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WELLINGTON  
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Via email ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))

17 June 2022

Vanessa A. Countryman

Secretary

Securities and Exchange Commission

100 F Street NE

Washington, DC 20549-1090

Re: The Enhancement and Standardization of Climate-Related Disclosures for Investors  
File No. S7-10-22

Dear Ms. Countryman,

Wellington Management Company LLP (“**Wellington Management**”) commends the Securities and Exchange Commission (the “**SEC**” or the “**Commission**”) for proposing the above-rulemaking (the “**Proposal**”) on enhancement and standardization of climate-related disclosures. Tracing its history to 1928, Wellington Management is one of the world’s largest independent investment management firms, serving as a trusted adviser to over 3,200 clients in more than 60 countries. The firm manages more than US \$1.3 trillion for pensions, endowments and foundations, insurers, family offices, fund sponsors, global wealth managers, and other clients. As a private partnership whose only business is investment management, the firm is able to align its long-term views and interests with those of its clients. The firm offers comprehensive investment management capabilities that span nearly all segments of the global capital markets, including equity, fixed income, multi-asset, sustainable investing, and alternative strategies. With more than 900 investment professionals located in offices around the world, Wellington Management pairs deep multi-disciplinary research resources with independent investment teams operating in an entrepreneurial “boutique” environment.

Accurate and comparable information about climate risk is critical to Wellington Management’s ability to make informed investment decisions on behalf of our clients. Because climate change will continue to profoundly impact society, economies and markets, investors need more information to better price these risks and fully assess the value of an issuer’s securities. Currently, our evaluation of the positive and negative impacts of climate change on issuers is limited by inadequate information and the absence of a standardized framework for disclosure.<sup>1</sup>

The Commission’s Proposal represents a strong step towards providing investors with the information they need to make informed investment decisions. As we have explained below, the proposed enhanced disclosures under Regulation S-K would be used by investors as important information for assessing public securities.<sup>2</sup>

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<sup>1</sup> Wellington Management’s response to the Commission’s prior request for input on climate change disclosures is available at: <https://www.sec.gov/comments/climate-disclosure/cll12-8944103-245735.pdf>.

<sup>2</sup> Section I.E. of the Proposal at 40-41 (the Commission proposing “to add a new subpart to Regulation S-K, 17 CFR 229.1500-1507”).

We use the term “public securities” in this letter to mean securities governed by Commission Regulation S-K.

We support the Commission’s advancement of the Proposal into a final rule and recommend that the final rule address five key areas. First, the final rule should require disclosure of greenhouse gas emissions (“**GHG Emissions**”) for all issuers—Scope 1, Scope 2, and Scope 3. Second, for location data, the final rule should require disclosure of all locations material to the issuer’s business, not issuer-specific determinations of physical risk.<sup>3</sup> For each of those material locations, the final rule should require disclosure of address-level information (except where security risks are present) and mandate enhanced water and flood disclosure.<sup>4</sup> Third, the final rule should focus governance disclosure on climate risk education of the board and management, not board and management climate qualifications.<sup>5</sup> Fourth, the final rule should standardize the time horizon used in disclosures to a common definition that would enable comparability.<sup>6</sup> Finally, the final rule should include the remainder of the Proposal’s enhancements to Regulation S-K and require implementation within the timeline proposed.<sup>7</sup>

We also believe that the Commission should address implementation and liability concerns of issuers where adjustments will not compromise the integrity of public disclosure. While our comments are focused on Wellington Management’s expertise and experience—namely, the investor perspective and information needed to inform investment decisions—we support accommodations made by the Commission in the Proposal to balance issuers’ concerns.<sup>8</sup> We would support further accommodations that do not unduly undermine reliability or standardization of the enhanced Regulation S-K disclosures. Further, we believe the proposed implementation timeline, when combined with safe harbors and other accommodations, balances the competing needs of investors and issuers.

In the sections that follow, we explain how the Proposal’s disclosures along with our suggested modifications would aid investors in making informed investment decisions about public securities.

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<sup>3</sup> Section II.B.2, Question 13 of the Proposal at 69.

<sup>4</sup> Section II.B.2, Question 12 of the Proposal at 68-69.

<sup>5</sup> Section II.D.2, Question 34 of the Proposal at 98.

<sup>6</sup> Section II.C.4, Question 21 of the Proposal at 88.

<sup>7</sup> Section III, Question 197 of the Proposal at 291-292.

<sup>8</sup> Section I.E.4 of the Proposal at 45 (summarizing the phase-in periods and accommodations for the proposed disclosures).

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## I. THE COMMISSION'S CLIMATE DISCLOSURE PROPOSAL WOULD PROVIDE USEFUL INFORMATION FOR INVESTMENTS IN PUBLIC SECURITIES

We agree with the Commission that issuers face new risks relating to climate change—specifically, transition risk and physical risk—and that these risks necessitate enhanced issuer disclosure.<sup>9</sup> We live in a changing world, and Wellington Management's climate research demonstrates that climate change creates relevant risks for most (if not all) issuers of public securities.

Transition risk, i.e., the ability for an issuer to adjust to a less carbon-intensive economy, is driven by changing consumer preferences and government regulation. Consideration of an implicit or explicit carbon price by end users, suppliers, or regulators, could impact an issuer's growth trajectory or margins. An issuer's failure to address this risk could result in the company missing strategic opportunities for growth or the ability to address vulnerabilities in its business model, which, over time, could threaten its profitability or even its ability to continue to operate its business.

Physical risk, i.e., the potential exposure of an issuer to losses associated with increased extreme weather, droughts, fires, and other events, presents direct risks to an issuer's physical assets. Increased flooding, for example, could imperil a company's factory, disrupt a company's access to raw materials or energy, or render a specific location unsuitable for the company's purpose.

Without sufficient information regarding transition risks and physical risks facing an issuer, investors may be unable to correctly value an issuer's securities, thus potentially paying too high or too low a price. From an investor perspective, a company that has assessed the potential impacts of transition risks and developed a transition risk plan would be, on balance, a more attractive investment than a company whose transition risk exposure remains unaddressed or unknown. Similarly, a company with a higher absolute and/or relative GHG Emissions profile could be more subject to transition risks, and therefore a less attractive long-term investment.

Our investors and analysts have found several instances where climate-related information was integral to making an investment recommendation. For example, we:

- increased holdings in a real estate investment trust ("**REIT**") that, among other positive steps, expanded its investments in certified green office buildings, which command a premium compared to non-green buildings;
- reduced position in bonds issued by a utility company with significant coal fired electricity generation due to ongoing coal-ash clean-up costs and a shrinking buyer base, resulting in a higher cost of capital and higher risk of default;
- limited exposure to US oil major that is not investing sufficiently in renewable energy relative to global peers, based on view that the forthcoming oil demand plateau caused by electrification will continue to challenge the existing business model, increase risk of stranded assets, and shrink base of capital providers;
- improved outlook for a variety of mining companies considering both the structural demand from the energy transition (transport, renewables) and companies' allocation of capex to decarbonization of the metals supply chain to improve the industry's long-term positioning, which may be underappreciated by the market;
- sold a position in an energy company where the portfolio manager determined that its capital

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<sup>9</sup> Section I of the Proposal at 8 (noting the Commission's concern "that the existing disclosures of climate-related risks do not adequately protect investors" and the need for "additional disclosure requirements...to elicit climate-related disclosures and to improve the consistency, comparability, and reliability of climate-related disclosures").

