accounting policies (Section F)

Section F of the SEC document suggests that for the calculation of the quantitative sustainability metrics, different accounting policies (set by SEC) could be used other than the ones used for the preparation of financial statement. We do not agree with this suggestion as we believe this would impact the compliance of financial institutions with IFRS since according to IAS 1.16&18:

" An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs" and "An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material".

In our opinion, there is a difference between extending the disclosures and changing accounting principles applied. The later should therefore be avoided.

II.2 Need for the SEC to continue engaging with the ISSB and other jurisdictions' standard setters to align global climate disclosure requirements

EBF supports the ISSB announcement of April 27th, 2022, of the creation of working groups on the comparability between ISSB global baseline and initiatives by jurisdiction, of which the SEC is a member.

- There is a strong public interest in seeking to align where possible the international and jurisdictional requirements for sustainability disclosures.

- There is a window of opportunity to align international and jurisdictional requirements, given that proposals from ISSB, SEC and EFRAG are out for consultation at the same time. The working group must aim at co-construction and consensus building to ensure that the standards being developed are interoperable and comparable.

- The working group with standard setters and authorities, including the SEC, should be backed by an industry advisory group comprised of users and preparers, as it is the case with IFRS standards. This advisory group should focus on providing recommendations regarding interoperability of international climate disclosure regimes and be aligned with the July deadline.

II.3 Need to align with prudential requirements

We also recommend that the SEC climate disclosure requirements evolve to be consistent with existing and upcoming requirements from U.S. and international prudential regulators, including recommendations from the Basel Committee on Banking Supervision (BCBS), regarding Climate risk management and scenario analysis or climate stress tests, or other applicable requirements.

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Thank you for considering these comments and recommendations. Should you have any questions, please do not hesitate to contact us.

Respectfully submitted,

Yours sincerely,

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CEO
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