June 17, 2022

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

Subject: File Number S7-10-22, AIA Comments to Proposed Rule "The Enhancement and Standardization of Climate-Related Disclosures for Investors"

Dear Ms. Countryman:

The Aerospace Industries Association (AIA)[1] welcomes the opportunity to respond to the Securities and Exchange Commission (SEC) proposed rule on ***The Enhancement and Standardization of Climate-Related Disclosures for Investors*** dated March 21, 2022. AIA and our member companies in the Aerospace and Defense (A&D) Industry have been very focused on improving environmental aspects of sustainability, and have developed, defined, and published national goals on carbon emissions reductions. In October 2021, AIA announced its commitment for commercial aviation manufacturers to work with airline customers and governments around the world to achieve Net Zero carbon emissions by 2050. In addition, AIA recently published a report titled "Horizon 2050" that analyzes the aviation technologies and policies needed to achieve Net Zero carbon emissions by 2050. AIA and our members companies are committed to supporting the industry Net Zero goal while keeping civil aviation safe and sustainable. Our community is dedicated to sustainable aviation and improving the environment by reducing carbon emissions worldwide. We are proud of our efforts thus far and look forward to continuing to be a part of the global effort to transition to a low-carbon economy moving forward.

Background

AIA member companies are committed to reducing the environmental impacts associated with aviation and have a strong track record of delivering improvements in the environmental performance of their products. Modern aircraft are 80% more fuel-efficient than the first generation of jet aircraft. Equally, significant reductions have been realized in terms of other engine emissions and aircraft noise.[2] While only approximately two percent of all anthropogenic CO_2 emissions globally are attributable to

[1] Founded in 1919, the Aerospace Industries Association (AIA) is the premier trade association, advocating on behalf of over 300 aerospace and defense (A&D) companies for policies and investments that keep our country strong, bolster our capacity to innovate and spur economic growth. AIA's members represent the United States of America's leading manufacturers and suppliers of aircraft and aircraft engines, helicopters, unmanned aerial systems, missiles, and space systems.
[2] *ICAO Environmental Report* (2019), ICAO.

aviation.[3] AIA acknowledges that all sectors, including the A&D industries, need to reduce their emissions to address climate change. We understand the need to provide climate-related information to our investors and have already made considerable progress in collecting and voluntarily publishing climate-related data. It is with this background that AIA is pleased to provide comments on the SEC's proposal to adopt new rules to enhance and standardize climate-related disclosures for investors. Our member companies are very supportive of environmental stewardship but are concerned that the specific distinctions of the Aerospace and Defense (A&D) industry have not been incorporated in this proposed rule. The A&D sector is very different from other manufacturing industries, including areas of critical flight safety and national security. Thus, AIA will provide specific and constructive comments on improving the proposed rule based on these distinctions in an attempt to support the objective of the rule to inform investors while not adversely impacting our member companies.

We identified significant issues in the proposed rule with regard to expansive data requirements and aggressive timelines and developed two separate strategies to address these concerns. First, AIA is proposing a revised rule with a narrow scope that would reduce the level of information required to be collected by the SEC. Alternatively, we provide recommendations on specific issues with the proposed rule that we believe require clarification and modification.

<u>Initial recommendation: Develop a revised Draft Rule</u>
AIA supports the SEC's intent to provide investors with material information about climate-related risks facing public companies. While we applaud the effort to enhance and standardize climate-related disclosures to fulfill investor needs, we believe there are substantial technical and procedural issues in the rule that must be addressed before it can be implemented successfully. The current rule has expansive information requirements coupled with an aggressive implementation schedule that must be addressed to allow industry to successfully meet the SEC strategic requirements. We propose an option to address these issues that reduces the overall strategic information requirements for this initial rule.

AIA believes that the current proposed rule is overly ambitious in attempting to require too much climate-related disclosure in areas where there continues to be scientific uncertainty in the magnitude and end point of climate change, unclear definitions, and where data collection is difficult, expensive, and methodologies are evolving. We recommend the SEC reduce their strategic information requirements to the following items:

[3] Adam, M. (International Air Transport Association), (2019) CORSIA: The Airlines' Perspective, *ICAO Environmental Report 2019*, p. 239, ICAO.

