PGIM | The Global Investment Management Businesses of Prudential Financial, Inc.

June 17, 2022

Ms. Vanessa Countryman
Secretary
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. S7-10-22 – Request for Comment on the Proposed Enhancement and Standardization of Climate-Related Disclosures for Investors (Release No. 33-11042/34-94478)

Dear Ms. Countryman:

PGIM submits this letter in response to the request by the Securities and Exchange Commission (the "Commission") for comments on the Commission's proposed enhancements and standardization of climate-related disclosures for investors (the "Proposal").[1] PGIM supports the Commission's engagement on climate-related disclosure and is pleased to have the opportunity to respond to selected portions of the Proposal.

PGIM is the investment management business of Prudential Financial, Inc. ("PFI").[2] The PGIM investment management businesses include PGIM Fixed Income, PGIM Real Estate, PGIM Private Capital, Jennison Associates, PGIM Investments, PGIM Quantitative Solutions and PGIM Portfolio Advisory.[3] PGIM assets under management as of March 31, 2022 were approximately $1.5 trillion.

I. Introduction

PGIM welcomes the Commission's efforts on climate change and agrees on the need for a comprehensive proposal that aims to address the need for consistent, comparable, and reliable climate-related information. In addition to meeting investor and client interest in socially and environmentally responsible investment options, assessing the impact climate-related issues may have on an investment has increasingly become a standard part of investment risk management

[1] The Enhancement and Standardization of Climate-Related Disclosures for Investors Release No. 33-11042, 87 Fed. Reg. 21,334 (proposed Apr. 11, 2022), https://www.federalregister.gov/d/2022-06342.
[2] The views expressed herein are PGIM's views and not necessarily reflective of PFI's views.
[3] The PGIM investment advisers through which the PGIM businesses operate include: PGIM Inc.; PGIM Quantitative Solutions LLC; Jennison Associates LLC; PGIM Portfolio Advisory; PGIM Private Placement Investors, L.P.; PGIM Investments LLC; PGIM Custom Harvest LLC; PGIM DC Solutions; PGIM Limited; PGIM Real Estate (UK) Limited; PGIM Real Estate Luxembourg S.A.; L.P. PGIM Private Capital (Ireland) Limited; and PGIM Wadhwani LLP.

and a consideration for many investors. The variability that currently exists in company approaches to climate-related disclosure inhibits the ability of investors to analyze and compare investments.[4] Consistent and robust disclosure of climate-related information and data may help investors better analyze climate-related risks and the opportunities associated with such investments.

PGIM supports the use of reporting standards, data-driven methodologies and calculations that are based on well-established international frameworks, such as the Task Force on Climate-Related Financial Disclosures ("TCFD") and Greenhouse Gas ("GHG") Protocol, to promote the consistency, comparability, and reliability of key information for investment managers. PGIM encourages the Commission to consider permitting foreign private issuers to file their climate-related disclosures in accordance with the standards established by any final International Standard Setting Board ("ISSB") as an alternative to compliance with any final SEC rule, which would mitigate potential jurisdictional fragmentation. For entities that are global investors and asset managers, such as PGIM, it is important to align the Commission's requirements with international standards, as it would create consistency and compatibility in issuer disclosures.

PGIM also favors robust safe harbor provisions for forward-looking disclosures, as well as instances where accurate data is not yet available and registrants are required to make assumptions that may vary significantly depending on the methodology used. PGIM has several comments and recommendations, outlined below. As noted above, PGIM welcomes the Commission's efforts and respectfully submits these comments and recommendations for consideration.

II. Location of Disclosures

Under the Proposal, issuers would be required to provide certain narrative and quantitative climate-related disclosures in a structured format on Form 10-K.[5] PGIM agrees that Form 10-K is the appropriate form for such disclosures and believes that such disclosures will provide investors and asset managers like PGIM with comparable information in a consistent and common location and format. In addition, incorporating such disclosure requirements in a Form 10-K would subject such disclosures to a company's disclosure controls and procedures, which PGIM believes ultimately should improve the quality of the information disclosed by ensuring that a registrant maintains appropriate processes for collecting and communicating the necessary information by which to formulate the climate-related disclosures.

PGIM also believes that requiring issuers to include a specific section for climate-related disclosures in their Form 10-K reports would create a useful, single reference point in such reports

[4] This letter uses the term "companies," "issuers" and "registrants" to refer to companies within the scope of the Proposal.
[5] Proposal 17 CFR § 210.14-01(a).

for climate-related information, including disclosures about GHG emissions. If climate-related information is disclosed in other sections of the report, PGIM believes that the section should be indexed in a way that is clear and easy to use so that investors interested in climate information can quickly find it and be confident they have not missed any important climate disclosures.

