ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

June 17, 2022

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

Via email: rule-comments@sec.gov

Re: File Number S7-10-22
The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman:

The American Council of Engineering Companies (ACEC) submits comments below on the Securities and Exchange Commission's ("SEC" or "Commission") proposed rules (or "proposal") concerning climate and the environment in Release No. 33-11042.

ACEC represents 5,500 engineering firms, including a handful of larger firms that are publicly traded. ACEC firms large and small design the nation's energy, water, transportation, and buildings infrastructure and will be affected by the proposed rules should they become final. ACEC supports integrated climate adaptation and mitigation policy aligned with a general commitment to global sustainability, competitiveness, and security. ACEC supports climate adaptation and mitigation policies that advance innovation, iterative risk management, and employ tools such as life cycle, and risk-cost-benefit analysis.

While ACEC understands and supports many of the objectives inherent in the proposed rules, we are concerned that the benefits of increased reporting requirements may not offset the potential adverse impacts that would affect engineering firms and other businesses. In addition, because of the nature of how the engineering industry operates, with larger firms partnering with small businesses to support our public and private clients, we are concerned that the proposed reporting requirements will cascade to those non-public partners, creating new regulatory burdens for small firms ill-equipped to absorb the additional costs. Finally, we are concerned over the impact of favoring capital formation for mitigation over adaptation without consideration of consequences to reliability or resilience of the nation's critical infrastructure.

The climate related information deemed material under the proposal includes the company's (GHG) emissions, transition risk and physical risk. The proposal asserts that mandatory disclosure of certain information will ensure benefits of comparable, consistent, and reliable information. However, physical risk analysis required under the proposal lacks definitions and time periods, references to standards, best practices and procedures, and consensus on reasonable analytical models and methodologies. We are concerned that the proposal directs companies to speculate about their supply and demand chains, policy changes and technological innovation in development of the transition risk analysis. Given the numerous uncertainties in metrics, the claim that this proposal would provide the investor comparable, consistent, and reliable information under this proposal is highly doubtful.

Reporting will be costly. The SEC shows an increase in direct regulatory filing costs from a current level of $3.9 billion to at least $10.2 billion annually. While direct costs are of concern, indirect costs are of potentially greater concern.

Since "what gets measured gets done," GHG emissions accounting and reduction (mitigation) will receive priority investor, market, and investment attention. Risk managers will be focused on capital formation to meet government policy net zero objectives. However, such redirection could adversely affect public health and safety, as other essential climate change strategies, such as adaptation and resilience, as well as priorities as cyber security may be mistakenly subordinated to mitigation.

For example, the electrical grids across the country have been transformed to reduce GHG emissions under state and federal policies such as renewable portfolio standards and production tax credits. Notably, electricity markets have been redesigned to foster the clean energy transition to renewables in wind and solar generation. Among other things, the proposed rules should be expected to accelerate the clean energy transformation by driving electrification in transportation and other end uses such as home heating.

However, an alarming indirect cost of this transformation is found in a growing trend of electrical system blackouts (increasing acute physical risk) and the express warnings by systems operators of near-term future unreliable performance in extreme weather. As evidence of the trend, one need only cite the Texas blackout of February 2021, and projected blackouts for California each summer through 2026 and the Mid-continent Independent System Operator (MISO) for the summer of 2022, among others.

In other words, the proposed rules could result in market signals that minimize acute physical risks (adaptation) and bolster capital formation to address distant and indiscernible net zero benefits (mitigation). This is an imbalance of mitigative and adaptive capital formation where investors bear near- to medium-term losses or costs without commensurate sustainability (mitigation) benefits.

Based on current policies that effectively reduce GHG emissions, energy system failures can be an expected indirect cost of the proposed rule. Eventually, such systemic failures will threaten economic security and competitiveness.

ACEC recommends an examination of the larger framework of costs and benefits of climate related disclosure and relative roles and responsibilities of various federal authorities to better inform a more constructive SEC proposal, particularly with respect to physical risks and indirect costs described above. ACEC supports climate mitigation and adaptation policies that are balanced and cost-effective. The proposal could result in reporting costs that provide questionable investor benefits and potentially cause investment in engineering and other resources that is overweighted to climate mitigation and underweighted to mitigative adaptation and resilience.

Thank you for your consideration of the industry's views on this important issue. If we can provide additional information or assistance, please do not hesitate to contact me.

Sincerely,

Linda Bauer Darr
President & CEO