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- Direct financial impacts of severe weather events and other natural conditions and mitigation efforts
- Scope 1 and 2 GHG emissions
- Climate risk management plan
- Company strategic climate-related goals and plans to meet these goals
- Discussion of climate-related governance and technical experience

By reducing the overall information and data requirements in a smaller initial rule, SEC can meet their strategic objectives and publish a rule which will begin the process of collecting GHG and environmental information for investors.

Specific recommendation for the proposed rule

As the US aerospace manufacturing industry's representative, AIA is providing comments to make certain that the climate-related data and information that will be collected and disclosed by the proposed rule is meaningful yet does not overwhelm our member companies. Since compliance costs ultimately are borne by shareholders, there is a shared interest in ensuring the rule is beneficial and cost effective. All of our primary Original Equipment Manufacturers (OEMs) and many of our larger firms already collect some of the information proposed to be required to be disclosed by the proposed rule. However, there are gaps and differences in data collection efforts across the industry. This rule will both standardize and increase the amount of information that is required to be collected and disclosed and necessitate companies reassign and hire new personnel to assist with these information collection efforts. As is always the case, the first years of collecting new data is the most difficult; unforeseen issues will arise that will add to the complexity. In the spirit of enhancing the likely success of data collection efforts to meet the goals of the SEC, we offer the following specific comments to assist the SEC in developing a simplified rule that will successfully provide accurate and decision-useful climate-related information for investors.

1. Implementation schedule for the proposed rule

The SEC has proposed an overly aggressive timeline for implementation of this proposed rule. We understand the desire to gather information for investors as soon as possible but gathering imperfect or incomplete information does not help any investor and may be misleading.

If the rule is published in a final version near the end of 2022 and the proposed effective dates are not extended, the implementation schedule for collecting disclosure data would begin early in 2023 and the new climate-related disclosure would be required to be reported in Annual Reports/10Ks in 2024. This does not provide adequate time for our member companies to fully ensure compliance and develop accurate information. There is insufficient time in the implementation schedule for our member companies to hire, assign and train personnel in the processing and collecting of the new data

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requirements in the proposed rule. The proposed rule significantly expands the amount of information to be disclosed as compared to the existing data currently collected by our member companies. New and additional procedures, policies, controls, and/or systems must be developed, and training provided to the newly hired and/existing personnel in each company.

For the reasons described above, we are concerned the new rule has an overly ambitious schedule and strongly recommend that full implementation of the rule should be delayed until 2025 (for data collection, data would be filed in 2026), with longer compliance dates for Scope 3 GHG emissions (unless such disclosures are eliminated from the final rule – refer to item 2 below) to ensure our A&D companies can fully comply and collect meaningful climate-related data that will help our investors.

We also recommend disclosure of all climate-related metrics (including financial metrics in Regulation S-X requirements and GHG emissions metrics in the S-K requirements) be adopted prospectively.

As currently written, the proposed rules would require, comparative disclosures for all historical periods presented in a company's financial statements (often 3 years for income statement and statement of cash flows and two years for balance sheet). This means that 2022 and 2021 comparative climate-related metrics would need to be included in the 2023 filing. This will be challenging for our member companies given ESG reporting and financial tracking of climate related impacts and expenditures currently is in its infancy. As such, our member companies may not have sufficient historical data prepared consistent with the requirements of the proposed rule, and the historical data may not have been covered by internal controls over financial reporting (ICFR). Furthermore, the existing accommodation in Rules 409 and 12b-21 may not be sufficient to address the difficulty with providing the proposed disclosures. Therefore, we strongly recommend the disclosure of climate-related metrics for historical periods prior to the effective date of the rule and should be excluded from the requirements of the standard.

Finally, previous rules like Sarbanes-Oxley (SOX) Act regulations have shown that that an aggressive timeline may not be in the SEC or industries' best interest. It was only after final adoption of the federal rule that the SEC recognized problems with their original timeline. "As these issuers are well into their fiscal years and the PCAOB standards have not been finalized, it would have been extremely difficult for the off-year companies to properly prepare for compliance with the new requirements and for auditors to properly implement a final standard under the then-current compliance dates."[4] AIA believes that the proposed climate-related disclosures rule poses the same

[4] https://www.perkinscoie.com/en/news-insights/sec-extends-dates-for-implementation-of-sarbanes-oxley-section.html

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problem and will result in our member companies being unable to provide these data on time and with the proper accuracy.