- investment plans did not include adequate considerations of the flooding risk associated with the construction of a new plant;
- identified a semi-conductor manufacturer as a more attractive investment when we learned it was diversifying its manufacturing locations to diversify its water sourcing, which is critical to the manufacturing of semi-conductors;
  - avoided debt of certain utility companies where we determined the debt is not correctly priced to reflect certain weather and wildfire risks; and
  - formed a negative assessment of a utility generating electricity from hydro-electric power based on our assessment of drought risk.

We were able to make these and other determinations based on available information (including internal and external estimates), and only after extensive research and analysis. For a significant number of issuers, information is not sufficient to support equivalent analysis.

The information that would be required by the Proposal would allow investors to make more informed investment decisions across issuers. For example, the proposed disclosure of a scenario analysis enables investors to assess an issuer's risk management process and whether an issuer is considering different climate risk outcomes in its planning.<sup>10</sup> Issuers that demonstrate strong scenario analyses should, all else being equal, have more intrinsic value in the securities they offer than issuers who do not plan sufficiently for climate risk. Information concerning scenario analysis would also help investors evaluate the resilience of the registrant's business strategy in the face of various climate scenarios that could impose potentially different climate-related risks.

Further, by requiring issuers to disclose climate risk information, all investors will be better able to assess climate risks without resorting to significant data collection efforts, expensive third-party data services, or potentially inaccurate estimations. This increased transparency will promote market efficiencies and likely reduce prospective volatility, as universal access to this important information will eliminate current informational asymmetry and minimize the potential for mispricing of assets based on an incomplete assessment of climate-related risks.

## II. ISSUERS SHOULD BE REQUIRED TO PROVIDE FULL DISCLOSURE OF GHG EMISSIONS

### A. Scope 1 and Scope 2 Emissions Are Important for Making Informed Investment Decisions

GHG Emissions are critical for understanding an issuer's transition risks. While an issuer's exposure to transition risk cannot be specifically quantified in a single figure, the issuer's GHG Emissions profile serves as a reliable indicator; generally speaking, the greater an issuer's overall GHG Emissions profile, the greater the threat to the issuer from transition risks. It is quantifiable and comparable across industries, better equipping investors to fully understand transition risks applicable to an issuer.

We support the Commission requiring issuers to disclose Scope 1 and Scope 2 GHG Emissions on both an aggregated and disaggregated basis, as well as disclosing total Scope 1 emissions separately from total Scope 2 emissions after calculating them from all sources that are included in organizational and operational boundaries.<sup>11</sup> We further support, for all scopes of GHG Emissions, the requirement for issuers to disclose GHG Emissions data in gross terms, excluding any use of purchased or generated offsets.<sup>12</sup> Absolute GHG Emissions disclosure can then be compared by

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<sup>10</sup> Section II.C.4 of the Proposal at 83, Proposed Sections 1502(f) and 1500(o).

<sup>11</sup> Section I.E of the Proposal at 42-43; *see also*, Section II.G.1, Proposed Section 1504(a)(1).

<sup>12</sup> Section II.G.1 of the Proposal at 152, Proposed Section 1504(a)(2).

investors for companies of different sizes by performing various simple normalization, such as dividing by physical units (e.g., kilowatt-hours for Utilities) to compare within an industry or revenue as a proxy for output to compare across industries.

Scope 1 and Scope 2 GHG Emissions are the fundamental elements of an issuer's operational GHG Emissions profile. With clear and comparable Scope 1 and Scope 2 GHG Emissions, as would be required under the Proposal, investors can better assess current operational efficiency, particularly within peer groups, to identify issuers who are more insulated from (or more exposed to) transition risks. With this information, investors can identify which companies within carbon-intensive industries would be most resilient in terms of margin impact to the introduction of a carbon price, other transition-oriented policy, or structural shifts from carbon-based energy production.

### B. Scope 3 Emissions Are Needed for Investors to Understand the Full Scope of an Issuer's Transition Risk

Scope 1 and Scope 2 emissions alone will not provide a complete picture for investors to assess an issuer's transition risk. Scope 3 emissions disclosures include indirect emissions from an issuer's overall value chain, including suppliers (i.e., upstream emissions) and customers/consumers (i.e., downstream emissions). Disclosure of both overall categories of Scope 3 emissions—upstream and downstream—with context and specificity from companies about the most significant Scope 3 sources, is necessary for investors to develop a full picture of transition risk exposure and to evaluate investment risks and opportunities. In 2020, reported upstream Scope 3 emissions were, on average, 11.4 times greater than GHG Emissions from direct operations (Scope 1 and Scope 2).<sup>13</sup> If the costs of inputs to a production process increase, either due to market dynamics or a policy that levies an effective carbon price on the carbon-intensive input, companies that are relatively inefficient or utilize a value chain that is less efficient relative to peers could experience lower profit margins.

Scope 3 emissions examples can illustrate the importance of this information for investors in making informed decisions. If a consumer staples company is making less efficient use of forest-related commodities (e.g., palm oil) in its production process than its peers, investors would be able to detect such inefficiencies via higher Scope 3 emissions intensity versus the industry average. If countries were to add costs and restrictions to deforestation practices, this company will face increasing input costs as a result. Given the relatively low pricing power in this sector, consumer-facing companies may not be able to pass on these costs and could therefore experience lower margins. Scope 3 emissions data can also indicate transition risks faced by an issuer relating to its customers and/or products (i.e., downstream emissions). As more companies globally announce decarbonization plans, demand for carbon-efficient products will grow through the steps taken by these companies to meet their plans. Companies with more carbon-efficient supply chains and product line-ups—exhibited through lower Scope 3 emissions intensity—should be better positioned to capture growing market share, leading to faster top-line growth than peers. By understanding where companies' products fall relative to their peers in this category, investors would have better data to inform expectations for future capital investment and research and development spending, to improve the efficiency of their product line-up in order to capture this demand.

There are also examples where Scope 3, in conjunction with qualitative disclosures describing the company's strategy for managing transition risk, can help us understand the competitive advantages of issuers. Scope 3 emissions information allows investors to identify growth opportunities, as well as potentially disruptive products, and more accurately value these benefits in the price of an issuer's securities. In another example, a US-based REIT that owns,

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<sup>13</sup> See *Transparency to Transformation: A Chain Reaction*, CDP Global Supply Chain Report 2020 at 5, 14, [https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP\\_SC\\_Report\\_2020.pdf?1614160765](https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765).

operates, and develops a global portfolio of communications real estate recently conducted and disclosed its first Scope 3 emissions profile which indicated that Scope 3 emissions were high due to its emissions from tenant equipment, where the company does not have operational control. The company is using its scale to push renewable generators in emerging markets where grid connectivity is unreliable or unavailable. The usage of renewable generators is cheaper than the local grid, and the company can pass through cost savings to customers. We believe this company can capture share from customers by lowering its price to customers. In addition, the company is funding these Scope 3 decarbonization projects through green bond issuance, which have been issued at a 10%-15% discount to traditional bonds of similar duration. Disclosure of Scope 3 emissions and details the company shared regarding its implementation strategy, provided important context for their investments in renewables and helped us gain conviction in the company's ability to grow market share and obtain financing at a lower cost of capital, due to its current emissions profile and its commitment to decarbonize both its operations and value chain.

