MOODY'S

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June 17, 2022

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

Via e-mail: rule-comments@sec.gov

RE: File Number S7-10-22

Dear Secretary Countryman:

Moody's Corporation ("Moody's") welcomes the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed rules on "The Enhancement and Standardization of Climate-Related Disclosures for Investors" (the "Proposed Rules"). We commend the Commission for its attention and focus on this important issue impacting the investor community and market participants.

Moody's is a global integrated risk assessment firm, providing data, analytical solutions and insights to help decision-makers identify opportunities and manage risks. Moody's uses its expertise to make a positive difference through technology tools, research and analytical services that help other organizations and the investor community better understand the links between sustainability considerations and the global markets. Climate considerations are relevant across our suite of products and solutions. Moody's provides environmental, social and governance (ESG) measures, climate solutions and sustainable finance solutions. Moody's Analytics (MA) delivers a comprehensive range of data-driven and forward-looking ESG-adjusted insights, macroeconomic forecasts and credit risk tools. Moody's Investors Service (MIS), the credit rating agency, incorporates climate into its analysis where materially relevant to credit.

Through these different products and solutions, Moody's is a consumer as well as a provider of climate-related data. In addition, Moody's is intently focused on addressing the climate implications of its own operations, which we report on through disclosures both within and outside of our SEC filings, and as a publicly traded company Moody's will be subject to the Proposed Rules when adopted.

We concur with the Commission that investors would benefit from more "consistent, comparable, and decision-useful information" about climate-related risks and metrics. As a large consumer of information on ESG, we look for consistency and comparability in the information we use in our analyses, and believe that investors and companies could benefit from more standardized, consistent and targeted disclosure standards addressing climate-related risks and data. Accordingly, we believe it important that the rules adopted by the Commission result in disclosures that are proportionate, decision-useful and detailed enough to provide meaningful information for investors to ascertain the financial implications of climate risk.

In this light, we wish to make four key comments:

1. **We welcome the Commission's efforts to enhance and standardize climate-related disclosures and encourage the Commission to work with international standard-setters in the development of global climate-specific reporting standards.**

2. **We encourage the Commission to consider a more principles-based approach to the determination of financial statement metrics.**

3. **We support the proposed format for disclosure pursuant to the Proposed Rules and believe that improved disclosures would be obtained if companies were allowed additional time to prepare and file the required information.**

4. **We suggest certain amendments to avoid disincentivizing the development, use, and sharing of climate-related data and risk assessment tools.**

We elaborate on each of these points below.

<u>We Welcome the Commission's Efforts to Enhance and Standardize Climate-Related Disclosures</u>

We support the Commission's goal of promoting "consistent, comparable, and decision-useful information" through a standardized approach to disclosure of climate-related information. In our experience, while companies are making good-faith efforts to provide useful disclosure of climate-related risks and initiatives, the absence of a uniform mandate results in companies providing divergent levels of detail and following diverse sets of voluntary standards, or no particular standards. Further, where there is disclosure, we have observed the use of vague terms, inconsistent analysis and a lack of quantitative disclosure with forward-looking data. While many voluntary standards are now coalescing around a common approach, regulatory requirements will aid and accelerate this process. We believe that the Proposed Rules are overall conducive to the SEC's objective and support the majority of the proposed requirements.

We believe that the Proposed Rules will be most effective if they build on, align with and promote global efforts in respect of climate-specific disclosures to help the market converge toward a common, well-understood set of standards. We commend the Commission for modeling its disclosure proposals on the framework developed by the Task Force on Climate-Related Financial Disclosures (TCFD) framework and the Greenhouse Gas (GHG) Protocol, both of which are widely endorsed standards. We believe the Commission could further advance the goal of providing consistent, comparable, and decision-useful disclosures by adopting rules that encourage companies to conform their disclosures to internationally developed, Commission-recognized standards. For example, the Commission could provide[1] that companies' disclosure obligations can be satisfied by reporting emissions data in conformity with the GHG Protocol (including the Protocol's organizational boundaries), and that companies that fail to report in compliance with a Commission-recognized standard must provide

[1] We note that the Commission's rules have often relied upon external standards that have been reviewed and sanctioned by the Commission. For example, Regulation S under the Securities Act of 1933 employs the concept of a "Designated offshore securities market," which allows the Commission to designate securities markets that meet certain attributes prescribed by the Commission. *See 17 CFR 230.902(b)*. Similarly, Commission rules formerly utilized the concept of "nationally recognized statistical ratings organizations," which were credit rating agencies that the Commission had found satisfied certain standards.

detailed disclosures about the methodology they apply and their reasons for using an alternative methodology. As another example, the Commission could provide that disclosure by companies in line with the standards issued by the International Sustainability Standards Board (ISSB) satisfies the Commission's disclosure requirements. We also encourage the Commission to adopt final rules that more fully align with the GHG Protocol in respect of the organizational boundary approaches.

