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Committee on Corporate Reporting

June 17, 2022

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

Re: File No. S7-10-22

Dear Ms. Countryman,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Securities and Exchange Commission's (SEC or Commission) Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than $12 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the view of CCR collectively and not necessarily the views of FEI or its members individually. CCR members come from a variety of industries and have numerous perspectives that are not included in this letter, which is written to highlight practical issues and potential solutions to operationalize the proposed rules.

Executive Summary

Under our remit as financial statement preparers, we are dedicated to meeting the information needs of our investors. As such, we support the Commission's commitment to provide investors with consistent, comparable, and reliable information on material climate-related risks. We also acknowledge the importance of climate-related matters more broadly and appreciate the Commission's continued responsiveness to heightened interest around current and potential climate-related impacts.

The Appendix to this letter includes detailed information regarding our recommendations for the Commission's proposed rules. A summary of our views and highest priority recommendations are provided below:

I. **Proposed Regulation S-X Requirements**: We do not believe the proposed Regulation S-X disclosure requirements can be operationalized by registrants as written. Moreover, we believe that attempts to operationalize the proposed requirements would result in significant variation in practice across registrants that would significantly impair the consistency and comparability of disclosures and therefore provide little value to investors. The following list highlights some of the reasons that we believe the proposed disclosure requirements would neither be operable nor result in disclosure that is comparable or decision useful:

- There exists no framework of guidance within U.S. Generally Accepted Accounting Principles (GAAP), or otherwise, that can be utilized to consistently identify and measure climate-related impacts, or for consistently recognizing and measuring lost revenues and cost reductions, both of which would be required by the proposed rules.
- The lack of guidance for concepts in the proposal and overly broad definitions for terms such as "transition activity" would require registrants to develop their own bespoke policies, resulting in significant diversity in practice among registrants.
- Many expense and revenue items will have more than one driver, i.e., some drivers may be climate, but others will not be. Bifurcating these items between climate and non-climate amounts would be subjective and result in disclosure that is not comparable.
- The notion of reporting "lost revenues" or "cost reductions" is foreign to the principles of U.S. GAAP. Such information would be highly subjective, as it would represent estimates for events that did not occur. As such, the resulting disclosures would be of doubtful value.
- There are numerous challenges with applying the one-percent threshold around how to capture a potentially high number of small impacts that may, in aggregate, exceed the one-percent threshold for an individual financial statement line item. Diversity in the application of the proposed disclosure requirements resulting from company-specific policy elections would result in significant diversity in disclosures, undermining comparability between registrants. This lack of comparability would be amplified by the high degree of diversity in financial statement presentation (i.e., format as well as number of line items) between registrants, even within the same industry.

For these reasons, we strongly recommend that the Commission consider replacing the proposed rules under Article 14 of Regulation S-X with requirements to disclose only material first-order incurred expenditures within Management Discussion and Analysis of Financial Position and Results of Operations (MD&A) on a prospective basis. More details regarding our recommendations for the proposed Regulation S-X disclosure requirements can be found in the Appendix.

II. **Proposed Regulation S-K Requirements**: We appreciate the Commission's intent in modeling its proposed climate-related disclosure framework, in part, on the Task Force on Climate-Related Financial Disclosure's (TCFD) recommendations. We agree that such alignment will likely facilitate understanding by drawing on concepts and vocabulary that are already in use. Our feedback focuses on specific areas where we believe adjustments are necessary to effectively operationalize the proposed rules, while reducing challenges that could impede comparability, compliance, and the timely disclosure of enhanced climate-related information. Our highest priority recommendations for the proposed Regulation S-K requirements are summarized in the following list, and more details regarding all our recommendations can be found in the Appendix:

- Remove the requirement to prescriptively assess the materiality of climate-related risks over short-, medium-, and long-term timeframes and instead adopt language from the Commission's 2010 climate change disclosure guidance[1] (2010 Guidance).
- Allow Scopes 1, 2, and 3 emissions to be furnished with the Commission at least 180 days after registrants' fiscal year end and provide at least a two-year deferral (one more year than proposed by the Commission) for the reporting of Scope 3 emissions, with continued monitoring to inform whether further delay is needed.
- Permit organizational boundaries to be set in accordance with any of the approaches outlined in the Greenhouse Gas (GHG) Protocol.
- Remove the requirement to disaggregate Scope 3 emissions by each constituent greenhouse gas.
- Revise the criteria for attestation standards to allow ISO 14064-3 to be considered a suitable standard for purposes of providing attestation of Scope 1 and Scope 2 emissions.
- Require disclosure of climate-related targets or goals only to the extent they have been made public by the registrant and are material, as defined by U.S. securities law.

We appreciate this opportunity to provide feedback on the Commission's proposed rules on the enhancement and standardization of climate-related disclosures for investors, and we remain committed to supporting the Commission's efforts to introduce more consistent, reliable, and comparable disclosures. We believe that the recommendations in our letter would address many of the operability challenges of implementing the proposed rules, while still providing investors with enhanced and standardized information. As the Commission considers a path forward, we stand ready to assist in any way possible and welcome the opportunity to expand on our comments or provide more detailed information upon request.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International

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[1] See Commission Guidance Regarding Disclosure Related to Climate Change.

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Appendix

I. Proposed Regulation S-X Requirements

I. A. Summary of Recommendations

We support the Commission's intent to increase the consistency and comparability of material climate-related disclosures. However, we do not believe the Article 14 Regulation S-X (Reg S-X) disclosure requirements are operable as proposed. Therefore, we have provided several recommendations, summarized below, that we believe will enable registrants to operationalize the proposed Reg S-X disclosure requirements and provide enhanced disclosure to investors regarding climate-related impacts:

Scoping Recommendations

1. Require disclosure by event (for severe weather events and other natural conditions) and by activity (for transition activities) instead of by financial statement line item.
2. Require consideration of only first-order recorded impacts (instead of all impacts) related to climate-related events and transition activities.
3. Use the U.S. securities law materiality threshold[2] instead of the proposed one-percent thresholds.[3]

Overall Recommendations

1. Move any disclosure requirements to be included as part of MD&A (Regulation S-K Item 303).
2. Permit registrants to adopt the MD&A disclosure requirements on a prospective basis, omitting comparative periods ending prior to the effective date of the final rule.
3. Remove the notion of financial statement line item impacts from the disclosure requirements and instead require disclosure of only first-order incurred expenditures.
4. Exclude lost revenues and cost reductions from the scope of the proposed disclosure requirements.
5. Narrow and clarify the definition of transition activities.

Our scoping and overall recommendations are interrelated and can be summarized as follows: When the first-order recorded impacts of a climate-related event or transition activity are material to a registrant, disclosure of relevant expenditures would be required in MD&A on a prospective basis. In the following sections, we further explain and provide rationale for each of these recommendations.