### C. Investors Will Face Challenges Without Scope 3 Reporting

If Scope 3 reporting is not required of all issuers, investors will be faced with the difficulty of assessing which issuers have internalized processes with GHG Emissions and which have outsourced to other companies, both upstream and downstream, including to private companies or offshore issuers. Without Scope 3 emissions information, issuers who outsource carbon-intensive activities appear to have less exposure to transition risk than issuers who internalize these same activities. For the internalizing issuer, those emissions would be considered Scope 1 or Scope 2 and would be reported under the Proposal, but for the outsourcing issuer, the Scope 3 emissions information could be withheld.

For example, electric utilities deliver power to customers through a combination of their own generation (Scope 1) and purchased electricity (Scope 3). Charts 1 and 2 illustrate a US electric utilities issuer's disclosure of the sources of its power generation from both owned and purchased power, revealing that the issuer remains particularly reliant on coal in its owned power and to a lesser extent in its purchased power.

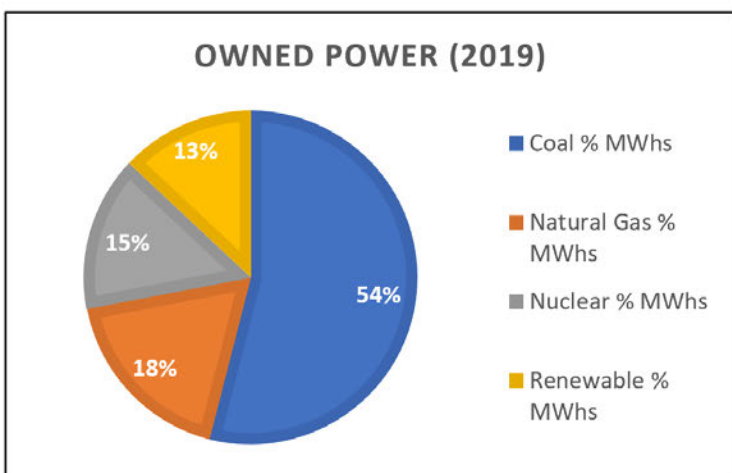


Chart 1

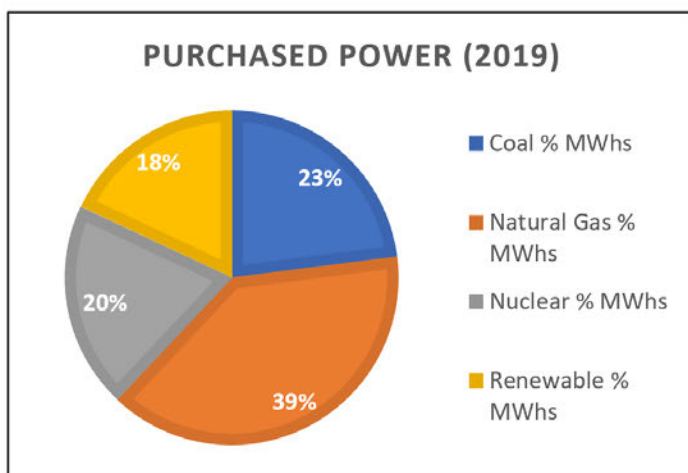


Chart 2

Since we know generally that coal is more emissions-intensive than natural gas, nuclear, and renewables, we can estimate the issuer's exposure to transition risk relative to other issuers who make similar disclosures. In this case, considering the combined emissions from owned and purchased power, we concluded that the issuer had higher exposure to transition risk versus its peers, and this conclusion is reinforced by a review of the issuer's Scope 1, 2, and 3 GHG Emissions, as depicted in Chart 3.

Chart 3 shows the company's overall emissions intensity is 18% higher than the global industry average for electric utilities.<sup>14</sup> Without Scope 3 disclosure, however, this reduced risk posed by the combined generation, including purchased power, is not evident. If our analysis was limited to only Scope 1 and Scope 2 emissions, this company's emissions intensity appears 38% higher than the industry average, implying that investors should apply a larger discount for this company's securities. The relative improvement when Scope 3 is included

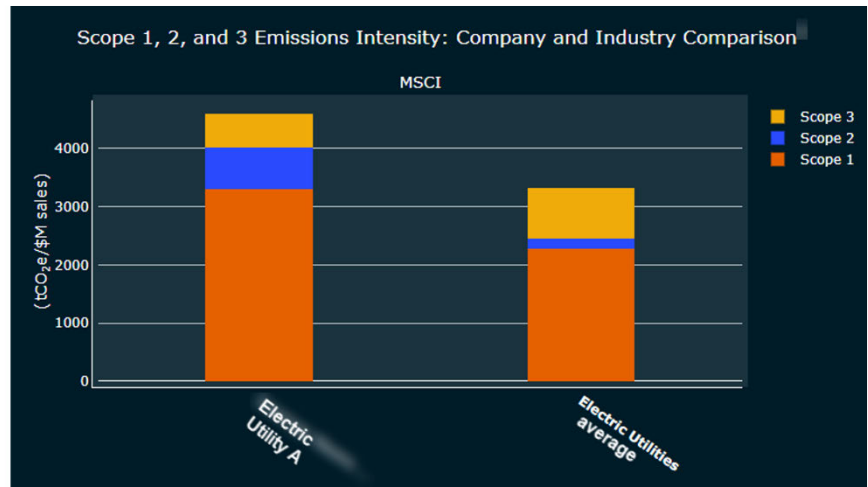


Chart 3

shows that the company's purchased power is estimated to be cleaner than the peer average. Scope 3 emissions information allows us to compare the transition risk presented to electric utilities with different business models. It is the carbon intensity of the combined generation—both owned and purchased—that, in the event of a carbon price, could result in higher prices and negatively impact profit margins. Excluding the intensity of the purchased power altogether could under or overestimate the transition risk of many utilities issuers and indirectly favor business models with more purchased power.

The absence of mandatory Scope 3 disclosure—whether by subjecting disclosure to a self-assessment of materiality by issuers or by not including Scope 3 in the final rule—may inadvertently create incentives for issuers to outsource GHG-intensive processes so that more of their emissions fall into an unreported category. Similar to prior accounting loopholes used to keep obligations off-balance sheet,<sup>15</sup> Scope 1 and Scope 2 without Scope 3 could enable issuers to create the appearance of less transition risk by using other companies to absorb the GHG-intensive activities.

<sup>14</sup> This chart utilizes an estimated Scope 3 dataset for the purposes of comparison against peers. This estimation may not be an accurate representation of the actual Scope 3 emissions generated through the company's purchased power generation.

<sup>15</sup> See, e.g., New York Times, "Post-Enron Accounting Rule Requires Companies to Report Leases (Feb. 25, 2016), <https://www.nytimes.com/2016/02/26/business/dealbook/accounting-of-company-leases-required-by-new-rule.html>.