By providing a process for the Commission to from time-to-time recognize acceptable reporting standards or frameworks, the Commission could advance international alignment of evolving climate-related reporting standards. For example, we have been supportive of the work by the ISSB to develop global sustainability standards and consolidate existing ones, with a view to providing greater clarity to the market and facilitating comparability of issuer disclosures.[2]

Ideally, this approach would allow for far-reaching alignment of the Commission requirements with future standards issued by the ISSB or other standard setters that meet criteria established by the Commission. Disclosures are most useful when they provide a high degree of consistency and comparability. As the Commission correctly highlights, inconsistent reporting across U.S. companies can make analysis and comparisons challenging and potentially misleading, increasing costs to both the companies and the users of data while decreasing the utility of the information. The same concern holds true at the international level. Accordingly, we commend the Commission for its existing efforts to cooperate with the ISSB through the jurisdictional working group, and we encourage the Commission to work with the ISSB in the development of a set of climate-specific reporting standards to complement and augment the work of the TCFD going forward.

<u>We Encourage the Commission to Consider a More Principles-Based Approach to the Determination of Financial Statement Metrics</u>

The Commission proposes that financial impacts of climate-related risks on the consolidated financial statements should be disclosed where they amount to one percent or more of the total line item for the relevant fiscal year. We appreciate the Commission's objectives of reducing the risk of under-reporting and promoting comparability and consistency of disclosures. However, we believe that the rule as proposed would not meaningfully inform our analysis or lead to a more informed market. Instead, we believe that it could lead to incomplete, haphazard, and inconsistent reporting and provide a false sense of precision. A one percent threshold per line item would result in disaggregated data with different disclosure thresholds depending on where a particular expense is recorded, thus creating an incomplete picture of an individual company's total actual and committed impacts and expenditures related to climate change risks and activities. This disclosure would thus necessarily vary across companies, leading to inconsistency and lack of comparability, inhibiting the usefulness of this information to investors and other market participants. By disaggregating amounts and basing disclosure on a line item threshold, only some portion of expenditures would be captured, depending on the level of a company's other expenditures on the various line items, and these disclosure thresholds would vary not only within a single company but also among companies (as would the line item captions themselves). In addition, as recognized by the Commission, there is a significant amount of uncertainty and complexity around climate-related risks, which will require the application of judgment and assumptions.

For the time being, we therefore suggest the Commission dispense with this rule in favor of a more principles-based approach for reporting any financial statement metrics.

[2] In the first instance, the ISSB has proposed an approach that would incorporate the sector-specific metrics of the Sustainability Accounting Standards Board (SASB).

We Support the Proposed Format of Disclosure

We support the concept of presenting the climate-related disclosure in an appropriately captioned, separate part of a company's registration statement or annual report. Disclosure of climate-related information as part of the registration statement or annual report would facilitate a holistic perspective, where climate-related information is seen in conjunction with and as a part of a company's overall strategy and business model.

At the same time, we recognize that the data that would be required to prepare disclosures under the Proposed Rules, particularly emissions data, will at least partially be dependent on obtaining information from third parties and we believe that allowing more time for companies to prepare these disclosures would likely result in more accurate data, without any significant sacrifice in the utility of the annual disclosures. Companies' emissions data is often reliant upon financial information from accounting processes that must conclude prior to making necessary calculations of, and seeking an attestation of, emissions data. Companies also generally rely on information provided by vendors and other third parties for Scope 3 emissions data. Requiring this information to be filed at the same time that companies file their annual reports on Form 10-K may result in companies delaying their Form 10-K filings and in data that is less accurate, in each case resulting in information that is less decision-useful for the markets. For these reasons, we would support an alternative approach that would allow companies additional time to file their climate-related disclosures and to forward-incorporate that information into the Form 10-K, similar to what is done with executive compensation disclosures. We believe this approach will help to ensure accurate, timely, and decision-useful information and allow companies sufficient time to provide consistent and precise year-over-year calculations of disclosed information.