I. B. Scoping Recommendations

Our scoping recommendations consist of three qualifiers that we believe are essential to revising the proposed Reg S-X disclosure requirements such that registrants could operationalize them: (1) event- and activity-specific disclosure, (2) first-order recorded impacts, and (3) a materiality threshold. The following paragraphs expand on these qualifiers and explain why we believe they are necessary.

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[2] As determined by the U.S. Supreme Court and by application of prior SEC staff guidance (see Staff Accounting Bulletin No. 99).

[3] See proposed Rules 14-02(b)(1) and (2).

1. *Event- and Activity-Specific Disclosure*: The proposed disclosure threshold for financial impact metrics would require registrants to aggregate all climate-related impacts[4] for each financial statement line item over the course of a year to determine whether the sum of the absolute value of all impacts exceeds one percent of any given line item. We do not believe disclosure by line item is operable because registrants do not track climate-related impacts by every financial statement line item and doing so may not be possible under current system configurations in which revenues and costs can lose detailed attribution when recorded, reclassified, or allocated across different line items. Therefore, we strongly recommend that the Commission require disclosure specific to individual material climate-related events and transition activities, which would better align with how registrants track and manage impacts internally.

2. *First-Order Recorded Impacts*: A major operational hurdle to preparing the proposed Reg S-X disclosures is the requirement to assess indirect impacts. Proposed Rule 14-02(c)(1) includes an example of disclosing impacts of "changes to revenues or costs from disruptions to…supply chains." Identifying and measuring these indirect impacts (e.g., lost revenues and cost reductions), particularly when such impacts may be the result of many factors that are often interrelated, would likely be highly speculative and difficult for management to make assertions about. As an example of the complexity involved in such judgments, consider a retailer impacted by a severe weather event that reduces the supply of romaine lettuce. Suppliers may increase prices to recover costs, which would increase the cost of sales of the retailer. The retailer may pass along a portion of the rising costs to customers in the form of increased prices. Costs passed to customers would result in increased revenues on those products (per unit), but customer buying patterns may change. For example, certain customers may stop purchasing romaine lettuce due to rising prices, others may purchase iceberg lettuce or spinach instead, and more romaine lettuce may go to donations that are treated as charitable expenditures. In addition, a customer that decided to stop purchasing romaine lettuce due to rising costs may also stop purchasing carrots, tomatoes, peppers, croutons, and dressing, or may instead spend the money that would have gone toward these items on other products or services. This example illustrates the significant complexity and subjectivity involved in estimating the indirect impacts of only one aspect of one severe weather event. As such, we believe that the highly judgmental and uncertain nature of estimating indirect impacts is unlikely to produce disclosures with a degree of decision usefulness commensurate with the effort of producing them.

   In contrast to the foregoing example, requiring registrants to consider only material first-order recorded impacts (i.e., impacts recorded in a registrant's financial statements that are a direct result of a climate-related event or transition activity and not a result of impacts to or actions taken by any third party) would reduce much of the uncertainty around the accuracy and completeness of disclosure inputs. For example, in the situation described above, only the

[4] For purposes of this letter, climate-related impacts comprise impacts from severe weather events and other natural conditions, transition activities, and any other impacts included pursuant to paragraphs (i) and (j) of proposed Rule 14-02.

supplier would be required to consider impacts to the supply of romaine lettuce from the severe weather event, and disclosure would be limited to expenditures recorded in the financial statements. We believe that requiring consideration of only first-order recorded impacts in this way is much more practicable, aligns with how registrants currently view impacts for purposes of running the business, is consistent with existing MD&A requirements, and would result in more comparable disclosure across registrants.

3. *Materiality*: As proposed, the financial impact metric disclosures would be subject to a one-percent threshold by financial statement line item. We do not believe that the use of such a threshold is appropriate or practicable in this context. Applying a one-percent threshold to all financial statement line items would require preparers to manually evaluate transactions across all line items at a threshold much lower than one percent to determine whether individual amounts, which may otherwise be considered de minimis or clearly trivial,[5] will exceed the one-percent threshold in aggregate.

   More importantly, we believe the one-percent threshold, or any other bright-line threshold, will not achieve the Commission's objective of producing comparable disclosure that is relevant to investors.[6] For example, the level at which financial statement line items are disaggregated varies significantly by industry (and even within industries). Under a bright-line threshold, this variability in line item disaggregation will likely lead to arbitrary and noncomparable disclosure that is more dependent on the line item type and magnitude than the relevance of the impact. Such noncomparability is likely to become more prevalent upon completion of the FASB's current project to further disaggregate existing income statement expense line items,[7] which would also increase the overall burden of the one-percent threshold and likely result in disclosure of a greater number of immaterial items.

   We believe prior SEC guidance on climate change disclosure is clear that registrants "should consider disclosing material risks of, or consequences from [severe weather or climate-related events]."[8] Therefore, we expect that most incremental information disclosed under the proposed one-percent threshold would be immaterial and, by definition, not considered important by a reasonable investor when making an investment or voting decision.[9] Requiring broad disclosure of immaterial and noncomparable amounts would dilute disclosures generally and would not be in the spirit of articulating to investors what is significant and meaningful for investing decisions. In light of these concerns, we strongly recommend that the Commission require disclosure of

[5] See paragraph 11 of PCAOB Auditing Standard No. 14 and page 10 of former SEC Chairman Harold Williams' speech, The Accounting Provisions of the Foreign Corrupt Practices Act: An Analysis.
[6] See page 126 of the proposing release.
[7] See background on the FASB's Disaggregation—Income Statement Expenses project, which describes the project's objective to disaggregate (a) selling, general, and administrative expenses, (b) cost of services and other cost of revenues, and (c) cost of tangible goods sold.
[8] See page 27 of Commission Guidance Regarding Disclosure Related to Climate Change.
[9] See 17 CFR 240.12b-2 (definition of "material").

relevant expenditures only to the extent that first-order recorded impacts are deemed material (as defined under U.S. securities law) rather than when the aggregate of all impacts on an individual line item or on total expenditures exceeds the proposed one-percent threshold.

Notwithstanding our view that prior SEC guidance has generally resulted in the disclosure of material climate-related impacts, we believe that incorporation of the three qualifiers outlined above can achieve the Commission's objective of providing additional decision-useful insights related to both climate-related events and transition activities.

I. C. Overall Recommendations

In conjunction with the scoping recommendations provided above, we believe the following overall recommendations are also critical to enabling registrants to operationalize the Reg S-X disclosure requirements:

1. *Move Disclosure Requirements to MD&A*: We believe that the Commission's stated objective in relation to the proposed financial statement metrics to "provide investors with additional insights into the nature of a registrant's business, the implementation of the registrant's targets and goals, and material trends in climate-related impacts"[10] is consistent with MD&A's objective of providing "descriptions and amounts of matters that have had a material impact on reported operations."[11] We also believe that disclosure in MD&A provides investors with the same information value at a similar level of quality due to the rigor of controls and auditor review required for MD&A disclosure. Therefore, we recommend that the Commission move the proposed Reg S-X disclosure requirements to Item 303 of Regulation S-K, with disclosure in accordance with our recommendations included as part of MD&A.

