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June 17, 2022

Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Via Email to rule-comments@sec.gov

Re: File No. S7-10-22

The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Chair Gensler:

Grant Thornton LLP appreciates the opportunity to comment on the Securities and Exchange Commission's (the SEC's or Commission's) March 21, 2022 Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the Proposal). We are providing our firm's perspective gained from serving public companies as independent accountants and from interacting with public company boards, audit committees, executives, and investors regarding climate change. Our comments are also informed by our experience providing advisory and assurance services over climate-related disclosures and our own efforts to report such information.

Executive summary

We support the SEC's efforts to enhance and standardize climate-related information for investors and commend the Commission and its staff for its robust Proposal and proactive solicitation for, and consideration of, public feedback received from last year's request for input. Additionally, we appreciate the Commission's thoughtful inclusion of elements such as the phased-in reporting and assurance dates, accommodations for smaller reporting companies (SRCs), and conditional disclosure of Scope 3 emissions. We have also provided considerations for additional phased-in compliance, accommodations for certain other types of entities, and areas where implementation guidance may be needed.

Our commentary primarily focuses on the following three areas:

- A discussion of implementation challenges that could arise with respect to the proposed financial statement metrics, including the basis for the identification and measurement of climate-related events and changes, the appropriate unit of

account, and questions about the proposed requirements for climate-related expenditures and the proposed disclosure threshold (see pages 2-7). We encourage the SEC to consider whether investors would be better served by the disclosure of material climate-related information in Management's Discussion and Analysis (MD&A) as opposed to the notes to the financial statements and suggest referring this topic simultaneously to the Financial Accounting Standards Board for its consideration.

- Suggestions on both the SEC's proposed usage of financial control as the organizational boundary for greenhouse gas (GHG) emissions metrics, as well as practical suggestions to ease the compliance burden for issuers and to improve the reliability of disclosed GHG emissions metrics (see pages 8-10).
- Consideration of additional scaled disclosures for certain other entities, such as emerging growth companies (EGCs) (see page 12).

Financial statement metrics

Regarding the proposed requirements to disclose certain disaggregated climate-related financial statement metrics, we identified several potential implementation challenges that could be addressed by clarifying how registrants are meant to apply the Proposed Rule.

Along with quantitative metrics, the Proposed Rule requires registrants to disclose contextual information to help financial statement users understand how the financial statement metrics are derived. Many of our comments that follow request additional information about how registrants should identify and measure the financial impact of climate-related events, conditions, and transactions. To the extent that the Commission does not intend to prescribe the manner in which registrants should identify and measure the financial impact of such items, we believe that additional guidance on disclosing contextual information about the financial statement metrics will be necessary. We also encourage the Commission to include examples in the Final Rule to assist registrants in preparing the required disclosures.

Basis for assessing climate-related changes

The Proposed Rule would require registrants to disclose the financial impacts of, and expenditures related to, severe weather events, other natural conditions, and transition activities. Potential impacts include changes to revenue, the carrying amounts of assets, loss contingencies and reserves, and total expected insured losses.

However, the Proposed Rule is not clear about the basis for identifying and measuring the financial impact of severe weather events, other natural conditions, and transition activities.

Identification

Registrants could identify the financial statement impact of severe weather events and other natural conditions in either absolute or relative terms. For example, a registrant might determine that a hurricane is a severe weather event on an absolute basis,

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regardless of whether the registrant has historically been affected by similar weather events on a regular basis. Alternatively, a registrant might determine that a hurricane is not a severe weather event on a relative basis, if the hurricane occurs at a time consistent with expectations based on the registrant's historical experience.

Question 63 in the Proposed Rule indicates that the Commission expects registrants to identify severe weather events and other natural conditions on a relative basis, since "what is considered 'severe weather' in one region may differ from another region." If it is the Commission's intent to require identification of severe weather and other natural conditions on a relative basis, we recommend that this be made clear in the Final Rule.