PGIM believes that Form 10-K disclosure requirements should not preclude companies from publishing a standalone climate report, consolidating all climate-related information in a single document, including information that is not deemed material enough and/or out of scope for the Form 10-K report, but still of interest to investors. PGIM believes that explicitly permitting such disclosures will encourage further flow of climate-related information to investors.

III. Physical and Transition Risk Disclosures

The Proposal contains a number of proposed qualitative requirements, including requiring registrants to disclose their transition plan as part of their climate-related risk management strategy (if adopted), including the metrics and targets used to manage physical and transition risks.[6] PGIM agrees with the proposed requirement to specify whether an identified climate-related risk is a physical or transition risk and for the registrant to disclose its actions or plans to mitigate or adapt to such risk.[7] PGIM believes that it is critical that investors understand climate-related risks to the business, as well as measures that the registrant is taking to mitigate such risks. Such disclosures should lead to more robust analysis and discussions about the appropriateness and effectiveness of these measures.

While PGIM supports disclosure of identified physical risks, PGIM is concerned that an overly granular level of disclosure for material physical risks (e.g., at a zip-code-location level) will be counterproductive, as investors would have to aggregate and process this information at a registrant and portfolio level, which will be a significant task for a large registrant with multiple assets in many different locations. Furthermore, such granular disclosures risk being misleading, given that asset climate risk assessments are generally based on geo-location only and do not take into consideration mitigants in place for each specific asset. This type of disclosure would also exclude risks that could be upstream (such as, for example, impacts on suppliers) or downstream (such as, for example, situations in which goods cannot be transported on key waterways due to low water levels) in the supply chain that could be highly material for a registrant.

PGIM instead suggests that, where financially material, such registrants disclose the percentage of their total assets, operations, or revenue exposed to acute and chronic physical risks, complemented with (a) a breakdown by the type of physical risk at the risk level and (b) a breakdown by geographical location at a region or country level. This alternative approach to the

[6] *Id.* § 229.1503(c)(1).
[7] *Id.*

disclosure would provide more informative data for investors, allowing for analysis and evaluation.

PGIM also supports disclosure of the nature of transition risks to which a registrant is exposed, and how those risks impact the registrant. However, given that most registrants will be affected by one or more transition risks, such disclosures will only have value if they are registrant-specific rather than boiler-plate statements providing only standard descriptions of such risks. For this reason, PGIM believes that registrants should be required to apply a financial materiality lens and disclose how they will be impacted by, and the materiality of, specific transition risks. In PGIM's view, it would be useful to categorize transition risks based on geographic location, as transition risks vary by location. PGIM also believes that such disclosures should include information related to risks upstream and downstream in the supply chain. In addition, similar to disclosures noted for physical risks, PGIM believes that registrants should disclose measures they are taking to mitigate such transition risks.

IV. Materiality Determinations

PGIM supports the existing requirement that companies disclose information related to climate-related risks that are reasonably likely to have a material impact on a company's business, results of operations, or financial condition. The Proposal provides that "registrants must bear in mind that the materiality determination is made with regard to the information that a reasonable investor considers important to an investment or voting decision."[8] However, given that the understanding of climate risks and their materiality is evolving, it is difficult to determine precisely what a reasonable investor considers important at this time. Therefore, to avoid significant uncertainty for registrants, as well as overwhelming investors with a large amount of potentially immaterial information, PGIM recommends that registrants be permitted to continue to apply the same materiality approach to climate-risk disclosures as they would for other Form 10-K disclosures.

When defining what is material, registrants should be allowed and encouraged to lean on well-established existing frameworks, such as those put forth by the Sustainability Accounting Standards Board ("SASB"). PGIM's view is that such standards would help narrow the disclosure of material risks to those that would be most useful to investors, including likely risks, but also risks that are less likely to occur but that would have particularly severe consequences.

In addition, PGIM recommends that the Commission require registrants to disclose how they determined which risks were viewed as material, as it is important for investors to understand how registrants decided on what is material enough to be disclosed in the Form 10-K report. In addition, in cases where a climate risk would normally be considered material for a registrant's industry (e.g., based on a well-established ESG risk materiality framework or a proprietary materiality

[8] Proposal at 66.

survey, or similar measure) but the registrant determines it to be immaterial, it would be helpful for investors to understand the basis of such an assessment.

PGIM supports the proposed requirement that issuers disclose material climate-related risks that they are exposed to over the "short, medium and long term."[9] However, PGIM believes that the Commission should specifically define what constitutes a "short-, medium- and long-term" time horizon (such as, for example, 5-, 10- and 20-year periods) rather than leaving that determination to the registrant. Doing so would create a consistent approach, allowing investors and managers to evaluate different registrants and their related risks over the same periods. From a data collection and comparative analysis perspective, different definitions of short, medium and long term may create unnecessary complexity for investors and lead to inconsistencies. If an issuer is permitted to define such time horizons using its own framework, PGIM believes that it is essential that the time horizons applied be clearly disclosed.