Recommendations:

- **Recommend that full implementation of the rule should be delayed until 2025 (for data collection, data would be filed in 2026), with longer compliance dates for Scope 3 GHG emissions (unless such disclosures are eliminated from the final rule – refer to item 2 below) to ensure our A&D companies can fully comply and collect meaningful climate-related data that will help our investors.**
- **Allow for prospective adoption of the disclosures of all climate-related metrics (including financial metrics in the Regulation S-X requirements and GHG emissions metrics in the Regulation S-K requirements) instead of retrospective adoption for all financial statement periods presented.**

2. Scope 3 emissions reporting is immature

The A&D industry has been collecting and reporting Scope 1 and 2 emissions from their activities for many years, and this effort is very robust and continues to improve. In contrast, Scope 3 emissions reporting is in the early (developmental) stages for our industry and most other industries. The number of companies that report any Scope 3 emissions categories (there are a total of 15 categories) is small. Those few companies that are reporting typically report only a couple of categories that have readily available data, such as emissions from business air travel (Category 6) since travel agencies are able to provide the needed data.

To fully comply with the proposed rule's Scope 3 emissions reporting, companies would need to determine which of the 15 categories are relevant and then calculate the emissions associated with those relevant categories. Few companies have completed a full Scope 3 emissions profile. There is existing guidance on calculation methods for each of the categories in the GHG Protocol Scope 3 guidance[5], but most are based on significant amounts of estimation or require data that is not easily accessible. This results in varying information that is not comparable to investors.

There are numerous issues associated with calculating Scope 3 emissions for the use of sold products (Category 11) and end-of-life treatment of sold products (Category 12) for A&D companies. Many of the product that are sold have very long lifespans, for example, aircraft frequently have a lifespan of 25+ years. This makes the calculation of lifetime emissions and end-of-life treatments difficult and inherently speculative since it is not known at the time of reporting what the customer use of that product will be in the

[5] *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*

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long-term (e.g., if low-carbon, sustainable aviation fuel is used in the aircraft, it would significantly reduce the emissions and data would vary). Another challenge with calculating Categories 11 and 12 emissions is the substantial number of components and intermediate products that are integrated into (or removed from) an end product (for example, an aircraft as an end product would consist of a large number of components and intermediate products). Allocating emissions of the final product to the components is difficult and emissions allocation methodologies are not mature and not standardized.

Another issue from the A&D industry in calculating Categories 11 and 12 emissions are related to military products. Much of how and what the Defense industry builds has national security implications and is not disclosed. This also includes the military supply chains. Further, how the military products are used by the customer (frequency, duration, weight, etc.) is usually not known to the manufacturing companies and unlikely to be attainable. In many cases, the number of products sold, and their use profiles often are classified information. The national security implications will make collection and dissemination of Categories 11 and 12 emissions information notably challenging for the Defense industry.

Due to the immaturity of Scope 3 reporting and the numerous analytical difficulties, we recommend that the requirement to report Scope 3 emissions be eliminated. We believe this would not adversely affect the intent of the rule, which is to disclose more information about climate-related risks and decision-useful information to investors. We believe Scope 3 emissions risks and impacts are already adequately addressed in Item 1502 of the proposal. That section requires that climate-related risks and impacts be disclosed, including those associated with Scope 3 emissions, such transition risks associated with moving to a more sustainable aviation sector, or supply chain risks. The size of Scope 3 emissions does not directly correspond with the size or significance of the risks. That is handled better in Item 1502.