To the extent that severe weather and other natural conditions are to be identified on a relative basis, we recommend that the Commission consider feedback obtained by the FASB on its project eliminating the notion of an "extraordinary item" from U.S. GAAP. An "extraordinary item" was defined as an event or transaction that was unusual in nature and occurred infrequently. In practice, very few transactions or events met this definition, in part, because the concept of an extraordinary item was relative. As noted in the Basis for Conclusions in ASU 2015-011, "[I]t is often unclear when an item should be considered both unusual and infrequent and what might be considered extraordinary in one industry may not be considered extraordinary to another." To avoid a similar narrow interpretation outcome (or, its converse, in which excessive amounts are attributed to climate-related risks), we recommend that the Commission include additional guidance in the Final Rule so that registrants may consistently discern events and conditions that are severe and relate to climate risks from those that are consistent with historical patterns.

We recommend that the Commission clarify how the severity of a weather event is meant to be assessed. For example, the severity of a hurricane could be assessed in many ways, including its wind speed categorization, the number of human casualties, the overall economic impact on the areas directly affected by the hurricane, or the financial impact on the registrant itself. In addition, certain weather events, such as hurricanes, might be considered de facto severe weather events.

Further, the term "other natural conditions" could be broadly interpreted. The examples in the Proposed Rule include "flooding, drought, wildfires, extreme temperatures, and sea level rise." Some of these examples are discrete events (floods, wildfires), while others refer to sustained conditions or changes in conditions over time (drought, temperature, rise in sea level). The Proposed Rule acknowledges this distinction, defining "acute" and "chronic" risks as two types of physical risks. We believe that additional guidance on identifying the impact of "other natural conditions," particularly those associated with chronic risks, would be helpful. For example, the impact of a rise in temperature or sea level might be difficult to discern in any particular reporting period and might only be apparent—and subject to measurement—over substantially longer periods. An example of how a registrant might determine whether a chronic risk, such as the rise in sea level, has a financial impact that should be measured in a particular reporting period would assist registrants in implementing this portion of the Proposed Rule.

The Proposed Rule includes, as an example of a financial impact of severe weather events and other natural conditions, "Changes to revenues or costs from disruptions to … supply chains." All of the aforementioned challenges with identifying severe weather events and other natural conditions affecting a registrant are compounded when considering their effect on other entities in a registrant's supply chain. If severe weather events and other natural conditions are meant to be identified on a relative basis, then we believe additional guidance is needed to address how (or whether) this assessment should be carried out with respect to other entities in a registrant's supply chain.

Measurement

Once a relevant weather event or other natural condition is identified, there are multiple ways in which its financial impact could be measured. For example, the impact might be measured relative to the prior reporting period, or it might be measured relative to what the current period result would have been had the event or other natural condition not occurred or changed.

The Proposed Rule provides, as an example of the financial impact of severe weather events and other natural conditions, "changes to revenues … from disruptions to business operations." Consider this scenario: "A registrant's business operations are disrupted by a severe weather event; otherwise, the registrant's business operations are consistent with the prior period. Its prior period revenues are $100 and its current period revenues are $95. If the severe weather event had not occurred, the registrant estimates that revenues would have been $105 in the current period." It is unclear under the Proposal whether the registrant in this example should measure the financial impact on the revenue line item as $5 (the decrease relative to the prior period) or $10 (the decrease relative to expected revenue absent the severe weather event).

The Proposed Rule specifies that the climate-related financial statement metrics disclosed would be "mainly derived from existing financial statement line items," and that the metrics would be calculated "using financial information that is consistent with the scope of the rest of the registrant's consolidated financial statements included in the filing." These statements indicate that financial impacts to be disclosed under the Proposed Rule should be based on amounts reported in a registrant's financial statements, which is consistent with a view that changes in financial statement line items should be measured relative to prior period results. However, if the Commission's intent is to permit registrants to report metrics based on differences between actual results and hypothetical results absent the severe weather event or other natural condition, then we believe the Commission should provide a framework to guide the preparation of this information to avoid the use and presentation of inappropriate non-GAAP financial measures. In addition, if the intended point of comparison is a hypothetical amount, this approach might create unintended challenges for the financial statement auditor as a hypothetical amount would not be defined in U.S. GAAP or subject to internal control over financial reporting (ICFR). Either way, we believe that the information could be of use to investors, but may be more appropriately disclosed outside of the notes to the financial statements as a

component of MD&A. Further, the Commission should clarify, with examples, how a registrant might measure the financial impact of a severe weather event or other natural condition.