Some Aspects of The Rules Risk Disincentivizing the Development, Use, and Sharing of Climate-Related Data and Risk Assessment Tools

We support rules that ensure appropriate disclosures, while also encouraging firms in their efforts to understand and manage their climate-related risks. Overall, we believe the Proposed Rules are conducive to that objective and we support much of the Commission's proposed rules. However, we are concerned that some aspects of the Proposed Rules could inadvertently disincentivize the use of climate-related risk assessment tools. Specifically, the Proposed Rules would require that companies be required to disclose transition plans, the use of scenario analysis and the use of internal carbon pricing where it exists. While we find such information helpful to our work, the market would not be well served by an outcome where a company refrains from implementing such tools because of the associated disclosure requirements. Instead, we would suggest that the Commission delay the requirement to disclose transition plans, so that companies have a year or two after developing and adopting a comprehensive transition plan to evaluate and test the plan before they first have to report on it publicly. Similarly, we encourage the Commission to defer on requiring disclosure of internal carbon pricing and scenario analysis. .

We also support providing a safe harbor from liability for Scope 3 emissions data in recognition of companies' reliance on third parties for this type of information. It is important that third parties are encouraged to cooperate in providing the data required for companies to measure their Scope 3 emissions. A broader safe harbor protection available to both the reporting company and any third party that a company relies on in assessing and reporting its Scope 3 emissions would incentivize third parties to supply, and enable companies to provide, emissions data that is essential to consistent, accurate, and comparable disclosures.

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We appreciate the opportunity to comment on this critical initiative to improve investor understanding and market transparency for corporate climate change disclosures. Please find attached further comments in response to some of your detailed questions. We are available to meet and discuss these comments or any questions the Commission and its staff may have.

Sincerely,

/S/ Nick Miller

Nick Miller
Managing Director – Global Regulatory Affairs
Moody's Corporation

Annex: Responses to selected questions

One percent rule and Financial Statement Metrics

Question 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?

Question 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?

Question 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?

Question 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?

Question 54

Should we also require such metrics to be calculated at a reportable segment level when a registrant has more than one reportable segment (as defined by the FASB ASC Topic 280 Segment Reporting)? In addition, should we require such metrics to be presented by geographic areas that are consistent with the registrant's reporting pursuant to FASB ASC Topic 280-10-50- 41? How would investors use such information?

Question 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?

Question 68

Instead of including a quantitative threshold, as proposed, should we require disaggregated disclosure of any impact of climate-related risks on a particular line item of the registrant's consolidated financial statements? Alternatively, should we just use a materiality standard?

Question 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?

Question 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?

We support the objective of seeking to quantify climate-related risk and treating it like other material risks. For the purposes of MIS' credit analysis, we generally find the calculations at the level of reportable business segments more useful than geographic breakdown within a segment. However, the geographic breakdown can be relevant where risks vary by jurisdiction (i.e., different policy environments for carbon transition risk) or by geographic location (for physical climate related risks). We would welcome a geographic breakdown for material markets.

As set out in the cover letter, we therefore suggest the Commission dispense with the one-percent rule in favor of a more principles-based approach for reporting any financial statement metrics.

Climate-related risks and opportunities

Question 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?

Question 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 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?

Question 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?

Question 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?

Question 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?

Overall, we support the SEC's proposals in respect of the disclosure of climate-related risks and opportunities. We also believe the SEC's current proposal of requiring registrants to specify their use of short, medium and long term is most appropriate at this point in time. Currently, there is no harmonized understanding of these concepts, and their relevance may vary between sectors.

We support the reference to both physical risks and transition risks, and with the inclusion of both acute and chronic risks under physical risk. We believe that all of these risk categories can have financial materiality.

The interaction between acute and chronic risks is complex, and it would be even more complex to disentangle this interaction in considering financial materiality. We suggest that companies should disclose both chronic and acute risks, but need not immediately be required to discuss how the acute and chronic risks they face may affect one another.