PGIM recommends that the Commission clarify whether the determination of materiality should be made pre- or post-consideration of risk-mitigation measures. We recommend that materiality be based on pre-consideration of risk-mitigation assessment and supplemented by disclosure of the mitigation measures applied, as well as management's assessment of the effectiveness of those measures.

V. Disclosure of Material Impacts

Under the Proposal, "once a registrant has described the climate-related risks reasonably likely to have a material impact on the registrant's business or consolidated financial statements as manifested over the short, medium, and long term,"[10] registrants would then also be required to "describe the actual and potential impacts of those risks on its strategy, business model, and outlook."[11]

PGIM agrees with the proposed disclosure of material impacts of climate risks on a company's strategy, business model and outlook as described in the Proposal, but believes that the disclosure should be provided in conjunction with disclosure of risks and mitigation measures. In particular, PGIM believes that registrants should be required to utilize a disclosure format whereby for each material physical and transition risk identified by the registrant, the registrant would also discuss its impact on the business and mitigation measures implemented/considered by management. PGIM believes that such disclosure would provide for a more thorough analysis by investors.

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[9] *Id.* at 64.
[10] Proposal at 72.
[11] *Id.*

VI. Disclosure of Carbon Offsets

"If, as part of its net emissions reduction strategy, a registrant uses carbon offsets or renewable energy credits or certificates ('RECs'), the Proposal would require the registrant to disclose the role that carbon offsets or RECs play in the registrant's climate-related business strategy."[12] Under the Proposal, "carbon offsets represent an emissions reduction or removal of greenhouse gases in a manner calculated and traced for the purpose of offsetting an entity's GHG emissions."[13]

PGIM supports the disclosure requirements related to the role that carbon offsets and RECs play in a registrant's climate-related business strategy; however, PGIM notes that the quality of offsets varies considerably and many are currently low quality, as the availability of high-quality offsets is currently limited. Therefore, PGIM cautions that reliance on offsets to address emissions can pose additional risks.

PGIM recommends that the Commission require registrants that use or intend to use offsets to disclose sufficient information for investors to gauge the cost and quality of those offsets and to disclose the use of offsets at the aggregate registrant level. PGIM believes that reporting of offsets and gross emissions will allow investors to see how much of the emissions reduction is due to offsets versus operational efficiencies or product reformulation. Such disclosure will help investors better understand the relevant risk exposures and impacts. It would also reduce the incentives for registrants to purchase carbon offsets as a primary way to reach net-zero targets and should, therefore, reduce the potential for greenwashing.

VII. Disclosure of Internal Carbon Price

If a registrant uses an internal carbon price, the Proposal requires the registrant to disclose:

- The price in units of the registrant's reporting currency per metric ton of carbon dioxide equivalent;
- The total price, including how the total price is estimated to change over time, if applicable;
- The boundaries for measurement of overall carbon dioxide on which the total price is based; and
- The rationale for selecting the internal carbon price applied.[14]

[12] *Id.* at 77.
[13] *Id.*
[14] *Id.* at 79-80.

While these disclosures are intended to "help investors understand the rationale and underlying assumptions for a registrant's internal carbon price and help them assess whether the registrant's use of an internal carbon price as a planning tool is reasonable and effective,"[15] in PGIM's view these disclosures are too granular and will be both too onerous for registrants to provide and too detailed to be truly useful to investors. PGIM instead recommends encouraging the use of internal carbon prices, as the granularity of disclosure requirements can disincentivize companies to actually develop and use internal carbon prices.

PGIM recommends that registrants disclose the primary carbon price in each region upon which they base capital allocation/strategy decisions. PGIM also recommends that registrants disclose whether there are multiple such prices and the average internal price used in the assessment of short-, medium- and long-term risks or in scenario analysis, including any significant regional variations. PGIM believes that such disclosures will be less onerous for registrants and more useful for investors.

VIII. Disclosure of Scenario Analyses

The Proposal would "require a registrant to describe the resilience of its business strategy in light of potential future changes in climate-related risks."[16] The Proposal would also require a registrant "to describe any analytical tools, such as scenario analysis, that the registrant uses to assess the impact of climate-related risks on its business and consolidated financial statements, or to support the resilience of its strategy and business model in light of foreseeable climate-related risks."[17]

PGIM supports and recommends encouraging registrants to use scenario analysis to the extent it is practical and useful to the registrant. Investors are interested in the climate risks that are material to the company, and it would be useful for investors to know if a registrant used scenario analysis to determine materiality of certain climate risks. In such cases, it will also be useful to know which climate scenarios were considered.