The Proposed Rule provides as an example of the financial impact of severe weather events and other natural conditions "changes to total expected insured losses due to flooding or wildfire patterns." It is not clear to us how information about expected insured losses (as opposed to, for example, expected insurance recoveries) is derived from existing financial statement line items.

Further, we believe it would be difficult to measure the financial impact of severe weather events and other natural conditions in many situations, particularly when considering upstream supply chain impacts. For example, a significant component of costs and expenses for livestock producers is feed and grain. When grain prices increase, it is often due to a variety of related and unrelated factors influencing supply and demand, including weather, geopolitical events, and technology changes, among other things. To differentiate the cost changes attributable to weather-related factors from other factors would require significant estimates and judgments, developed differently from issuer to issuer. This could result in disclosures that are not comparable or meaningful relative to other entities.

Unit of account

The Proposed Rule would require registrants to disclose amounts associated with certain transactions executed in response to, or in anticipation of, severe weather events and other natural conditions, or as part of their transition activities. It is not clear what is the appropriate unit of account for these disclosures – whether it is the unit of account for recognition purposes under U.S. GAAP or whether it is the portion of the amount recognized that is associated with climate-related risks.

For example, assume that a registrant replaces a portion of its vehicle fleet on a regular basis to maintain an average age for the fleet of three years. Historically, the registrant's fleet consisted of gas-powered vehicles, but in an effort to reduce its GHG emissions, the registrant decides that, over time, it will transition to electric-powered vehicles without altering its replacement schedule. To report its expenditure related to transition activities under the Proposal, it is unclear whether the registrant should include the full cost of the electric-powered vehicles or only the cost differential between the electric-powered vehicles and comparable gas-powered vehicles.

We believe that the Final Rule should specify whether the unit of account in these situations is based on the recognition guidance under U.S. GAAP (for example, the cost of each unit of equipment purchased and recognized under ASC 360, *Property, Plant, and Equipment)*, or solely on the transaction price differential associated with climate-related risks (for example, if applicable, the premium paid to purchase electric rather than gas-powered vehicles).

If the unit of account is based on the recognition guidance under U.S. GAAP, we believe that additional guidance is necessary to ensure that registrants' disclosures are clear about the extent to which the reported financial statement metrics are directly related to climate risks. For example, assume that a registrant constructs a

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new assembly plant and considers several potential sites to locate the facility. The registrant might argue that its decision about where to locate its facility was affected by climate risks (for example, whether to build the facility in a coastal location or inland). Despite climate risks having relatively little impact on the cost of constructing the facility, the registrant might characterize the entire cost of the asset as “an expenditure related to transition activities.”

In situations where significant expenditures are partially associated with responding to or anticipating the effects of climate-related risks, clear contextual disclosure will be paramount to facilitating users’ understanding of the extent to which a registrant is impacted by climate-related risks. We believe the Final Rule should require, and provide examples of, contextual information to encourage clear disclosures in this regard.

Capitalized versus expensed costs

In our view, additional clarity is needed on the proposed requirements to separately disclose capitalized and expensed costs.

First, we believe that the Commission should clarify what constitutes a “capitalized” cost. The Final Rule should explain whether (a) capitalized costs consist only of costs associated with purchases of property, plant, and equipment, or (b) the definition is broader, including any costs initially recognized as a debit on the registrant’s balance sheet, such as prepaid expenses.

Second, because it is possible that costs could be both capitalized and expensed in the same reporting period, we believe the Final Rule should address which amounts are presented as capitalized and expensed costs in each reporting period. For example, assume that a registrant purchases a capital asset to address a climate-related risk at the beginning of the year for $100. The asset has a two-year useful life and no salvage value. Under the Proposed Rule, it is unclear whether, in the year the asset is purchased, the registrant should characterize either $100 or $50 as a capitalized cost (that is, the amount initially capitalized or the remaining net capitalized amount at the reporting date).

Disclosure threshold

We understand the potential benefits of including a bright line disclosure threshold in the Proposed Rule, including reducing the risk of underreporting and promoting comparability and consistency among registrants. However, we believe that the costs of specifying a bright line threshold, particularly at the level proposed (1 percent of the total reported line item), outweigh the potential benefits.