In the absence of required Scope 3 disclosure, investors will leverage estimated datasets for their analysis. The lack of widespread Scope 3 disclosure currently makes it difficult to assess the accuracy of the estimation models from third-party climate data providers. When we compare reported and estimated Scope 3 figures for individual companies, we see significant divergence that can lead to different investment conclusions. For example, we can review the reported versus estimated data for several automobile manufacturers. Most Scope 3 emissions for this industry are downstream and depend upon each company’s fleet efficiency and dependence on fossil fuel combustion to operate the vehicles. Comparing three auto OEMs in Chart 4, the reported data (colored bars) suggests that the ranking of most to least efficient is Company A < Company C < Company B. However, the *estimated* data (empty bars) suggests an entirely different order of efficiency: Company B < Company A < Company C. In this example, reliance on estimated data yields an incorrect assessment of transition risk.

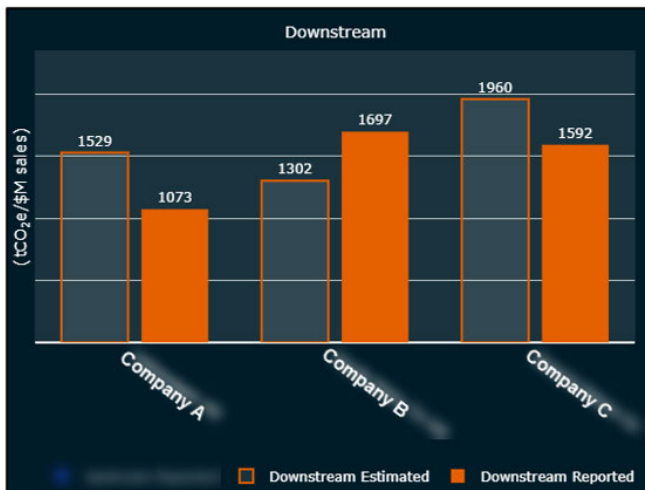


Chart 4

#### D. Reasonable Scope 3 Disclosure Is Possible and Will Improve

While we acknowledge the potential challenges associated with calculating and disclosing Scope 3 emissions, we believe accurate and reliable disclosure is still possible.

Some issuers already make useful disclosure on Scope 3 emissions. For example, Company C from the automobiles industry in Chart 4 is based and registered in the United States and is providing Scope 3 disclosure for all relevant categories, as shown in Table 1.

We have also observed companies in other industries providing salient Scope 3 emissions disclosure. The disclosure in Table 2, from a healthcare equipment company also includes a breakdown of Scope 3 emissions with three years of history and extensive explanatory footnotes regarding the methodology used to arrive at an estimate for each category.

Company C Global Facilities - 2019 Select Scope 3 GHG Assertions			
Parameter	Assertion	Units	Notes
Scope 3 GHG Emissions Category 1 Purchased Goods & Services	50,848,346	tCO <sub>2</sub> e	
Scope 3 GHG Emissions Category 2 Capital Goods	3,167,447	tCO <sub>2</sub> e	
Scope 3 GHG Emissions Category 3 Fuel & Energy Related Activities	322,403	tCO <sub>2</sub> e	
Scope 3 GHG Emissions Category 4 Upstream Transportation	4,965,042	tCO <sub>2</sub> e	
Scope 3 GHG Emissions Category 6 Business Travel	40,051	tCO <sub>2</sub> e	Air travel only
Scope 3 GHG Emissions Category 9 Downstream Transportation	1,532,188	tCO <sub>2</sub> e	
Scope 3 GHG Emissions Category 11 Use of Sold Product	190,120,729	tCO <sub>2</sub> e	Includes emissions from produced vehicle travel and air conditioning systems
GRI 305-1 Total Scope 3 GHG Emissions	Category 1: 50,848,346 Category 2: 3,167,447 Category 3: 322,403 Category 4: 4,965,042 Category 6: 40,051 Category 9: 1,532,188 Category 11: 190,120,729	tCO <sub>2</sub> e	Category 6 is air travel only

Table 1



Scope 3 Emissions	Units	CARBON DIOXIDE EQUIVALENTS <sup>1,2</sup> (THOUSAND METRIC TONS)		
		2018	2019	2020
Purchased Goods and Services (Category 1) <sup>3</sup>		787	805	827
Capital Goods (Category 2) <sup>4</sup>		82	87	89
Fuel and Energy-related Activities (Category 3) <sup>5</sup>		147	148	150
Upstream Transportation and Distribution (Category 4) <sup>6</sup>		517	440	432
Waste Generated in Operations (Category 5) <sup>7</sup>		13	15	14
Business Travel (Category 6) <sup>8</sup>		54	51	12
Employee Commuting (Category 7) <sup>9</sup>		29	29	30
Upstream Leased Assets (Category 8) <sup>10</sup>		0	0	0
Downstream Transportation and Distribution (Category 9) <sup>11</sup>		132	131	136
Processing of Sold Products (Category 10) <sup>12</sup>		17	16	17
Use of Sold Products (Category 11) <sup>13</sup>		2,658	2,366	2,014
End-of-life Treatment of Sold Products (Category 12) <sup>14</sup>		171	165	161
Downstream Leased Assets (Category 13)		0	0	0
Franchises (Category 14)		0	0	0
Investments (Category 15)		0	0	0
<b>Scope 3 Emissions Total</b>		<b>4,607</b>	<b>4,253</b>	<b>3,882</b>
<b>Total GHG Emissions<sup>19</sup></b>		<b>5,205</b>	<b>4,854</b>	<b>4,493</b>

<sup>1</sup> [REDACTED] used the World Resources Institute and World Business Council for Sustainable Development Greenhouse Gas Protocol to calculate emissions data from fossil fuel use. We used country electricity emission factors published by the International Energy Agency and the U.S. Environmental Protection Agency (EPA) E-Grid U.S. regional electricity emission factors to calculate GHG emissions related to electricity consumption.

<sup>2</sup> Apex Companies LLC verified to a reasonable level [REDACTED]'s 2018–2020 Scope 1 and Scope 2 GHG emissions. Apex Companies LLC also verified to a limited level [REDACTED]'s methodology for determining 2018–2020 Scope 3 GHG emissions.

<sup>3</sup> Some data for 2018 and 2019 are updated from data reported in the [REDACTED] 2019 Corporate Responsibility Report for accuracy and to reflect updated GHG emission factors.

<sup>4</sup> We used the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition to determine GHG emissions associated with using biomass fuel, principally wood/wood waste, as a boiler fuel at two [REDACTED] locations. These emissions were calculated as 145,000, 152,000 and 149,000 metric tons CO<sub>2</sub> in 2018, 2019 and 2020, respectively. CO<sub>2</sub>e emissions from CH<sub>4</sub> and N<sub>2</sub>O components of biomass combustion are included in reported Scope 1 emissions.

<sup>5</sup> [REDACTED] used the Greenhouse Gas Protocol to estimate GHG emissions associated with reported fuel usage by company-managed sales and distribution fleet vehicles and other vehicles. We estimated fuel usage for international sales and distribution vehicles based on regional sales information.