2. *Permit Adoption on a Prospective Basis*: We urge the Commission to permit adoption of the MD&A disclosure requirements outlined in our letter on a prospective basis, allowing registrants to omit comparative periods ending prior to the effective date of the final rule. Prospective adoption is often permitted for new requirements under U.S. GAAP when the expected benefits of providing information retrospectively do not outweigh the expected costs, such as for the quantitative disclosure requirements introduced under ASU 2018-13, *Fair Value Measurement (Topic 820)*.[12] The MD&A requirements recommended in our letter would still introduce new concepts and definitions, such as those related to transition activities, that were not included in the 2010 Guidance. Therefore, registrants would be required to disclose information that may not have previously been tracked, creating reporting challenges that would likely outweigh the benefit of any prior period information provided to investors. While we acknowledge the exclusion allowed for information that is unknown or not available,[13] we believe that permitting prospective

[10] See page 126 of the proposing release.
[11] See Item 303(a) of Regulation S-K.
[12] See ASU 2018-13, Fair Value Measurement (Topic 820) paragraphs BC73 and BC74.
[13] See Securities Act Rule 409 and Exchange Act Rule 12b-21.

adoption would further reduce the burden on registrants during an already compressed adoption period by eliminating the need to justify this exclusion.

3. *Remove Notion of Financial Statement Line Item Impacts:* As outlined in the "Event- and Activity-Specific Disclosure" section above, we believe that requiring registrants to aggregate impacts across climate-related events and transition activities for individual financial statement line items would not be operable due to system constraints for retaining the attribution of recorded impacts throughout the financial reporting process. Furthermore, as described in the "Materiality" section above, the level at which financial statement line items are disaggregated varies significantly across registrants. Consequently, requiring impacts by line item would result in noncomparable disclosure that would have limited value to investors. For these reasons, we strongly recommend that the Commission remove the notion of disclosure by financial statement line item from the proposed rules and instead require disclosure that is specific to individual material climate-related events and transition activities.

4. *Exclude Lost Revenues and Cost Reductions*: We note that the proposed Reg S-X requirements depart from U.S. GAAP in several areas without providing sufficient guidance around recognition and measurement that would ordinarily be fundamental to any such accounting standard. For example, U.S. GAAP does not contain guidance for recognizing and measuring lost revenue (e.g., from new emissions pricing or regulations)[14] or cost reductions (e.g., from more efficient production),[15] which would be required under the proposed Reg S-X requirements. If the Commission wishes to introduce such principles, we strongly recommend following a process modeled after the standard-setting processes of independent standard-setting bodies, such as the FASB, IASB, etc. These processes include robust stakeholder outreach, field testing, public Board deliberations, post-implementation reviews, and many other mechanisms by which interested parties may actively observe, participate, and provide feedback throughout a project's lifecycle. However, for purposes of the proposed rules, we believe that the Commission's objectives can be achieved without introducing the concepts of lost revenues and cost reductions into disclosure requirements. In addition to the lengthy standard-setting process that would be necessary to make such concepts operable, it is also unclear whether estimates of lost revenues and cost reductions would ultimately be sufficiently reliable to provide investors with decision-useful information. Therefore, we urge the Commission to exclude the concepts of lost revenues and cost reductions from the proposed rules and instead limit disclosure to first-order incurred expenditures when the impact of an individual climate-related event or transition activity is material.

5. *Narrow and Clarify the Scope of Transition Activities:* We believe that climate-related disclosures will be more comparable and decision useful if registrants are able to consistently identify the impacts of climate-related events and transition activities. However, the term "transition activity"

[14] See proposed rule 14-02(d)(1).
[15] See page 122 of the proposing release.

is extraordinarily broad in its definition, and policies and processes to identify and track transition activities are unlikely to be developed in a consistent manner due to the volume of unique impacts and factors to be considered for any given scenario. For example, under the current definition, transition activities could include "efforts to…mitigate exposure to [potential negative market impacts attributable to market changes to address climate-related risks]," which could conceivably comprise the vast majority of actions taken by businesses predicated on emissions reduction, such as manufacturers of electric vehicles or wind turbines.

Determining how to differentiate transition activities from regular operations also is likely to be exceedingly onerous for registrants and may result in wide diversity in practice because the immense scope of transition activities, as proposed, unavoidably creates uncertainty over how such activities should be identified and their impacts measured. In addition, transition plans are often integrated into business strategies such that the identification of discrete transition activities can be challenging. For example, it is unclear whether purchasing new or replacement equipment or infrastructure that is more efficient than comparable equipment or infrastructure in its use of energy, water, or other climate-related resources would constitute a transition activity. Such purchases may be made with the intent to reduce emissions, but they may also be made solely out of necessity (if alternatives are unavailable) or to capture efficiencies that increase margins. Once a transition activity is identified, it is also unclear what portion of the financial impact should be included in disclosure. For example, energy efficient equipment or infrastructure may cost more than, less than, or the same as less efficient alternatives for a variety of reasons, and policies for allocating costs to transition activities are likely to vary by registrant in the absence of guidance. Therefore, we recommend significantly narrowing and clarifying the scope of the proposed definition for transition activities, which would likely include narrowing and clarifying the scope of the proposed definition for transition risks and providing additional guidance for identifying and measuring the financial impact of transition activities. We would welcome the opportunity to participate in field testing with the SEC staff in this regard.

I. D. Implementation Considerations

We believe that our recommendations for disclosure in MD&A would meet the Commission's objectives and provide investors with additional insights into climate-related impacts. However, if at a future time the Commission determines that investors require climate-related disclosure in the financial statement footnotes, we believe it is important for the Commission to better understand the effort and time required to operationalize new financial statement disclosure requirements to inform the rulemaking process and implementation period. Under the Commission's assumption that the final rule is adopted and effective by December 2022, large accelerated filers with a calendar year end would be expected to comply with proposed Reg S-X disclosure requirements within weeks of issuance. This timing is not in harmony with the "ample time to prepare"[16] indicated by the Commission in the proposing release, nor is it comparable to the transition time afforded for other significant accounting standards. For instance, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, was released in May 2014 and took effect for most

[16] See page 291 of the proposing release.

public companies beginning in 2018. ASU 2016-02, *Leases (Topic 842)*, was released in February 2016 and took effect for most public companies beginning in 2019. Furthermore, many of the concepts within the proposed rules, such as requirements to identify and measure lost revenues, cost reductions, and impacts from transition activities lack adequate guidance and would therefore not be operable for registrants. Considerations around the operability of and required implementation period for new concepts such as these are best addressed via robust due process, such as the standard-setting processes followed by the FASB, IASB, etc. As described in the "Exclude Lost Revenues and Cost Reductions" section above, these processes include robust stakeholder outreach, field testing, public Board deliberations, post-implementation reviews, and many other mechanisms by which stakeholders may participate and provide feedback. To further reinforce why robust due process and adequate transition time are critical if the Commission contemplates climate-related financial statement disclosure requirements in the future, we have provided the following considerations that illustrate the challenges that registrants would need to overcome to successfully implement requirements such as those proposed by the Commission:

1. *Developing Policies*: Without sufficient guidance and clarity around disclosure requirements, policy development would be wide ranging across reporting topics and operational procedures. Without adequate transition time, global companies are unlikely to have adequate time to strategically align their accounting and reporting policies across U.S. GAAP, IFRS, and statutory or other regulatory reporting standards, resulting in a high level of operational burden and suboptimal external reporting to financial statement users and regulators. As part of developing policies to align with final rules that are overly broad, registrants would need to create a library of example scenarios for reference due to the broad nature of possible inputs. For example, under the proposed rules, registrants would need to create policies to cover transition activities and risks over the medium and long term for purposes of developing controls. Creating such policies would be particularly challenging and speculative, as many transition activities and risks will be determined by future regulatory and policy developments that are either subject to significant change or completely unknown beyond the short term.