Specifically, we believe that a low, bright line disclosure threshold will require significant, costly financial reporting and audit effort at a level of precision that, in many cases, is inconsistent with current processes and internal controls. For example, the existing accounting processes to record expenses, such as insurance premiums or costs related to maintaining facilities, likely do not distinguish which portion of the expense or capitalized cost is climate-related. Issuers would have to modify their existing accounting processes for all financial statement line items to

establish policies to allocate accounting activity between climate-related and non-climate-related amounts. The level of judgment involved may result in estimates that make comparability across issuers difficult. The proposed level of precision, coupled with the identification and measurement challenges described elsewhere in this letter, could cause the implementation and ongoing application efforts associated with the Proposed Rule to be excessively costly.

We encourage the Commission to consider an alternative disclosure threshold that allows registrants to assess the materiality of financial statement metrics in a manner similar to other recognition and disclosure issues, including considering the impact on operating margin, net income, and liquidity. We also encourage the Commission to consider whether investors' needs could be met by including a discussion of material financial impacts related to climate-risks and opportunities in MD&A disclosures, such as results of operations, liquidity, and capital expenditures, instead of in the notes to the financial statements.

Proposed Regulation S-K Items 1501, 1502, and 1503

We commend the SEC and its staff for the thoughtfully proposed disclosure requirements that align with both the current concept of materiality under federal securities laws and recommendations by the Task Force for Climate-Related Financial Disclosure (TCFD). The principles-based proposed disclosure requirements also appear well-crafted so as to remain relevant as climate-related physical and transition risks are better understood. Further, we generally agree with the currently proposed phased-in compliance dates for the qualitative disclosures in Regulation S-K; while climate-risk management practices will evolve and mature, issuers should be able to provide qualitative discussion consistent with that described in Proposed Regulation S-K Items 1501, 1502 and 1503.

Potential areas for implementation guidance

We encourage the Commission to remain alert to potential future advancements that warrant implementation guidance in the future, such as:

- Generally accepted actuarial models to help forecast acute and chronic physical impacts
- Additional publicly available climate-related scenarios[1]
- New risk management frameworks or practices to surface, evaluate, and assess the impacts of climate-related risks
- Use of "experts" or predictive technologies in certain industries that may be materially impacted by climate-change risks

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[1] Page 92 of the Proposal states: "If a registrant uses scenario analysis to assess the resilience of its business strategy to climate-related risks, investors may benefit from the use of scientifically based, widely accepted scenarios, such as those developed by the IPCC, International Energy Agency ("IEA"), or Network of Central Banks and Supervisors for Greening the Financial System ("NGFS")."

- Emerging types of subject-matter experts that may be referenced in an SEC filing

In addition, we encourage the SEC to consider whether additional guidance should be provided to clarify when disaggregation of climate-related risks and opportunities by segment might be useful. For example, in the case of a diversified holding company, climate risks and opportunities may be dissimilar across segments. If such information is material, it might be necessary to disaggregate both the qualitative discussion of material risks as well as GHG emissions metrics and financial metrics by segment to provide investors with sufficient information. In contrast, it might not be meaningful for a company with consistent climate risks across geographically defined segments to provide disaggregated climate disclosure.

Proposed Regulation S-K Item 1504

Overall, we agree with the SEC's proposed disclosure requirements regarding GHG emissions data. In particular, we support the following elements:

- Location outside of the financial statements as, under current U.S. GAAP and International Financial Reporting Standards (IFRS), emissions information is not derived from, or a component of, the basic financial statements
- No requirement for an issuer to either (1) provide a separate assessment and disclosure of the effectiveness of controls over the GHG emissions, or (2) obtain an attestation report from a GHG emissions attestation provider specifically covering the effectiveness of controls over the GHG emissions disclosure, as the cost of such an undertaking may not support the incremental benefit to investors
- Approach to Scope 3, in particular:
  - Liability safe harbor
  - Requirement to disclose GHG emissions only when material or when a stated target includes Scope 3

We also note the following potential implementation challenges that might warrant additional guidance or reporting accommodations.