<sup>6</sup> Refrigerant emissions represent reported CFC, HCFC and HFC refrigerant losses by each [REDACTED] location. We calculated associated GHG emissions using actual emission factors for each reported refrigerant.

<sup>7</sup> Includes the purchase of electricity generated from 100% certified renewable electricity (Belgium, Brazil, France, Germany, Ireland, Italy, Spain, Sweden, Switzerland, UK and United States).

<sup>8</sup> Estimated based on an environmentally extended input-output model from an independent third party and [REDACTED]'s revenue and sector of operation.

<sup>9</sup> Estimated based on capital expenditures and an estimated emission factor per million dollars of capital expenditure from benchmarking with industry.

<sup>10</sup> Estimated based on [REDACTED]'s actual yearly energy usage by energy type and GHG emission factors for each energy type per GaBi life cycle assessment software.

<sup>11</sup> Estimated based on shipment of products to our customers using the EcoTransIT World Software that is compliant with the GHG Protocol and the Global Logistics Emissions Council Framework.

<sup>12</sup> Estimated emissions for wastewater treatment by municipalities and off-site waste recycling and disposal based on [REDACTED]'s waste generation by type, guidance provided by the Massachusetts Department of Environmental Protection (United States) and the U.S. EPA WARM model.

<sup>13</sup> Estimated based on domestic and international air mileage, rental vehicle CO<sub>2</sub>e emissions or mileage, and hotel room stays provided by [REDACTED]'s global travel providers, and using emission factors from UK Government GHG Conversion Factors for Company Reporting, Greenhouse Gas Protocol Mobile Combustion GHG Emissions Calculation Tool, and Carbonfund.org Business Travel Calculator.

<sup>14</sup> Estimated based on the number of [REDACTED] employees by country and statistics on commuting time and transport mode split into public transport, passenger cars, taxi and motorcycle, and walking or bicycling. Emission factors for each mode were obtained from Defra.

<sup>15</sup> Emissions associated with upstream leased assets are included in [REDACTED]'s Scope 1 and 2 emissions.

<sup>16</sup> Estimated based on previous [REDACTED] product LCAs as well as the company's revenue by product type. Category 1 emissions were extrapolated to other categories depending on the product type.

<sup>17</sup> Estimated based on an environmentally extended input-output model from an independent third party and revenue from [REDACTED]'s contract services business.

<sup>18</sup> Estimated based on production quantities and global warming potential information for certain types of products. Emissions for certain other products estimated based on previous [REDACTED] product LCAs as well as the company's revenue by product type. Category 1 emissions were extrapolated to other categories depending on the product type.

<sup>19</sup> Totals do not include CO<sub>2</sub> emissions from [REDACTED]-owned wood-fired boilers. See endnote 4 above for detail.

Table 2

We also highlight disclosures made by a US-based gold mining company, shown in Table 3, that provides extensive Scope 3 emissions disclosure:

<b>ESTIMATED SCOPE 3 GHG EMISSIONS</b>			
<b>Trailing three year data (million tonnes CO<sub>2</sub>e)<sup>1, 2, 3, 6</sup></b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Category 1:</b> Purchased goods and services	1.989	1.908	1.771
<b>Category 2:</b> Capital goods	0.189	0.189	0.245
<b>Category 3:</b> Fuel and energy related activities	0.591	0.539	0.739
<b>Category 4:</b> Upstream transport	0.194	0.302	0.247
<b>Category 5:</b> Waste generated in operations	0.015	0.024	0.016
<b>Category 6:</b> Business travel	0.009	0.003	0.003
<b>Category 7:</b> Employee commuting	0.038	0.032	0.033
<b>Category 8:</b> Upstream leased assets <sup>4</sup>	Not relevant	Not relevant	Not relevant
<b>Category 9:</b> Downstream transport	Included in Category 10	Included in Category 10	Included in Category 10
<b>Category 10:</b> Processing of sold products	0.559	0.728	0.737
<b>Category 11:</b> Use of sold products <sup>4</sup>	Not relevant	Not relevant	Not relevant
<b>Category 12:</b> End-of-life of sold products <sup>4</sup>	Not relevant	Not relevant	Not relevant
<b>Category 13:</b> Downstream leased assets <sup>4</sup>	Not relevant	Not relevant	Not relevant
<b>Category 14:</b> Franchises <sup>4</sup>	Not relevant	Not relevant	Not relevant
<b>Category 15:</b> Investments <sup>5</sup>	2.131	2.158	2.115
<b>Total estimated Scope 3 GHG emissions</b>	<b>5.716</b>	<b>5.883</b>	<b>5.906</b>

<sup>1</sup> Our 2019 figures differ from what was reported in our 2020 Annual Sustainability Report due to a re-baselining exercise that was completed to set our science-based Scope 3 target. Additionally, 2020 figures differ from what was originally reported as a result of updating inputs to further improve reporting.

<sup>2</sup> [REDACTED]'s previous Scope 3 base year amount was 4.640M tCO<sub>2</sub>e. In comparison to this previous Scope 3 base year amount, our 2021 Scope 3 emissions have increased 27% with the revised methodology, which is in the process of being reviewed by SBTi. has increased. This increase is driven by the changes in methodology, increased spend and increased production in 2021.

<sup>3</sup> Supplier-specific emission factors are used to estimate greenhouse gas emissions where available. Where relevant supplier factors are unavailable, a combination of relevant emissions factors from the UK Government GHG Conversion Factors for Company Reporting (BEIS) and Supply Chain Greenhouse Gas Emission Factors for US Industries and Commodities available at the beginning of the reporting period, and life cycle emission factors from the Ecoinvent (IPCC 2007 GWP 100z V1.04) database were used. The UK BEIS emissions factors include CO<sub>2</sub>, N<sub>2</sub>O and CH<sub>4</sub> gases in the calculations, whereas the Ecoinvent database includes all greenhouse gases included in the Kyoto Protocol. The IPCC's Fifth Assessment Report global warming potential (GWP) rates were utilized.

<sup>4</sup> Categories listed as "not relevant" have been assessed as such based on the relevance test set out within the GHG Protocol Corporate Accounting and Reporting Standard.

<sup>5</sup> Investments include [REDACTED]'s equity share of our joint ventures' Scope 1 and 2 emissions. 2019 and 2020 Category 15 emissions were location-based values. Beginning in 2021, we began receiving market-based values from our joint ventures, and will continue reporting market-based values based on provided information moving forward. Following the Technical Guidance for Calculating Scope 3 Emissions from GHG Protocol, at this time, Scope 3 emissions generated from our joint ventures are excluded in this calculation. Exclusion was determined following an internal relevancy test reviewing criteria of size, influence and ability to obtain data. Criteria and relevancy will be reviewed in the future and updated as necessary.

<sup>6</sup> GRI Standards disclosure 305-3: Other indirect (Scope 3) GHG emissions. Aligns with TCFD-Metrics & Targets (TCFD-M): b) Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.

**Table 3**

All of these disclosures provided useful input to us as investors in assessing the transition risks associated with these issuers.