2. *Developing and Implementing Processes*: While registrants generally have manual processes in place to capture material impacts regardless of other prescriptive disclosure requirements, significant investment in resources would be necessary to develop additional processes for new requirements that depart from a materiality threshold or that depart from principles of U.S. GAAP. For example, if the Reg S-X requirements are adopted as proposed, developing and implementing processes for lost revenues or cost reductions due to climate-related factors or investments represent information outside the general ledger environment and extend financial statement disclosure to items not currently recorded by registrants. As such, refined processes would need to be developed to identify, monitor, and quantify amounts for potential disclosure.

3. *Formalizing SOX-Compliant Controls*: Registrants have disclosure controls and procedures in place under current financial reporting requirements to capture material impacts. However, for disclosures required in a financial statement footnote, incremental risk assessments, additional documentation of significant processes and key controls, auditor walkthroughs, and iterative

effectiveness testing would be necessary to bring the control environment in compliance with the Sarbanes-Oxley Act even with the oversight, governance, and general controls already in place. This process is made significantly more complex when prescriptive requirements depart from a materiality threshold. For example, the one percent threshold would also require controls over climate-related impacts and disclosures to have a different level of precision than controls over other accounts and disclosures in the financial statements.

4. *Conducting Training*: In addition to the extensive training and education effort required for employees who would be directly involved in interpreting policies, executing processes, and operating controls, board members, management, and others charged with oversight would need to be trained and educated on any final rule, once it is available, to allow for proper governance and review procedures to occur. Before such trainings can begin, subject matter experts need time to understand the final rule, develop interpretations, guidance, and training materials, and train others to assist in the broader education effort.

5. *Designing and Implementing System Solutions*: To implement new climate-related financial statement disclosure requirements, registrants would likely need to reconfigure existing ERP systems and develop and implement new system solutions, in collaboration with service providers, at significant cost and effort. For instance, under the proposed rules, registrants may need to develop system solutions to capture all disclosable and non-disclosable items (e.g., impacts that may or may not relate to a transition activity, which is a concept that was not defined or otherwise mentioned in the 2010 Guidance) for further evaluation of completeness by preparers and auditors. Many items would likely include characteristics of both disclosable and non-disclosable items and require judgment to correctly allocate, limiting the ability to automate much of the reporting process. The effort required to develop and implement such system solutions would likely be greater than the level of effort expended to implement ASU 2016-02, *Leases (Topic 842)*, or ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. Unlike the proposed rules, these standards were built on pre-existing concepts and still included a multi-year implementation period after which registrants continued collaborating with service providers to resolve a vast array of system-related challenges.

6. *Overcoming Challenges for Multinationals*: While registrants that operate internationally may have more resources to dedicate towards implementation efforts, they also face unique challenges that should be considered during rulemaking. For example, due to the broad scope of the proposed rules, significant judgment would often be required to determine whether financial statement impacts are fully or partially due to climate-related events and/or transition activities, which could be numerous and complex for global companies. For instance, the definition of what constitutes a severe weather event or other natural condition could vary widely by region or country, requiring creation of separate policies by geography. In addition, obtaining disaggregated financial statement line item information from hundreds of consolidated subsidiaries is likely to be operationally difficult and require significant training and effort. Multinational registrants also may be subject to regulation from many jurisdictions that could complicate adoption efforts. For

example, we anticipate that implementation of the proposed rules would coincide with the development and implementation of extensive international regulatory reporting requirements related to ESG, further straining resources during the adoption window.

II. Proposed Regulation S-K Requirements

II. A. Strategy, Business Model, and Outlook (Item 1502)

While we generally support the Commission's alignment with TCFD's recommendations, we expect that the proposed requirement to make short-, medium-, and long-term assessments of materiality[17] will introduce significant uncertainty into these materiality assessments and could result in voluminous and unnecessarily speculative disclosure[18] that makes it difficult for investors to "distinguish what is important from what is not" and "result[s] in less transparency and worse decision[s]" by investors.[19] Climate risk models include a high degree of uncertainty and variability about outcomes outside a registrant's control, leading to significant subjectivity and, in turn, a lack of comparability, if registrants were required to project medium- and long-term climate-related impacts on financial statements. Furthermore, requiring registrants to make separate assessments of materiality over each of the stated time horizons is not consistent with the current materiality standard used for MD&A disclosures, which is well understood and designed to elicit disclosure of material risks over the time period relevant to a registrant's particular facts and circumstances.

Therefore, we recommend that the Commission exclude mention of specific time frames and instead adopt language on materiality determinations from the 2010 Guidance. For example, page 17 of the 2010 Guidance states, "The Commission has not quantified, in Item 303 or otherwise, a specific future time period that must be considered in assessing the impact of a known trend, event or uncertainty that is reasonably likely to occur. As with any other judgment required by Item 303, the necessary time period will depend on a registrant's particular circumstances and the particular trend, event or uncertainty under consideration…In addition, the time horizon of a known trend, event or uncertainty may be relevant to a registrant's assessment of the materiality of the matter and whether or not the impact is reasonably likely." Page 20 of the 2010 Guidance further states, "Registrants should address, when material, the difficulties involved in assessing the effect of the amount and timing of uncertain events, and provide an indication of the time periods in which resolution of the uncertainties is anticipated." We believe such guidance is well understood, is consistent with the SEC's existing materiality standard defined by the U.S. Supreme Court, and would elicit more comparable disclosure by registrants than the time frames in the proposed rules.

II. B. Greenhouse Gas Emissions Metrics (Item 1504)

We acknowledge the importance of consistent and comparable GHG emissions data for investors as they seek to understand how climate-related risks may impact registrants, especially in the face of increasing

[17] See proposed Item 1502(a).

[18] See page 47 of the SEC's Final Rule: *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*.

[19] See *Remarks at The SEC Speaks in 2013* by former Commissioner Troy A. Paredes.

regulatory, policy, and market constraints. At the same time, we believe it is important to highlight some of the complexities and operational challenges of reporting GHG emissions as proposed. To mitigate many of these challenges, we also provide a suggested path forward and targeted recommendations that we believe would provide investors with the information they need to evaluate climate-related risks associated with GHG emissions.