We further consider it appropriate for companies to disclose material climate-related opportunities, as well as risks. The SEC's proposal defines "climate-related opportunities" to include the actual or potential positive impacts of climate-related conditions and events on a registrant's consolidated financial statements, business operations, or value chains, as a whole. We would suggest that this definition also include positive impacts on a company's competitive positioning, brand strength, and reputation.

Processes, targets and goals

Question 42

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

Question 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?

Question 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?

Question 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?

Question 169

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

- The scope of activities and emissions included in the target;
- The unit of measurement, including whether the target is absolute or intensity based;
- 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;
- The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;
- Any intervening targets set by the registrant; and
- 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 targets 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?

Question 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?

Question 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?

Question 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?

Question 174

Should we apply the PSLRA statutory safe harbors as they currently exist to forwardlooking statements involving climate-related targets and goals, or other climate-related forwardlooking information? Should we instead create a separate safe harbor for forward-looking climate-related information, including targets and goals? Should we adopt an exception to the PSLRA statutory safe harbors that would extend the safe harbors to climate-related forwardlooking disclosures made in an initial public offering registration statement?

We consider all of this information very relevant. Systematic disclosure on climate risk management is important to understand how risk exposure my translate to financial impacts, and it is currently under-reported. Targets and goals are essential to assess the mitigation plans of an entity and to track progress, as part of assessing transition risk.

Location of business operations

Question 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?

Question 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?

Question 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?

We are supportive of the proposed requirements and believe they could meaningfully inform investors' considerations. In our analysis, for example, we would look to understand the percentage of assets exposed to climate hazards and the concentration risk associated with physical locations.

At this stage of scientific development, we believe that it is too early to prescribe specific definitions, such as for "flood hazard area" and "high water stressed regions". We would instead support an approach that allows different definitions but requires the disclosure of applicable definitions and assumptions together with the findings.

Carbon offsets/ Renewable Energy Certificates

Question 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?

Question 101

Should we require a registrant to exclude any use of purchased or generated offsets when disclosing its Scope 1, Scope 2, and Scope 3 emissions, as proposed? Should we require a registrant to disclose both a total amount with, and a total amount without, the use of offsets for each scope of emissions?

Yes, we believe that companies should disclose their use of offsets and RECs to allow the market to understand the nature of their emissions and emission reduction strategies. We would welcome alignment with the GHG Protocol, which envisages the disclosure of location-based as well as market-based Scope 2 emissions. Offsets are to be reported separately, with no impact on the reportable emissions.

Carbon price

Question 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:

- The price in units of the registrant's reporting currency per metric ton of CO_2e;
- The total price;
- 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
- 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?

Question 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 find the internal carbon price to be useful information as it provides us with a quantitative indicator of a company's preparedness for the carbon transition. We would also be interested in understanding whether a carbon price is used to inform investment decisions; whether the carbon price is purely theoretical or funds a separate account; and if the latter, how the proceeds are used.

However, we are concerned that an approach that forces companies to disclose the internal carbon price, if they use one, could disincentivize companies to use such tools in the first place. We would instead suggest that the requirement to disclose is phased in over time, so that registrants would have an opportunity to first consider the results and their implications.

Scenario analysis

Question 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?

We find scenario analysis informative to our work. We generally prefer harmonized, pre-defined scenarios but also see value in customized ones. Harmonized scenarios benefit from greater comparability and independent determination of the underlying assumptions, whereas customized scenarios can sometimes be more useful to inform companies' management. However, there is also a risk of cherry-picking scenarios or of reinforcing pre-existing biases. To make use of companies' customized scenarios in our analysis, we would need to understand the comprehensive set of underlying assumptions, the reasons for choosing this particular scenario and whether the scenario chosen is considered high overshoot/ low overshoot/ no overshoot. A scenario of disorderly transition at 1.5°C or well below 2°C would be particularly useful, as it generally implies the highest financial cost and stranded asset risk.

However, we are concerned that the rules, as currently proposed, could disincentivize the use of scenarios as companies would be automatically forced to disclose any scenarios that they might use. Scenario analysis is not only relevant to investors but is also a useful management tool, and companies might need some time to consider its results and implications before they are ready to disclose them to the wider market with a conclusion on the related financial materiality.

Governance

<u>Question 40</u>

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)?

We are generally supportive of the proposed governance disclosures. We would see merit in rules that would require the disclosure of any targets that are apparently contrary to the mitigation of climate risk, such as targets to increase fossil fuel production.