We recognize that there are challenges with respect to calculating and reporting Scope 3 emissions. In the example above, the issuer was able to address data issues through footnote disclosure. We do not object to Scope 3 emissions being provided subject to safe harbors or subject to liability protections for issuers. For our purposes, it is more critical that issuers produce the data so that we can more accurately assess the transition risk to which they are subject.

We support reasonable safe harbors in the presentation of Scope 3 emissions data because the mere reporting requirement can improve overall emissions disclosures. For example, we have identified companies for which the Scope 3 inventory process has led to restatements of Scope 1 and Scope 2 emissions. We also note that the accuracy of Scope 3 emissions should increase over time with the required disclosure of Scope 1 and Scope 2 under the Proposal. For example, there are numerous estimation methods to Scope 3 emissions. At the outset, we expect



companies to use the spend-based or average-based methods to estimate; this requires only the economic value or number of units purchased to be multiplied by an emissions factor, likely represented by an industry average. Once suppliers have conducted life-cycle assessments, they can provide more product-level emissions data for the goods to their customers to replace Scope 3 emissions. We would welcome disclosure from companies regarding the method used to estimate key Scope 3 categories, as several of the footnote examples above include, so that we can put the emissions disclosure in context of its current reliability. This is also consistent with the spirit of the guidance from the Partnership for Carbon Accounting Financials (“PCAF”)<sup>16</sup> to provide a data quality score per asset class for financed emissions (Category 15 Investments).

We also support the accommodation related to the timing of the Scope 3 disclosure in the Proposal, namely the additional one fiscal year provided for Large Accelerated Filers and Accelerated/Non-Accelerated Filers to begin disclosing Scope 3, relative to the disclosure compliance dates for Scope 1 and Scope 2 emissions.<sup>17</sup> Based on discussions with both issuers and providers of carbon footprint measurement consulting, we believe that this timeline is reasonable even for issuers who have not yet begun to undertake the carbon footprint measurement process.

With a disclosure requirement, we expect market standard Scope 3 disclosures will develop, which would further ease burdens on issuers and promote comparable disclosures. As market standard develops, the feasibility of requiring limited assurance for Scope 3 could be revisited by the Commission.

#### E. Scope 3 Disclosure Should Not Be Tied to an Issuer’s Adoption of a Target

We suggest the Commission remove the requirement for issuers to report Scope 3 emissions if the issuer has adopted a target.<sup>18</sup> We are concerned that this requirement could increase mispricing because investor understanding of a peer group would be skewed. Specifically, issuers with reduction targets will be disproportionately disclosing their Scope 3 emissions, and because of these reduction targets, we would expect their Scope 3 emissions to be lower than their peers. As a result, a given industry peer average will appear to be artificially low. Where estimation is used to fill gaps in disclosure, an industry average is often used; the non-disclosing issuers (those without Scope 3 targets) will be assigned a lower Scope 3 intensity, so estimation will be substantially inaccurate and unreliable relative to the actual climate risk faced by these lagging companies. As a result, we urge the Commission to remove this requirement.

### III. ISSUERS SHOULD BE REQUIRED TO DISCLOSE LOCATIONS MATERIAL TO BUSINESS WITH SUFFICIENT SPECIFICITY FOR INVESTORS TO ASSESS PHYSICAL RISK

#### A. All Material Locations

We agree with the Commission that, as part of an issuer’s enhanced disclosure of strategy, business model, and outlook, location data would “allow investors to better assess the risk exposure of one or more registrants with properties or operations in a particular area.”<sup>19</sup> However, we urge the Commission to require location information with respect to all of an issuer’s locations material to its businesses, rather than based on the issuer’s determination of locations subject to physical climate risk.<sup>20</sup> We believe that physical climate risk potentially impacts all issuers at all of

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<sup>16</sup> See generally *The Global GHG Accounting and Reporting Standard for the Financial Industry* (Nov. 18, 2020), <https://carbonaccountingfinancials.com/standard>.

<sup>17</sup> Section II.H.1 of the Proposal at 216, Proposed Section 1505(a).

<sup>18</sup> Section II.G.1 of the Proposal at 151, Proposed Section 1504(c)(1); Section IV.F.5 of the Proposal (discussing the alternative of not requiring Scope 3 emissions for registrants with targets or goals related to Scope 3).

<sup>19</sup> Section II.B.1 of the Proposal at 59, Proposed Section 1500(k).

<sup>20</sup> Section II.B.1 of the Proposal at 60, Proposed Sections 1502(a)(1)(i)(A) and (B).

their locations; part of our assessment as investors is whether and how the physical risks manifest themselves with respect to an issuer. We believe that a broader standard will be simpler to apply for issuers, as issuers will not be required to make individual assessments of the materiality of physical risks on each of their locations. Furthermore, broader disclosure will ensure complete disclosure, as investors would not be dependent on the rigor of an issuer's physical risk analysis, which could also produce inconsistent results across issuers. Providing investors with easily accessible raw information on locations would reduce burdens on issuers and provide greater transparency for investors.

We would recommend requiring issuers to disclose locations material to their businesses. As long as these determinations are based on materiality to the issuer and the bases for the determinations are disclosed, we believe we would still be able to glean critical insights with respect to an issuer's exposure to physical climate risks.

## B. Address-Level Information

For an issuer's material locations, we see significant benefits to investors for disclosure of address-level information in a standardized form. Our research indicates that this level of information is necessary for investors to fully assess the physical risk of climate change. Given the resolution of climate data and the variation of climate risks from location to location, each step of additional information gives investors more clarity on the climate risk of a particular company.

Specific location information aids analysis of different types of physical risk. Assessment of wildfire risk, for example, must account for local environment variables such as presence of fuel/biomass that occurs at a more granular scale. For flood analysis, the necessary resolution of location data is extremely high as buildings on the same street can have different flood exposures based on the varying elevations and flood measures taken. This means that to understand the risks posed by wildfires and flooding we need location data that is address-level.

We can illustrate the need for address-level data by providing an example of physical climate risk applicable to the New England Aquarium in Boston, Massachusetts. For some of our higher resolution datasets, like our flood model, knowing the location is somewhere in Suffolk County is insufficient. Based on our flood risk data (illustrated in Figure 1 below), a location's 100-year flood depth could be anywhere between less than 0.15 m flooded (in white) or more than 0.9 m flooded (in purple) if we only knew that the location was in the purple area which indicates the boundary of Suffolk County.