Operability Challenges of Reporting GHG Emissions as Proposed

We recognize that the companies on CCR represent only a small portion of the total population of registrants. However, as some of the largest registrants by revenue, employee headcount, and scope of operations, CCR companies generally have more resources to allocate toward climate-related monitoring and reporting efforts, and many are further ahead relative to other registrants in terms of voluntarily disclosing information regarding Scope 1, Scope 2, and, in some cases, Scope 3 emissions. Despite these advantages, implementing the GHG emissions disclosure requirements as proposed will be an extraordinary task with numerous challenges. As such, we believe that any challenges and concerns described hereafter will be greater for new public companies and smaller registrants that may only begin reporting on this type of information in response to the SEC's rulemaking.

Below we expand on some of the most significant operability challenges of reporting Scopes 1, 2, and 3 emissions in a Form 10-K. We believe that our suggested path forward and targeted recommendations outlined below would help to address these challenges and facilitate the provision of decision-useful information.

1. *Timing and Availability of GHG Emissions Data*: Data used in reporting estimated Scope 1 and Scope 2 emissions is most often available only on a lagged basis. For example, fuel receipts used to estimate Scope 1 emissions and utility bills used to estimate Scope 2 emissions are typically not available in real time and may not be available for weeks or months following the occurrence of the events producing the emissions. Even after registrants have streamlined the GHG reporting process, we anticipate that some fourth-quarter data required to calculate Scope 1 and Scope 2 emissions would regularly need to be estimated for inclusion in Form 10-K.

   The third-party activity data necessary to estimate Scope 3 emissions (e.g., a supplier's consumption of fuel, electricity, or materials attributable to producing a registrant's products or supplies, etc.) is often not tracked or made available by suppliers. Furthermore, obtaining such data from or about third parties can be even more challenging when significant sources of emissions originate from suppliers with whom a registrant has no direct relationship, such as suppliers beyond the first tier. Given these challenges, many registrants will look to third-party datasets, such as those supplied by CDP, to obtain a significant portion of supplier emissions data and sectoral emissions factors for purposes of estimating Scope 3 emissions. Generally, these datasets are published annually and include data that is at least one year in arrears. Depending on when the dataset is published in relation to a registrant's fiscal year end, data used to estimate Scope 3 emissions for inclusion in Form 10-K could be multiple years in arrears.

Although some registrants have begun working internally and with their value chains to improve the efficiency of the GHG reporting process, Scope 3 emissions will ultimately rely on the timeliness and quality of Scope 1 and Scope 2 emissions information supplied by other public and private companies. Even if such data is available, it would be provided on a lagged basis and subject to additional procedures and controls in order to verify its reliability, further delaying when it could be incorporated into the estimation of Scope 3 emissions. Therefore, we expect that even the most advanced registrants will be hard pressed to meet the rigorous compliance dates proposed by the Commission without the use of significant estimates. Specifically, reporting Scope 3 emissions data in accordance with the annual period covered by Form 10-K, as proposed by the Commission, would necessitate forecasting emissions data that is already based on numerous estimated inputs. Consequently, we believe the proposed timeline for GHG reporting is not ideal for either registrants or investors and could be substantially enhanced by introducing a different reporting timeframe for disclosure of GHG emissions (see the "Alternative Reporting Timeline" section below), in conjunction with revised requirements that permit registrants to report Scope 3 emissions data in arrears or using estimates for the full fiscal year (see the "Use of Estimates in Reporting Scope 3 Emissions" section below).

2. *Scope 3 Methodology Challenges*: The methodologies utilized by companies to estimate Scope 3 emissions vary widely and continue to evolve. Diversity in methodologies can drive significant differences in GHG emissions reported, and we do not expect such diversity to diminish until GHG reporting guidance matures. The GHG Protocol, while helpful as a framework, leaves many specific questions unresolved, as evidenced by registrants' continued reliance on frameworks and guidance developed by other organizations, such as the Global Logistics Emissions Council, ICF International, etc.[20]

   As noted previously, we also do not expect the limited availability of emissions data to improve meaningfully in the near term, which drives additional diversity and complexity in Scope 3 methodologies and reliance on industry average data and emissions factors. For example, most companies currently use spend data in various procurement categories (packaging, chemicals, logistics, etc.), multiplied by emissions factors found in public and private databases, to model their Scope 3 inventory for purchased goods and services. While such input-output models are helpful for identifying significant sources of emissions within a value chain and driving strategy development, emissions factors associated with similar procurement categories can vary greatly between available databases, and procurement category labeling can vary greatly between companies. Therefore, such models currently do not result in comparability between companies, nor do they provide a mechanism for tracking emissions towards Scope 3 reduction targets because many estimated emissions footprints are based on annual spend, which may not correlate with actual emissions. Companies more experienced with GHG reporting are beginning to transition the most significant procurement categories from spend-based input-output models to activity-based models in which primary business data is converted into emissions using more

[20] See "*Guidance Built on GHG Protocol*" on GHG Protocol's website.

specific or custom emissions factors. For example, within logistics, a registrant may gather data on the weight of each item, the distance it travels, and the mode of transportation. While more accurate than input-output models, such activity-based models, which use unique estimation methodologies, introduce additional variability between companies and likewise limit comparability.

Scope 3 methodologies also require registrants to make significant assumptions, which are likely to vary widely between registrants. For example, estimating the product life cycle of televisions may require predicting the pace of technological advancement and its impact on consumer behavior (e.g., whether a customer continues to use, resells, or disposes of an outmoded television, or uses it less frequently as a secondary device, thus extending its life) and product obsolescence, both of which may vary significantly across domestic and international geographies. Estimating end-of-life treatment (e.g., recycled, combusted, landfilled, etc.) similarly requires significant assumptions about information that companies generally do not track. For example, a multinational shoe manufacturer may need to estimate characteristics about the population of end users, which may not be possible due to complex distribution networks of global wholesalers and resellers, uncertainty about the rate at which shoes are donated or resold, and many other variables. As the number of assumptions increases, the comparability and therefore decision usefulness of the information provided to investors is reduced.

Due to the significance of the Scope 3 reporting challenges outlined above, we strongly believe that the Commission should not require reporting of Scope 3 emissions until estimation methodologies and data visibility significantly improve. While we have recommended a minimum deferral of two years for reporting Scope 3 emissions (see the "Minimum of Two-Year Deferral of Scope 3 Emissions" section below), we believe it will be important for the SEC to actively monitor the standardization and maturity of Scope 3 reporting guidance and consider whether further delay of required Scope 3 emissions reporting is needed.