Alignment of GHG organizational boundaries consistent with accounting principles applied to financial statements

We are aware of the Center for Audit Quality's (CAQ's) comment letter on the Proposal and agree with the CAQ's remarks about the importance of global consistency in calculating GHG emissions metrics and the reporting challenges that may arise if GHG organizational boundaries are aligned with financial reporting boundaries, as proposed by the SEC. In addition, we note that, as proposed, the resulting GHG emissions metrics for issuers with material emissions from leased assets may not be intuitive. For example, if an issuer operates a leased aircraft, the issuer controls the "right to use" the asset but not the asset itself. As proposed, it appears that GHG emissions from a leased aircraft operated, but not owned, by the

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issuer would be included in Scope 3[2]. As such, the issuer would only be required to disclose the emissions if material (if not an SRC), would not require assurance over the emissions, and would have the benefit of the Scope 3 liability safe harbor, despite the fact that it has operational control of the aircraft. Conversely, if an issuer owns an aircraft but leases the aircraft to a customer, the issuer does not control the "right to use" the asset, but does control the asset itself. In this case, it appears the emissions from the owned aircraft would be in the issuer's Scope 1 emissions. The issuer would also be required to obtain assurance over the emissions from the lessee's use of the aircraft and would not benefit from the Scope 3 liability safe harbor, despite its lack of operational control. On a different note, the SEC may also consider clarifying the meaning of Proposed S-K Item 1500(r)(2)(v), which does not specify whether the guidance is from the perspective of the lessor or lessee.

Entities with equity method investees or consolidated variable interest entities may have challenges obtaining the data necessary to report consolidated GHG emissions metrics consistent with the Proposal, particularly if they do not have operational control. The SEC might consider a phased-in approach whereby emissions metrics from such investees would be required based on a delayed implementation date, as determined by the SEC. If such emissions are omitted, large accelerated or accelerated filers could be required to clearly disclose the omission from its GHG emission metrics. A similar approach could also apply when an issuer has an earlier compliance date than its consolidated public subsidiaries.

Importance of disclosure controls and procedures over GHG emissions metrics and potential compliance date accommodations

In the initial year of compliance, the Proposal would require the GHG emissions metrics disclosure for the issuer's most recently completed fiscal year and for the historical fiscal years included in its consolidated financial statements in the filing, to the extent that such historical GHG emissions data is reasonably available. Issuers that have not previously collected this information and do not have adequate resources to do so may still feel compelled to provide information for the historical periods, particularly if they believe other companies in their industry will do so. From our interactions with issuers, even many large accelerated filers have not yet started implementing the underlying data collection, reporting practices, and controls necessary to report GHG emissions metrics. Further, we understand certain large issuers that previously reported GHG emissions data outside of SEC filings are concerned about whether they will be able to reliably report GHG emissions metrics for historical periods, as such information might not have been (1) subject to the level of disclosure controls and procedures required for information included in an SEC filing, or (2) prepared on a different basis than that required in the Proposal.

While we appreciate the need to provide investors with GHG emissions metrics, it is equally important to ensure issuers have adequate time to establish suitable controls and procedures necessary to produce reliable GHG emissions metrics disclosure. Without time to implement adequate disclosure controls and procedures, we believe

[2] Proposed S-K Item 1500(r)(2)(v).

the risk of material errors in, and related restatements of, GHG emissions data increases.

Accordingly, we suggest that in the initial year of compliance, the SEC could:

- *Require GHG emissions metrics only for the current period.* Issuers that wish to do so would not be precluded from providing GHG emissions metrics for prior historical periods.
- *Permit issuers to exclude immaterial components of Scope 1 and Scope 2 emissions, if accompanied by disclosure of the omission(s) and rationale.* For example, emissions from owned vehicles or machinery, which might be immaterial to some issuers, may also be significantly more difficult to collect if the entity lacks the records, systems, and methodologies required to collect the underlying data and calculate the related emissions. Disclosure of such omitted components of Scope 1 and Scope 2 would be required in reporting periods after the initial year of compliance.

Such accommodations may allow issuers incremental capacity to focus on disclosure controls and procedures over material components of current period GHG emissions metrics rather than on data collection and estimations for prior periods or immaterial emissions sources.