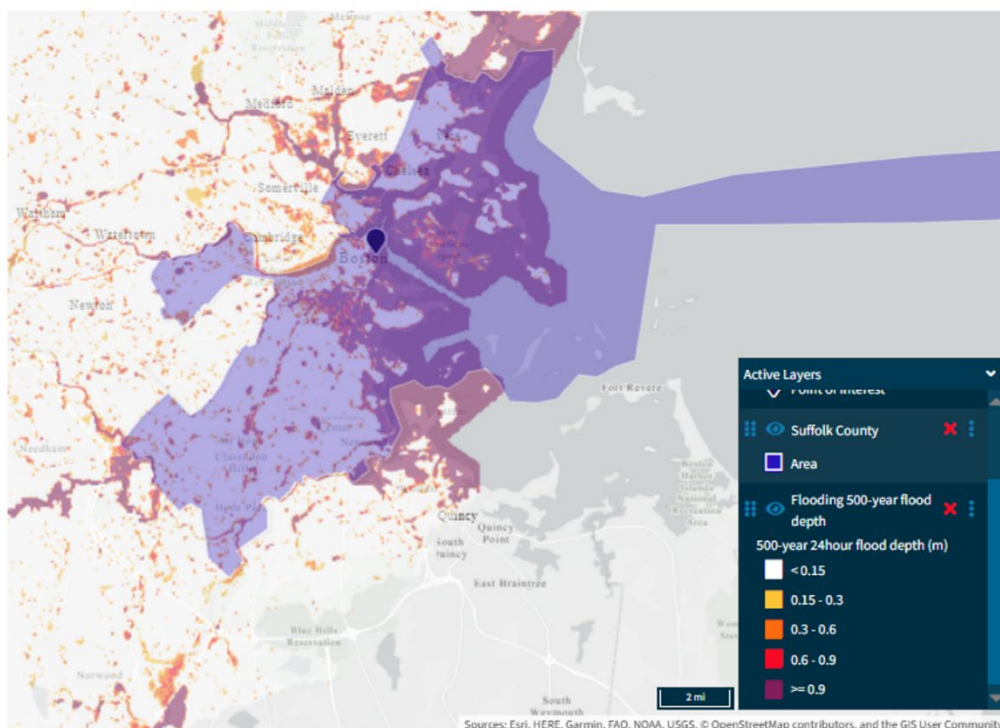


Figure 1

Only by receiving the data on an address level, does it become clear exactly how much risk this particular location faces for flooding—even zip code level data, as highlighted in the red outline in Figure 2 below—is insufficient for a fully informative evaluation, as Figure 2 shows how the pixels of the flood map are small enough that flood risk could differ between buildings on the same block.

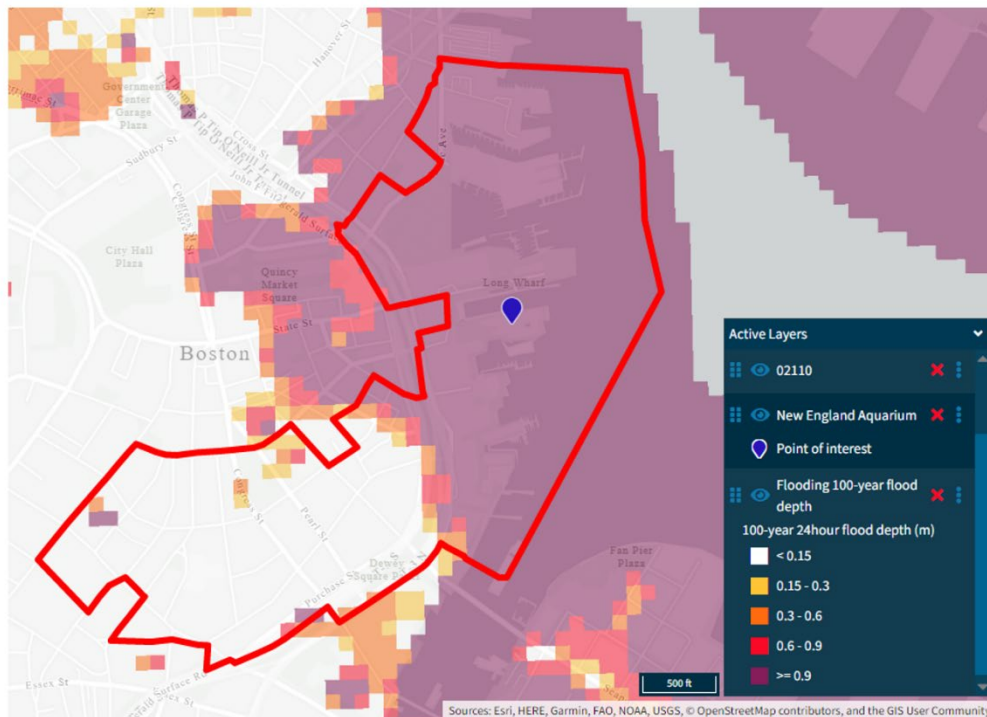


Figure 2

As noted above, address level data can provide useful information to investors, and such a requirement should not create a significant burden for issuers. In connection with the research on physical climate risk we conduct today, we have been able to collect address-level location data through issuer publications regarding their operations. Generally, property ownership in the United States is a matter of public record, accessible to investors via website or local government offices. However, depending on the jurisdiction of the property, investors would be subject

to varying degrees of difficulty in obtaining those records. Given this, we are merely requesting that the Commission require this information—which should be easy for issuers to obtain—in a common format and location to aid investors in an accurate assessment of the physical climate risks that issuers face.

While we see these significant benefits to investors receiving this address-level information, we see little to no cost to issuers in providing this information. An issuer can easily obtain a list of addresses for its assets. Currently, investors can currently obtain the bulk of this address-level information through manual, labor-intensive public records review. We recognize that this requirement may present complications for a limited number of issuers in certain industries (*e.g.*, defense), where confidentiality of locations may be necessary. In such cases, we would not object to an exemption from the address-level disclosure requirement; however, we would request that narrative information regarding the location be provided such that physical climate risks can still be identified and assessed. For example, an issuer with confidential locations could instead disclose their own assessment of physical climate risks facing its locations, including a discussion of its basis for its conclusions.

### C. Water Consumption

In addition to the above, we also believe there are certain other specific enhancements to location disclosure that would aid investors in evaluating the physical risks faced by an issuer. Specifically, the Proposal requires registrants to disclose water usage data, but only where the registrant has determined that the location of assets are in regions of high or extremely high water stress presenting a material risk and, even if satisfied, results in issuers providing only the

percentage of water withdrawn from such regions.<sup>21</sup> We request that the Commission require disclosure of water usage data for all issuers who rely on water as a key input to their operations, regardless of their location. Broader disclosure of this data will ensure that investors can assess physical climate risks as they may change over time and would allow investors to compare the relative water-efficiency of issuer operations, providing key insight into physical risk resilience.

#### D. Flood Zone

The Proposal would require issuers to disclose the percentage of buildings, plants, or properties (square meters or acres) that are located in flood hazard areas, in addition to their locations.<sup>22</sup> While we appreciate this disclosure, we note that issuers may not correctly identify flood hazard areas and/or the process for such identification may vary across issuers and jurisdictions. As part of our investment process, we have developed our own internal models that we believe are more granular and accurate than generic flood hazard area identification. With the address-level disclosure requested above, we would be able to more accurately assess flood risk based on an issuer's own analysis of flood hazards; however, should the Commission decline to require address-level information, we request that the Commission, at a minimum, require issuers making flood-hazard disclosures also include a description of the methodologies and data sources used.