3. *Process and System Considerations*: Currently, inputs used to estimate GHG emissions are frequently collected using manual processes and must thereafter undergo significant manual controls to assess completeness, reasonableness, and reliability. Furthermore, once collected, GHG emissions data resides largely outside of registrants' overall financial reporting systems and is often manually maintained in spreadsheets. In contrast, financial reporting data is maintained in complex and interconnected systems that have been streamlined over many decades to comply with regulatory deadlines by automating processes and implementing tools that facilitate the timely collection, validation, consolidation, and reporting of financial data. Systems have become an integral part of the financial reporting ecosystem, enabling streamlined application of controls to a central repository of financial data. Development of similar systems to house data required to estimate GHG emissions is in process, but not yet available for all registrants to implement. As such, until systems are further developed, implemented, and customized to meet the GHG reporting needs of individual companies across different industries, we do not believe it will be feasible to produce GHG emissions disclosures in the 60-day timeline required for Form 10-K filing.

Suggested Path Forward for Reporting GHG Emissions

To address the concerns outlined in the "Operability Challenges of Reporting GHG Emissions as Proposed" section above, we strongly recommend that fiscal-year Scopes 1, 2, and 3 emissions data be required only prospectively and included in a separate document that is furnished with the Commission at least 180 days after registrants' fiscal year end. We also recommend providing at least a two-year deferral for reporting Scope 3 emissions (i.e., one more year than proposed by the Commission), with continued monitoring to inform whether further delay is needed. The following paragraphs outline considerations for each component of our suggested path forward.

1. *Prospective Adoption*: Many registrants that currently disclose GHG emissions do so in accordance with the GHG Protocol. To provide historical GHG disclosures for comparable periods as proposed, registrants would need to reevaluate and conform past GHG disclosure to the final rule. This process would likely be challenging given the compressed adoption timeframe proposed and would often result in discrepancies between voluntarily reported prior-period information and what would be required in comparable period GHG disclosures for SEC reporting. Additionally, many registrants have not previously tracked or reported GHG emissions. While we acknowledge the exclusion allowed for information that is unknown or not available,[21] we note that due to the nature of GHG emissions data, even these registrants may undergo substantial effort to provide "a statement either showing that unreasonable effort or expense would be involved, or indicating the absence of any affiliation with the person[s] within whose knowledge the information rests and stating the result of a request made to such person[s] for the information."[22] To mitigate these concerns, we recommend that the Commission allow all registrants to disclose Scopes 1, 2, and 3 emissions on a prospective basis rather than requiring comparable disclosure of periods ending prior to the effective date of the final rule. Prospective adoption is often permitted for new requirements under U.S. GAAP when the expected benefits of providing information retrospectively outweigh the expected costs,[23] and we believe that a cost-benefit analysis would similarly justify prospective adoption of the Scopes 1, 2, and 3 emissions disclosure requirements.

2. *Furnished Disclosure*: We understand that the Commission considered whether the proposed disclosures should be filed or furnished and ultimately proposed that they should be filed. However, we urge the Commission to reconsider this decision as it relates to the proposed GHG emissions disclosure requirements. While we appreciate the Commission's inclusion of a safe harbor for Scope 3 emissions reporting, which relies on estimates, third-party data, and continually evolving methodologies, we believe that all GHG reporting, including reporting of Scope 1 and Scope 2 emissions, should be subject to the same liability standards afforded by the option to furnish rather than file materials with the Commission. GHG reporting is still in its infancy relative to financial reporting. We are confident that registrants will report GHG emissions in accordance with prevailing methodologies and practices and maintain the highest possible

[21] See Securities Act Rule 409 and Exchange Act Rule 12b-21.
[22] See Securities Act Rule 409(b) and Exchange Act Rule 12b-21(b).
[23] See ASU 2018-13, Fair Value Measurement (Topic 820) paragraphs BC73 and BC74.

standard of data quality, yet we believe additional liability protection is appropriate at least until the current methodologies and practices for estimating GHG emissions have matured.

3. *Alternative Reporting Timeline:* We urge the Commission to permit all GHG emissions to be reported at least 180 days after registrants' fiscal year end, which we believe is the minimum time after fiscal year end that GHG emissions could reasonably be reported. As outlined in the "Timing and Availability of GHG Emissions Data" section above, the data needed to report on Scopes 1, 2, and 3 emissions is often available only on a lagged basis. We do not anticipate that this lag will be overcome in the foreseeable future by enhancements to the efficiency of data collection (see the subsequent section titled "Process and System Considerations"*)*. As such, we do not believe it is practicable to report Scopes 1, 2, or 3 emissions on a financial reporting timeline.

   Allowing GHG emissions to be reported outside the financial reporting timeline would be consistent with other alternative timelines provided by the Commission, such as for Form DEF 14A, Form 11-K, Form SD, etc., all of which are subject to a similar level of management oversight as Form 10-K. Additionally, we believe that the proposed attestation requirements for GHG emissions disclosures would provide investors with additional confidence that such disclosure outside Form 10-K is no less reliable than disclosure within Form 10-K. Furthermore, allowing Scopes 1, 2, and 3 emissions to be reported at least 180 days after registrants' fiscal year end would:

   - increase the quality of GHG reporting by providing registrants with time to incorporate data available only on a lagged basis, thereby reducing reliance on estimates;
   - better align the timeline for GHG reporting with the current timelines used by many registrants and attestation firms to support mid-year reporting to CDP[24] (formerly the Carbon Disclosure Project); and
   - provide registrants with additional time after preparing the Form 10-K to focus on improving the policies, procedures, estimation methodologies, and system solutions underlying the reporting of GHG emissions.

4. *Minimum of Two-Year Deferral of Scope 3 Emissions*: In the proposing release, the Commission notes, "While we acknowledge commenters who stated that the methodology underlying climate data continues to evolve, we intend to provide registrants with an ample transition period to prepare to provide such disclosure."[25] We recognize the one-year delayed compliance date for the proposed Scope 3 disclosure requirement and acknowledge that the additional year provides some time for registrants to create and/or refine processes and begin to implement system solutions for collecting, estimating, consolidating, and reporting Scope 3 emissions data in a more timely manner. However, given the complex and evolving nature of Scope 3 methodologies (see the "Scope 3 Methodology Challenges" section above), we do not believe that a one-year deferral

[24] See "What is the timeline for responding?" under CDP's frequently asked questions.
[25] See page 288 of the proposing release.

constitutes the ample transition period indicated by the Commission. We also do not anticipate that Scope 3 reporting methodologies will have matured by the beginning of 2024, when many large accelerated filers would be required to track Scope 3 emissions. Therefore, we urge the Commission to provide at least a two-year deferral (i.e., one more year than proposed by the Commission) for the required reporting of Scope 3 emissions. During this time, we also recommend that the Commission actively monitor the standardization and maturity of Scope 3 reporting guidance and consider whether further delay is needed. We would welcome the opportunity to participate in field testing to inform the Commission's monitoring efforts.