GHG Emissions Metrics

<u>Question 95</u>

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?

<u>Question 96</u>

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?

<u>Question 97</u>

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?

<u>Question 115</u>

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?

Question 116

Should we require a registrant to disclose the organizational boundaries used to calculate its GHG emissions, as proposed? Should we require a registrant to determine its organizational boundaries using the same scope of entities, operations, assets, and other holdings within its business organization as that used in its consolidated financial statements, as proposed? Would prescribing this method of determining organizational boundaries avoid potential investor confusion about the reporting scope used in determining a registrant's GHG emissions and the reporting scope used for the financial statement metrics, which are included in the financial statements? Would prescribing this method of determining organizational boundaries result in more robust guidance for registrants and enhanced comparability for investors? If, as proposed, the organizational boundaries must be consistent with the scope of the registrant's consolidated financial statements, would requiring separate disclosure of the organizational boundaries be redundant or otherwise unnecessary?

Question 119

Alternatively, should we require registrants to use the organizational boundary approaches recommended by the GHG Protocol (e.g., financial control, operational control, or equity share)? Do those approaches provide a clear enough framework for complying with the proposed rules? Would such an approach cause confusion when analyzing information in the context of the consolidated financial statements or diminish comparability? If we permit a registrant to choose one of the three organizational boundary approaches recommended by the GHG Protocol, should we require a reconciliation with the scope of the rest of the registrant's financial reporting to make the disclosure more comparable?

As much as possible, we would encourage alignment with the GHG Protocol as the prevailing international standard. This includes the application of the reporting boundaries as foreseen by the GHG Protocol, of Financial or Operational Control. A requirement to realign the boundaries with a company's financial statements, as currently proposed, would be impractical and highly burdensome for issuers, without adding much value for users.

Under the GHG Protocol's requirements, a reporting company would report on companies in which they have a stake, but which they do not control, under Scope 3, category 15 for investments.

In any event, the calculation of GHG emissions requires a lot of assumptions and we would need to understand these to interpret the disclosures.

Scope 3 Emissions

Question 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?

Question 99

Should we require a registrant that has made a GHG emissions reduction commitment that includes Scope 3 emissions to disclose its Scope 3 emissions, as proposed? Should we instead require registrants that have made any GHG emissions reduction commitments, even if those commitments do not extend to Scope 3, to disclose their Scope 3 emissions? Should we only require Scope 3 emissions disclosure if a registrant has made a GHG emissions reduction commitment that includes Scope 3 emissions?

Question 100

Should Scope 3 emissions disclosure be voluntary? Should we require Scope 3 emissions disclosure in stages, e.g., requiring qualitative disclosure of a registrant's significant categories of upstream and downstream activities that generate Scope 3 emissions upon effectiveness of the proposed rules, and requiring quantitative disclosure of a registrant's Scope 3 emissions at a later date? If so, when should we require quantitative disclosure of a registrant's Scope 3 emissions?

Question 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?

We generally agree with the proposed requirements. We find that Scope 3 emissions disclosure can contain important information for our analysis. It is often sizeable and can translate into financial relevance, through consumer behavior, regulation and legal risks.

However, there is a lot of uncertainty around the measurement of Scope 3 emissions. We would encourage the SEC to align its requirements with the GHG Protocol as much as possible. In the meantime, we also find it appropriate that the SEC proposes a later disclosure deadline for Scope 3 emissions, as well as a lower level of assurance and a safe harbor clause.

The determination of the precise effects of the transmission from Scope 3 emissions into financial materiality is also difficult. Further guidance from the SEC on this determination could be helpful in achieving consistent and comparable disclosures. Where a company establishes that Scope 3 emissions are not material, we suggest they should be required to provide an explanation of that finding.

Where a company has made a commitment to reduce its Scope 3 emissions, it should reasonably be expected to disclose the Scope 3 emissions so that investors and the wider market can understand the implications. In contrast, we would be concerned about a rule that commits a company to disclose Scope 3 emissions where it has made commitments in respect of Scope 1 or 2, as such a rule could disincentivize climate action.

GHG Intensity

Question 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?

We support the envisaged requirements for the disclosure of GHG emission intensity. Carbon intensity is a useful measure to compare companies against each other. We also see benefit in the proposed definition of GHG intensity to drive convergence across issuers.