#### IV. AN ISSUER'S CLIMATE-RELATED GOVERNANCE DISCLOSURE SHOULD FOCUS ON BOARD AND MANAGEMENT EDUCATION, NOT QUALIFICATIONS

We generally support the proposed requirements that issuers disclose information concerning a board's oversight of climate-related risks, and management's role in assessing and managing those risks.<sup>23</sup> Issuers should consider climate change as an "enterprise risk," akin to legal, compliance, cybersecurity and worker safety. For example, it would be an important fact in the investment decision process to learn that an issuer did not have a cybersecurity plan or worker safety compliance protocols. This information would suggest that the issuer's board or management was not fully considering the risks to which its company is subject. Similarly, information regarding the ways an issuer's board or management is addressing climate risk provides valuable insight into whether the issuer is appropriately managing these risks.

The proposed enhancements to disclosure on governance would help investors assess whether the issuer is appropriately considering risks and provide investors with valuable information about how the issuer plans to address these risks. This disclosure, in turn, gives investors insight into potential future capital allocation, expansion plans, and potential vulnerabilities associated with the issuer's business model (e.g., significant exposure to the impact of a carbon price).

We also appreciate that the format is narrative,<sup>24</sup> which would allow for issuers to tailor the disclosures to their individual businesses. Given the potential variables in risk assessment and mitigation strategies, we believe that this narrative would provide the clearest insight into the issuer's consideration and mitigation of climate risks.

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<sup>21</sup> Section II.B.1 of the Proposal at 60-61, Proposed Section 1502(a)(1)(i)(B).

<sup>22</sup> Section II.B.1 of the Proposal at 60, Proposed Section 1502(a)(1)(i)(A).

<sup>23</sup> Proposed Sections 1501(a) and (b).

<sup>24</sup> Section II.C.1 of the Proposal at 75, Proposed Section 1502(d).

We do not, however, support the proposed requirements for disclosure of expertise in climate risk at the board or management levels.<sup>25</sup> Climate risk management is a relatively new area of focus (as compared to financial and operational risks), and boards and management teams should be able to develop their expertise in a manner best suited to the specific organization. We are concerned that specific disclosure requirements will adversely impact the composition of boards and/or management teams, and we believe climate risk experience gaps could be addressed with appropriate training and education with disclosure of these efforts required by a final rule.

## V. ISSUERS SHOULD USE COMMON DEFINITIONS FOR TIME HORIZON DISCLOSURE

We support the Proposal's requirement to include an assessment of the materiality of climate-related risks over the short, medium, and long term.<sup>26</sup> Risks that may ripen for an issuer in ten, twenty, and thirty years are relevant to our decision to invest in their securities. While GHG Emissions disclosure was first deemed to reflect a company's impact on society rather than as necessarily material to its operations, public policy changes in many jurisdictions have impacted costs and opportunities for businesses. GHG Emissions disclosure increasingly helps us assess potential financial impacts (e.g., a carbon tax), bringing it squarely into the realm of financially material sustainability disclosure. Requiring issuers to provide climate-risk disclosure over multiple time horizons will be helpful for investors to better assess these impacts.

Because risk disclosure over these multiple time horizons is important, we are concerned that allowing each issuer to use its own definition of short, medium, and long term will result in disclosures that are incomparable and therefore less useful from an investment perspective.<sup>27</sup> While the Proposal would require a registrant to describe how it defines short-, medium-, and long-term time horizons, we believe providing standardized periods would provide disclosure benefits in excess of the benefits of allowing issuers to customize their disclosures based on their particular circumstances. The ability to compare two issuers' assessments over common periods will provide far more useful information than if, for example, one issuer assesses risks on a one-, five-, and ten-year period, while another assesses risks over a three-, twelve-, and twenty-year period.

To that end, we request that the Commission revise the Proposal to define short, medium, and long-term. Should the Commission agree that the final rule should standardize the time horizon used, we would be happy to provide further recommendations on the options for establishing a common definition.

## VI. THE COMMISSION SHOULD REQUIRE DISCLOSURE THAT IS STANDARDIZED AND RELIABLE WHILE BALANCING ISSUER NEEDS ON IMPLEMENTATION AND INTEROPERABILITY

As investors, we need climate information to be as standardized as possible to enable comparability for a single issuer year-over-year and across issuers. To that end, we appreciate that the Proposal would require the above information to be included in financial reports with standardization of reporting format. Most data aggregators use documents submitted via Commission's EDGAR system, rather than less broadly disseminated information, information posted on an issuer's website, or other patchwork sources of disclosure so having enhanced climate disclosure included as part of an issuer's submissions will aid market absorption of the information.

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<sup>25</sup> Section II.D.1 of the Proposal at 94, Proposed Sections 1501(a)(ii) and 1501(b)(i).

<sup>26</sup> Section II.B.2 of the Proposal at 63, Proposed Section 1502(a).

<sup>27</sup> Section II.B.2, Question 8 of the Proposal at 67 (requesting comment on definitions of short, medium, and long term).



We believe that requiring this information in financial reports will improve reliability. Financial reports are typically subject to internal controls—with processes to ensure that disclosure is reviewed by the correct individuals at each issuer—, which increase reliability.

We strongly encourage the Commission to ensure that the climate-risk requirements are interoperable with global standards and standards established in other jurisdictions relevant to issuers. Requiring issuers to adhere to multiple differing standards will increase costs for disclosures and potentially decrease their reliability. We encourage the Commission to allow, where necessary, issuers to comply with the Commission’s requirements through compliance with global standards, such as those to be set by the International Sustainability Standards Board (“**ISSB**”). We are encouraged by the degree of consistency between the Proposal and the ISSB Climate Exposure Draft. This level of consistency represents a concrete step toward the establishment of a global baseline for investor-focused climate disclosures. Such a global baseline will reduce the reporting burden on preparers and provide investors with comparable, consistent, and reliable information about climate-related risks and opportunities.

## VII. RECOMMENDATIONS

For the reasons discussed in this letter, Wellington Management:

- supports requiring increased disclosure of GHG Emissions, including Scope 1, Scope 2, and Scope 3.
- requests that the Commission, in advancing a final rule, revise the Proposal to:
  - expand application of Scope 3 emissions disclosure to all issuers;
  - eliminate requirement for Scope 3 emissions disclosure where an issuer has adopted an emissions target;
  - require issuers to disclose address-level information for locations material to the issuer's business (subject to appropriate exceptions for sensitive issuers with security concerns);
  - require issuers to provide additional information relating to an issuer's water consumption and the methodology used for determination of the applicable flood zone for its locations;
  - eliminate the requirement for issuers to disclose board and management qualifications regarding climate risk, instead requiring disclosure of board and management education on climate risk; and
  - establish specific time horizons for climate risk assessment.
- supports finalization of the remainder of the additional Regulation S-K disclosures as proposed.
- supports the Commission's balancing of issuer concerns in the final rule, particularly where the requests of issuers do not reduce benefits to investors.
- encourages the Commission to facilitate interoperability with global standards and standards in other jurisdictions relevant to issuers.
- requests implementation of the final rule in line with the timeline proposed.

With the resulting enhancement and standardization of climate risk disclosure by issuers subject to Regulation S-K, investors will be better equipped to consider climate risk more fully in their investment decisions involving public securities.

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If you have any questions or would like to discuss our comments, please contact Laura Martin (██████████).

Respectfully submitted,

/s/ Jean M. Hynes

Jean M. Hynes  
Chief Executive Officer