Targeted Recommendations for GHG Disclosure Requirements

In addition to the suggested path forward outlined above, we believe the following recommendations would increase the operability of the proposed GHG emissions disclosure requirements:

1. *Organizational Boundaries that Align with the GHG Protocol*: We understand the Commission's rationale for proposing that the scope of consolidation and reporting of GHG emissions data be consistent with that of financial data. However, the proposed approach for organizational boundaries may cause significant operational challenges and would not drive comparability and transparency of GHG emissions information for investors. For instance, many registrants currently estimate GHG emissions based on organizational boundaries set in accordance with the GHG Protocol, which permits companies to use an equity share approach or a control approach, with control being defined in either financial or operational terms.[26] Under a control approach, a company does not account for GHG emissions from operations in which it owns an interest but has no control. In contrast, under the proposed rules, a registrant would be required to account for its share of emissions based on percentage ownership of all equity method investees in addition to accounting for all emissions from entities it consolidates.[27] The Commission, therefore, is proposing a new method for establishing organizational boundaries, and the disparity between the Commission's approach and the individual approaches permitted by the GHG Protocol would reduce the comparability and transparency of reported GHG emissions between domestically and internationally domiciled entities. Such an approach would also require U.S.-based registrants to reevaluate current methodologies used for reporting GHG emissions data, including the baseline year already established for many publicly stated goals and commitments. For these reasons, we recommend that the Commission permit registrants to use the existing equity share or control approaches described in the GHG Protocol and require clear disclosure of which method is used.

[26] See Chapter 3: *Setting Organizational Boundaries* in the GHG Protocol's "A Corporate Accounting and Reporting Standard."

[27] See page 188 of the proposing release.

2. *Reporting an Acquiree's GHG Emissions*: Similar to evaluating the effectiveness of an acquired business's ICFR,[28] we anticipate that reporting an acquiree's GHG emissions in the fiscal year of acquisition may not always be feasible, particularly when the consummation date is near the end of a registrant's fiscal year and/or the acquiree has not previously been subject to the proposed rules. Even when an acquiree has previously reported GHG emissions data, we expect that, in many instances, significant time and effort will be needed to conform the acquiree's policies, boundaries, processes, controls, and systems to those of the registrant. Therefore, we request that the Commission grant an exception, similar to the exception allowed for management's report on ICFR, permitting registrants to exclude an acquiree's GHG emissions in the fiscal year of acquisition when a registrant determines that reporting such data would not be practicable.

3. *Use of Estimates in Reporting Scope 3 Emissions*: As outlined in the "Timing and Availability of GHG Emissions Data" section above, many registrants currently rely on datasets that are a year or more in arrears to estimate Scope 3 emissions. As such, registrants would generally need to forecast most inputs used to estimate Scope 3 emissions for the entire fiscal year to provide current Scope 3 emissions data for purposes of the proposed rules. Consequently, for Scope 3 emissions, it will not be feasible to limit the use of estimates to only the fourth fiscal quarter as required by the proposed rules.[29] Even when registrants implement more advanced processes to obtain input data directly from third parties, such data will not be available until third parties report their Scope 1 and Scope 2 emissions, which would generally be months after year end. Therefore, we recommend that the Commission permit registrants to provide Scope 3 emissions disclosure that is in arrears or use estimates for the full fiscal year. Regarding the use of estimates, we recommend adopting language analogous to language used for estimating Level 3 fair value inputs under U.S. GAAP, which states, "A reporting entity may develop unobservable inputs using the best information available in the circumstances."[30]

4. *Categories of Scope 3 Emissions*: The proposed rules would require disclosure of total Scope 3 emissions if material or if a registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions.[31] Proposed Item 1504(c)(1) also states that if a registrant is required to disclose Scope 3 emissions, it must "identify the categories of upstream or downstream activities that have been included in the calculation of the Scope 3 emissions." Although such wording implies that a registrant may exclude certain categories from its total Scope 3 emissions calculation, the basis upon which an exclusion can be made is unclear. Because the proposed rules require registrants to separately identify and provide Scope 3 emissions data for any category that is significant to a registrant,[32] we recommend that the Commission permit

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[28] See Question 3, Office of the Chief Accountant and Division of Corporation Finance: Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports (updated September 2007).
[29] See proposed Item 1504(e)(4)(i).
[30] See Accounting Standards Codification (ASC) 820-10-35-54A.
[31] See proposed Item 1504(c)(1).
[32] See proposed Item 1504(c)(1).

registrants to estimate total Scope 3 emissions based only on emissions disclosed from categories deemed to be significant (i.e., on the basis of being relevant to investors). Such an accommodation would alleviate concerns about significant effort that may be required to obtain Scope 3 emissions data for categories that are not relevant, or that are insignificant and cannot be reliably estimated, both of which companies would typically be permitted to exclude under the GHG Protocol.[33]

5. *Disaggregation by Constituent Greenhouse Gas*: The proposed rules would require registrants to disclose Scopes 1, 2, and 3 emissions disaggregated by each constituent greenhouse gas.[34] We do not expect that registrants will be able to effectively operationalize the requirement to disaggregate Scope 3 emissions by constituent greenhouse gas in any way that would be meaningful to investors. As described in the "Timing and Availability of GHG Emissions Data" section above, registrants will rely heavily on emissions factors to estimate Scope 3 emissions because the direct data inputs needed from third parties will often not be available. However, emissions factors are generally expressed in terms of carbon dioxide equivalent (CO_2e) and would therefore not be available for each constituent greenhouse gas. As such, registrants would be required to make additional assumptions and estimates that we believe would substantially reduce comparability between registrants. Therefore, in light of the challenges of producing Scope 3 emissions by constituent greenhouse gas, and the high probability that the resulting disclosures would lack comparability, we recommend that the Commission remove the requirement to disaggregate Scope 3 emissions by constituent greenhouse gas. As there may be similar challenges when disaggregating Scope 2 emissions, which are also estimated using third-party data, we also recommend that the Commission consider removing the requirement to disaggregate Scope 2 emissions by constituent greenhouse gas.

II. C. Attestation of Scope 1 and Scope 2 Emissions (Item 1505)

As outlined in proposed Item 1505(a)(2), any attestation report required by the proposed rules "must be provided pursuant to standards that are publicly available at no cost and are established by a body or group that has followed due process procedures, including the broad distribution of the framework for public comment." We agree with the Commission's view[35] that the attestation standards of the PCAOB, AICPA, and IAASB have followed due process procedures and would likely be suitable for use under the proposed rules. We also believe that ISO 14064-3 should be considered suitable for use under the proposed rules. ISO 14064-3 is widely used in attestation engagements on GHG emissions and was developed under ISO's due process procedures,[36] which include an obligatory enquiry stage during which draft standards are made available for public comment. Although ISO standards must be purchased for a fee, we believe that the nominal fee required to obtain ISO 14064-3 would not be a serious obstacle to investors who desire to review the standard and should not preclude ISO 14064-3 from being used to comply with the Commission's proposed attestation requirements.

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[33] See Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Section 6.3, *Disclosing and justifying exclusions*.

[34] See proposed Item 1504(a)(1).

[35] See page 249 of the proposing release.