Though it represents a minor part of our industry's Scope 3 emissions, A&D companies have large and long supply chains (e.g., thousands or tens of thousands of suppliers and over 10 levels deep) making it very difficult to collect reliable emissions data from their suppliers. Many of the lower tier suppliers are small businesses who may not be tracking or be able to track GHG emissions or reporting them publicly and may not be subject to Scope 1 and 2 emissions reporting pursuant to this rule. Even if a supplier knows its Scope 1 and 2 emissions, it will be difficult to accurately allocate those total emissions measurements to individual customers since many suppliers have multiple customers and work on multiple products in the same facilities. There are also suppliers that are located outside of the US and may not be collecting or reporting their emissions. Finally, we believe that no reporting organization should be reporting on value chain risks insofar as such risks reflect information that is best determined by another organization (e.g., military branch, airline, supplier).

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Recommendations:

a. **Permit companies to furnish (vs file) within 180 days of year-end the proposed GHG emissions disclosures.**
   i. **180-day timeline would align with the CDP reporting timeline.**
   ii. **Furnishing (vs filing) would decrease liability to level commensurate with nature of GHG emissions data.**
b. **Eliminate the requirement to report Scope 3 emissions (Item 1504(c)). If the Scope 3 emissions reporting is not eliminated, then:**
   i. **Delay the compliance date of the requirement an additional two years (filed in 2027 for large, accelerated filers).**
   ii. **Clarify that only those Scope 3 categories that the company deems material need to be reported in Total Scope 3 emissions, and not all categories of Scope 3.**
   iii. **Explicitly allow companies to use the spend method to calculate emissions associated with purchased goods and services (i.e., supplier emissions)**
   iv. **Allow companies to include only energy- intensive products in their Scope 3 use of sold product calculations (not all products, which for many companies, is a very large number).**
   v. **Allow companies to exclude military products in their Categories 11 and 12 Scope 3 reporting, as well as any risk reporting, due to national security issues, as well as countries covered by Foreign Military Sales.**
c. **Eliminate the requirement to report Scope 3 emissions by chemical. Speciated emissions data is usually not available for the larger Scope 3 categories. Additionally, CO2 makes up the majority of the emissions from these categories.**
d. **Recommend incorporating reporting exceptions for small suppliers.**
e. **Allow flexibility to the attestation standard accepted for Scope 1 and Scope 2 to allow the use of the standard ISO 14064-3. ISO 14064-3 has been widely used in attestations of GHG emissions data and allowing this standard will allow companies to leverage existing voluntary attestation reports and service providers.**
f. **Enhance the safe harbor protection for Scope 3 emissions disclosure by requiring a heightened pleading standard (plead bad faith with specificity) and delay actionable nature of disclosure by at least 2 years. The proposed rule's current safe harbor protection is insufficient and may subject companies to liability even if the statements were made in good faith. Under a heightened pleading standard, plaintiffs would need to make specific allegations of what constituted fraud, unreasonable basis or bad faith, furthering SEC's goals of robust disclosure.**

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3. Form of disclosure related to the financial impacts of climate related risks

The proposed Regulation S-X, Article 14 requires companies to assess the financial impacts of severe weather events and other natural conditions, transition activities, and other climate-related risks against each relevant line item of the company's consolidated financial statements. Similarly, the regulation requires companies to assess the level of expenditures expensed or capitalized relating to mitigating and managing the risks associated with severe weather events and other natural conditions, transition activities, and other climate-related risks against each line item. Companies will need to disclose these financial impacts and expenditures within the footnotes to their consolidated financial statements if the amounts in the aggregate exceed 1% of the line item, which is the material threshold specified in the proposal

AIA believes the key intent of disclosing climate related risks and their financial impacts is already contained in Item 1502 of the proposal or covered by existing Regulation S-K requirements. Item 1502 (a) requires companies to describe any climate related risks (physical or transition) reasonably likely to have a material impact on the company, including on its business or consolidated financial statements. Item 1502 (b) requires companies to describe the actual and potential impacts of any climate related risks on the company's strategy, business model, and outlook. This includes impacts on the company's business operations, products or services, suppliers, activities to mitigate/adapt to the risks including adoption of innovative technologies or processes, and expenditures for R&D. This requirement provides investors with in-depth descriptions, with context, of potential risks and impacts. It also allows companies the needed flexibility to correctly characterize the risks and impacts on the business. In addition, Regulation S-K Item 303 already requires companies to discuss any unusual or infrequent events or transactions that have materially affected its results of operations, as well as any known trends or uncertainties that a company reasonably expects will have a material impact on future results of operations, liquidity or capital resources within its management's discussion and analysis (MD&A) section.