The SEC may also consider adopting a “comply or explain” approach during a defined transition period. For example, for issuers that have not yet publicly reported GHG emissions and do not have the information available, the SEC could permit the issuer to either provide the disclosure or explain why it is unable to do so during the transition period. Under this approach, the GHG emissions metrics disclosure would be required no later than a period to be determined by the Commission.

Additionally, the SEC might consider permitting disclosure of GHG emissions metrics outside of Form 10-K or on an extended reporting period, as is available for the information in Part III of Form 10-K. Such an approach would be more in-line with the current timing of sustainability reports and might reduce instances where fourth quarter emissions data must be estimated and later compared to actual results.

Another consideration might be to provide flexibility over the period used to report GHG emissions to avoid an overload of reported data as of specific time periods, such as quarterly or year-end dates. For example, the period of GHG emissions metrics to be addressed in the filing could be flexible, such as any 12-month period ending during the year preceding the filing deadline of Form 10-K, which would be applied on a consistent basis from year to year. This practice would allow for annual updates to reported ESG information, but would also allow management to focus on the quality of the related disclosures outside an otherwise busy year-end financial reporting and closing process.

SRC Scope 3 exemption

Overall, we agree with the SRC exemption from disclosure of Scope 3 emissions; however, we encourage the SEC to consider whether disclosure should be required when the SRC has a publicly stated emissions goal inclusive of Scope 3. We believe

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Scope 3 emissions metrics may reasonably be required in this scenario because the issuer should have the information available to monitor progress against its stated goal.

Proposed Regulation S-K Item 1505

Overall, we are supportive of the proposed requirements in S-K Item 1505 on the attestation of Scopes 1 and 2 emissions disclosure; however, we have identified certain instances where additional guidance from the SEC might be needed:

- It is unclear whether attestation is required for periods prior to the initial limited assurance compliance date. Absent additional guidance, issuers could reasonably infer that attestation is required only for the current period in the initial year of attestation compliance.
- It is unclear whether a report that states the GHG attestation provider is disclaiming an opinion on the GHG emissions would satisfy the requirements of Regulation S-K. In the absence of specific guidance (for example, S-X Rule 2-01(c)[3]), preparers and attestation providers may assume that a report stating that the attestation provider is disclaiming an opinion on the GHG emissions is acceptable.
- If the SEC implements the accommodations described above that would permit issuers to omit GHG emissions metrics from certain investments or immaterial components of Scope 1 and Scope 2 emissions on a phased-in basis, the scope of the attestation providers' report would be limited to the scope of the GHG emissions metrics disclosed by the issuer.
- Question 162 addresses the disclosure of applicable oversight inspection programs for the GHG emissions attestation engagement. It would be helpful for the SEC to clarify what regulatory environment applies to GHG attestation providers.
- Question 163 addresses the record-keeping requirements for GHG attestation providers. We believe the record-keeping requirement for the GHG attestation provider should extend to the duration of the securities law protections for investors, so that any subsequent challenges to the appropriateness of the attestation can be assessed in light of the claims made by the shareholders bringing the claims.
- Due to the phased-in assurance requirements, a large accelerated or accelerated filer may require assurance over its GHG emissions disclosure, while its consolidated public subsidiaries are not (or are not yet) subject to the same level of assurance for providing the necessary assurance. The SEC should consider clarifying whether the consolidated subsidiary is expected to obtain assurance based on the requirements of its parent entity(ies) and, if not, how the assurance

[3] S-X Article 2 requires the clear expression of an opinion on the financial statements. A report that states that the auditor is disclaiming an opinion on the financial statements for any reason does not satisfy the requirements of Regulation S-X.

provider for the parent entity(ies) would report the levels of assurance provided over the individual components of the reporting entity.