[36] See ISO's webpage under *Stages and Resources for Standards Development*.

Allowing ISO 14064-3 to be considered suitable for use under the proposed rules would also help registrants meet the proposed compliance date for obtaining an attestation report over Scope 1 and Scope 2 emissions by leveraging the work of voluntary attestation currently obtained by many registrants. In its 2021 publication, "S&P 500 and ESG Reporting," the Center for Audit Quality reported that within the 264 attestation reports issued for companies seeking assurance or verification over ESG metrics, 292 references to assurance or verification standards were made, including 162 references to ISO 14064-3 compared to only 76 references to the IAASB International Standard on Assurance Engagements (ISAE) 3000, 27 references to the AICPA Attestation Standards, and 27 references to various other assurance or verification standards. Therefore, precluding the use of ISO 14064-3 under the proposed rules would require a significant population of registrants to reevaluate and potentially change service providers, reducing efficiencies gained through prior attestation engagements and narrowing the field of service providers qualified to issue an acceptable attestation report under the proposed rules. For these reasons, we encourage the Commission to reevaluate the criteria governing the suitability of attestation standards under the proposed rules such that ISO 14064-3 would also be considered a suitable standard.

II. D. Targets and Goals (Item 1506)

We recognize the importance that investors may place on information about certain climate-related targets or goals and support the Commission's efforts to increase disclosure consistency and transparency in this area. However, the proposed requirement to disclose detailed information about all "targets or goals related to the reduction of GHG emissions, or any other climate-related target or goal"[37] is exceedingly broad in its scope and not subject to any threshold. As such, we believe it is unlikely to be implemented consistently. Without further parameters, such a requirement would compel registrants to disclose information about a variety of targets and goals unlikely to be relevant to investors. For example, a registrant may publicly commit to significantly reduce its distribution of paper documents to customers. While important, this goal is unlikely to have any meaningful financial impact that would influence the investment decisions of financial statement users and is therefore not currently tracked by management in financial terms. Requiring disclosure of such goals and targets would require not only registrants to begin tracking the detailed information prescribed by the proposed rules for a broad spectrum of immaterial goals and targets, but also investors to sort through numerous goals and targets to identify those relevant to their analysis of a registrant's financial outlook. To mitigate these concerns, we recommend that the Commission require disclosure of climate-related targets or goals only to the extent they have been made public by the registrant and deemed material, as determined under U.S. securities law and by application of prior SEC staff guidance.[38]

III. Cost Considerations

We appreciate the importance of meeting growing investor demand for enhanced climate-related disclosure and are committed to providing our current and potential shareholders with the information

[37] See proposed Item 1506(a)(1).
[38] see Staff Accounting Bulletin No. 99.

they need to make informed investment and voting decisions. With that said, we also recognize that the costs incurred by registrants to comply with new rules are ultimately borne by shareholders. Therefore, registrants have a shared interest with investors in helping the Commission to elicit disclosure of decision-useful information in the most timely and cost-effective manner possible.

We appreciate the Economic Analysis conducted as part of the proposed rules, including the effort to estimate the costs that registrants would incur to adopt the proposed rules as written. While we understand that information about the extent of costs to disclose the type of information required by the proposed rules is not widely available or known with certainty, we observe that many significant costs have not been considered, and that those considered may have been underestimated. We believe an understanding of these costs is important as the Commission contemplates alternative requirements, including those recommended in this letter, that could offer investors similarly decision-useful information but at a significantly lower cost.

While we are not providing specific cost estimates in this letter, we would welcome the opportunity to meet with the Commission and its staff to facilitate field testing and provide detailed cost estimates on any aspect of the proposal. At a high level, we believe the total first-year ($640,000 per registrant for non-SRC[39] filers) and subsequent-year ($530,000 per registrant for non-SRC filers) cost estimates provided in the proposing release[40] substantially underestimate the costs of complying with the proposed rules, including for registrants with mature processes already in place for reporting voluntary climate-related information. Furthermore, the subsequent discussion of costs does not include many of the costs we expect to incur. For example, we expect that the incremental costs to comply with the requirements in proposed Article 14 of Regulation S-X would constitute a significant portion of overall compliance costs, yet no costs associated with these requirements are mentioned in the Economic Analysis. Such costs would include, among others, those related to designing and implementing policies, processes, and controls that are in compliance with the Sarbanes-Oxley Act, redesigning systems to track information at the granular level required, and incremental audit fees. Registrants are also likely to increase headcount, including the addition of more costly senior management roles (e.g., ESG controllers, etc.), to oversee climate-related reporting due to the broad scope of the proposed rules and the manual nature of such requirements resulting from the need for substantial judgment that reduces the ability to automate reporting processes.

We also believe that many of the examples provided in the Economic Analysis' discussion of potential costs, which generally draws from costs incurred to voluntarily disclose climate-related information, considerably underestimate the significant incremental costs incurred to include such information as part of the financial reporting process. For example, consideration is not given for the robust processes and controls required, nor for the significant effort to educate both those currently responsible for voluntary climate-related reporting and those responsible for financial reporting.

[39] Smaller reporting company
[40] See page 373 of the proposing release.

We urge the Commission to conduct additional outreach and field testing with registrants to reassess the magnitude of costs that would be incurred to comply with the proposed rules. In addition, we encourage the Commission to consider the recommendations in this letter, which we have provided with the intent to make the proposed requirements operable for registrants.

IV. International Alignment

In addition to the Commission's proposed rules, there are at least two other competing climate-related frameworks being developed by other organizations:

- The International Financial Reporting Standards (IFRS) Foundation has established the International Sustainability Standards Board (ISSB) with the objective of developing a comprehensive global baseline of sustainability disclosure standards to meet the information needs of investors.[41] The ISSB recently issued proposed standards outlining general sustainability-related disclosure requirements and climate-related disclosure requirements.[42]
- The European Commission has adopted a legislative proposal for a Corporate Sustainability Reporting Directive, under which companies would be expected to report according to European Union Sustainability Reporting Standards (ESRS).[43] The first set of draft ESRS was recently issued for public comment by the European Financial Reporting Advisory Group (EFRAG).[44]

CCR companies, which are largely global organizations, may ultimately be required to report in accordance with more than one set of climate-related disclosure requirements. As such, one of our concerns is the lack of alignment in concepts, terminologies, and required metrics between the various frameworks. Therefore, we recommend that the SEC continue engaging closely with other standard setters, including the ISSB and EFRAG, to strive for a minimum level of global consistency, which could help mitigate confusion for financial statement users and reduce cost and complexity for registrants ultimately required to report under more than one framework. Furthermore, we believe that consideration to finding alignment on implementation dates across these three frameworks would increase comparability for the user community and prevent the need for multiple, competing implementation efforts by registrants.

[41] See the IFRS Foundation's press release issued November 3, 2021.
[42] See the IFRS Foundation's press release issued March 31, 2022.
[43] See the European Commission's press release issued April 21, 2021.
[44] See EFRAG's press release issued April 29, 2022.