In addition, the proposed 1% materiality threshold for disclosing financial impacts and expenditures on each line item of a company's consolidated financial statements is arbitrary and not consistent with other financial statement footnote reporting, which is based on a company's assessment of materiality. The materiality threshold should not be an arbitrary 1% per line item, which is likely to result in disclosure of immaterial items. Instead, materiality should be based on financial statement materiality consistent with all other aspects of financial statement disclosures and the company's internal assessment of what is material to its business, which varies between companies. Furthermore, the requirement, if maintained, should be modified to require disclosure specific to climate-related events and transition activities, which are individually material to the company's overall financials, as opposed to disclosures in the aggregate.

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Evaluating impacts and expenditures on each line item is not practical since companies do not track this data in this manner. In addition, there are numerous challenges with categorizing whether impacts and expenditures are associated with severe weather and other natural conditions and transition activities. Those terms can be interpreted differently by different companies. Transition risks in particular have an increasing broad definition as particular industries pivot to other energy sources and innovative technologies for their products. For example, in the civil aviation industry, the pursuit towards a more sustainable aviation industry using new technologies and new sustainable aviation fuels, could all be defined as “transition activity” making all of the impacts and expenditures “climate related.”

Recommendation:

a. **Eliminate Article 14 in Regulation S-X; 210.14-01, and -02 in the proposed rule relating to disclosure of material financial metrics of climate related impacts and expenditures in a company’s consolidated financial statements, as similar disclosure is covered by other Items of the proposal or existing SEC guidance.**
b. **If the Article is not eliminated, move the proposed disclosure to Item 303 of Regulation S-K (disclosed as part of MD&A), as this will significantly reduce cost of implementation given the financial statement footnote is subject to audit and SOX-level controls. In addition, modify the requirement to only disclose the impact of climate-related events, activities or risks that are individually “material” to the financial statements (remove the arbitrary 1% threshold).**

Item 1502 requires companies to disclose sensitive information on facilities that are subject to material physical risks. Detailed information on locations subject to physical risks raises business and competition sensitive and national security concerns. This information includes ZIP codes of the properties, along with the nature of the facilities, processes, or operations subject to the risk. If the risk concerns the flooding of buildings, plants or properties located in flood hazard areas, companies must disclose the percentage of those assets (square meters or acres) that are located in flood hazard areas in addition to their ZIP code. If the risk concerns the location of assets in regions of high or extremely high-water stress, then companies need to disclose the amount of assets (e.g., book value and as a percentage of total assets) located in those regions in addition to their location (ZIP code). Further, companies must disclose the percentage of the registrant’s total water usage from water withdrawn in those regions, when the risk concerns the locations in assets in regions with high or extremely high-water stress.

These requirements to disclose the location of specific facilities along with the nature of facilities, process, or operations, raised significant concerns of business- sensitive information. This is particularly true relating to the disclosure of the book value of

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effected asset and the percent of total assets. Many of AIA member companies work on military or other federal agency contracts and much of this information would be confidential or even classified that could not be disclosed publicly.

There is also the issue that the terms being vague and not well defined. For example, if there is a risk of flooding or if the property is located in flood hazard areas, disclosure is required. The risk of flooding is a general term and will be interpreted differently by each company. Similarly flood hazard areas could be 100-year flood or 500-year flood areas or what constitutes "high or extremely high-water stress" areas can vary greatly depending on which model a company uses. Water stress can mean many different things including waster scarcity, water quality issues, depletion of aquifers, etc.).

Recommendation:

- **Delete the detailed requirements relating to disclosure of location and nature of operations associated with facilities subject to flooding and water stress risk. (1502 (a) (1) (i) (A) and (B)).**

AIA and its member companies remain fully committed to securing the sensitive information entrusted to them. Thank you for your consideration of our comments; please direct any questions to Mark Sudol, AIA's Director of Environmental Policy, at [redacted].

Sincerely,

David Silver
Vice President, Civil Aviation

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