Additional accommodations for certain entities

We believe certain entities may have difficulty complying with the requirements of the proposed rule and encourage the SEC to consider additional relief in certain instances:

- EGCs often take advantage of all or most scaled reporting accommodations available as they enter the public capital markets. Many of these entities may be significantly challenged or even deterred from entering the public capital markets by the proposed climate-related requirements. We recommend expanding to EGCs the accommodations and phased-in reporting and assurance dates available to SRCs. While we understand the relevance and importance of providing climate-related information to investors, providing transitional relief to EGCs would treat climate information consistently with other accommodations provided to EGCs, such as the exemption from the auditor attestation on ICFR and the initial adoption of accounting pronouncements.
- The proposed Regulation S-X, Article 14, disclosures would apply to nonpublic entities whose financial statements must be filed with the SEC under S-X Rule 3-05 for acquired businesses or under Rule 3-09 for significant equity method investees. If these entities are not otherwise required to file financial statements with the SEC, we recommend that Article 14 not apply to nonpublic entities, as this may be an unreasonable burden.
- The Division of Corporation Finance staff has provided interpretive guidance that permits an issuer, when appropriate, to omit a newly acquired business from its evaluation of ICFR. We encourage a similar approach and related implementation guidance to help issuers understand when a newly acquired business that was not previously required to report GHG emissions metrics in an SEC filing may be omitted from the acquirer's GHG emission metrics.

Coordination with international disclosure standard setters

Subsequent to issuance of the SEC's Proposal, the International Sustainability Standards Board (ISSB) released its Exposure Draft, *IFRS S2 Climate-related Disclosures*. The European Financial Reporting Advisory Group (EFRAG) has also recently published its draft European Sustainability Reporting Standards (ESRS), including ESRS E1, *Climate Change*. We encourage the SEC to carefully study these proposals to identify and, where appropriate, work to alleviate significant unintended inconsistencies across standards that might create challenges for preparers. In addition, we encourage the SEC to consider whether a dual-listed foreign private issuer or multinational issuer that already provides climate-related disclosure in another jurisdiction should also be required to file the same information with the SEC.

Post-implementation review

The basic premise of the proposed disclosures is that it is possible for all issuers to identify climate-related risks; to evaluate whether the associated impacts are

reasonably likely to be material under the securities laws over the short-, medium-, or long-term; and to provide responsive disclosure that is adequate to meet investors' needs. We agree that, in many cases, the initial impact of a physical or transition risk is clear; however, some issuers, particularly those with complex value chains, may be unable to reliably anticipate risks that develop from secondary, tertiary, or other impacts of climate-related risks. In addition, the quantification of risks may be difficult, particularly over the medium- and long-term, and the extent of disclosure may vary widely from issuer to issuer, depending on the resources available to respond to the disclosure requirement and to dedicate to areas like scenario analysis.

The task of crafting operational disclosure requirements that meet investors' current and future needs is a weighty challenge. Investors have clearly articulated their need to understand actual and potential material climate-related risks using reliable information prepared in a consistent, comparable manner. While many preparers acknowledge the benefits of standardized disclosure requirements, compliance will require judgment, effort, and expense on the part of issuers.

Given both the importance of this information to investors and the incremental implementation effort required by issuers, we recommend a post-implementation review to consider various matters, including:

- Whether the disclosures meet the needs of investors, particularly in more qualitative areas such as risk identification and assessment of the potential magnitude of the risk, as well as the impact on the issuer's overall strategy and operations
- Changes in board governance practices and changes in the actual or perceived responsibilities of directors
- Whether incremental disclosure requirements related to targets or scenario analysis act as a deterrent from pursuing those activities, particularly for smaller issuers that might consider those issues, but do not formalize those actions due to resource and cost limitations
- Whether additional disclosures implemented through the proxy process at the request of certain institutional investors are overlapping or complementary to the proposed requirements
- How incentive compensation related to the achievement of climate-related targets impacts the robustness and transparency of quantitative disclosures
- Whether adequate disclosures are being made by the board or the committee of the board that oversees the climate reporting and assurance, similar to the disclosures provided by audit committees. While we believe most of this responsibility will fall to the audit committee, it may not in all cases
- Whether confusion has arisen in the marketplace in regard to the climate disclosures provided in the 10-K and in other places (such as a website or corporate social responsibility report), or the assurance provided over either disclosure

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- Whether or not the additional disclosures adequately clarify the responsibilities of the board and management and the role each plays with respect to climate risks and opportunities

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We would be pleased to discuss our comments with you. If you have any questions, please contact Jim Burton, Partner, ESG and Sustainability, [redacted] [redacted].

Sincerely,

/s/ Grant Thornton LLP