PGIM is concerned that the detailed disclosure requirements around scenario analysis will serve to deter registrants from conducting scenario analysis. For example, disclosures related to scenario analysis would be required to include quantitative and qualitative information and, to the extent a registrant uses scenario analysis, the proposed rule would require inclusion of parameters, assumptions and analytical choices, and the projected principal financial impacts on the registrants' business under each scenario. PGIM is also concerned that scenario analysis could become a "check-the-box exercise" where registrants would run a model that would help them

[15] *Id.* at 80.
[16] *Id.* at 83.
[17] *Id.*

comply with the disclosure requirements, but that would not actually provide useful information that helps management understand applicable risks.

In order for scenario analysis to be a useful decision-making tool for investors, considerable additional work and related enhancements are necessary from registrants. While the data, models and tools used in scenario analysis are being developed and perfected, PGIM believes that a summary reporting on the conclusions from the scenario analysis undertaken by the registrant and a discussion of any material impact that these conclusions have had on the business's response to climate risks, or on the determination of materiality of risks and impacts, would be sufficient.

IX. Governance Disclosures

The Proposal "would require a registrant to disclose, as applicable, certain information concerning the registrant's board's oversight of climate-related risks, and management's role in assessing and managing those risks."[18]

PGIM agrees that where climate risks and impacts are material for the business, there should be disclosure around governance of climate risks, particularly as climate risk and impact analysis is relatively new and requires development of both board- and management-level expertise on the topic, as well as the introduction of new data, processes, analytical capabilities and tools within businesses. At this stage, PGIM does not recommend that registrants without material exposure to such risks be required to provide a detailed discussion of the board and management oversight of climate risks.

The Proposal notes that "[t]he registrant would have to disclose how the board is informed about climate-related risks, and how frequently the board considers such risks."[19] PGIM notes that more frequent board discussions related to climate-related risks may not correlate with better management of climate-related risks. Instead, PGIM believes that, rather than disclosing the frequency of discussions, it would be more useful for investors if registrants provided more detail on the board's role in managing climate-related risks, including how the board addresses climate-related risks that are material to the registrant.

The Proposal "would require disclosure of whether any member of a registrant's board of directors has expertise in climate-related risks, with disclosure required in sufficient detail to fully describe the nature of the expertise."[20] As drafted, the disclosure requirements around the climate-related expertise of a registrant's board members could suggest that boards should always include a climate expert. PGIM agrees that climate expertise is important, and that it is particularly

[18] *Id.* at 93.
[19] *Id.* at 95.
[20] *Id.* at 94.

important to investors that boards build meaningful climate competence, which should permeate the entire board. However, designating a specific board member as a climate expert may result in the rest of the board deferring to the climate expert on climate matters or dilute board effectiveness by requiring boards to fill a "slot" with a subject-matter expert that checks the climate expertise box, rather than by selecting the best overall candidate. As such, PGIM recommends that registrants disclose the steps that the board and management have taken to build overall climate competence.

X. Transition Plan

The Proposal would require registrants that have adopted a transition plan, which is defined as a "strategy and implementation plan to reduce climate-related risks,"[21] to describe the plan, "including the relevant metrics and targets used to identify and manage physical and transition risks."[22] PGIM supports the proposed transition-plan disclosures but recommends that the Commission provide additional guidance as to what constitutes a transition plan.

PGIM recommends that the Commission require registrants to disclose management's actions or plans to address identified material climate-related risks for the business. Further, PGIM recommends such disclosures for all registrants that identified material climate-related risks, physical and transition, regardless of whether the registrant has a formal transition plan in place.

Separately, for registrants that have set long-dated, net-zero transition targets, PGIM recommends that the Commission require registrants to disclose if significant investments and/or changes to the nature of the business may be required to meet such targets. It would also be helpful for investors to understand the expected investment needed to achieve such an overall plan to the extent such investment is material (or a statement that the registrant does not believe it to be material), as well as the organizational and operational boundaries of the transition plan.

With regard to the frequency of updates, PGIM recommends that the Commission require that registrants differentiate between the updates on the mitigation measures implemented/planned by management to address material climate-related risks, for which an annual update would be necessary, and the update on the long-term, net-zero transition plan, for which a lower frequency (e.g., every three years) would be more appropriate (except to the extent plans or targets change meaningfully in a shorter timeframe).

[21] *Id.* at 103.
[22] *Id.*

XI. Financial Statement Metrics

The Proposal would require certain registrants to "disclose in a note to its financial statements certain disaggregated climate-related financial statement metrics that are mainly derived from existing financial statement line items."[23] The disclosures would "require disclosure falling under the following three categories of information: (a) financial impact metrics; (b) expenditure metrics; or (c) financial estimates and assumptions."[24]

PGIM believes that such disclosures would be useful to investors and that requiring these disclosures in a separate note to the financial statements would make the information more accessible, while applicable audit requirements would add further credibility to the information contained in the disclosures.

PGIM also agrees that the granularity of detail proposed by the Commission would be helpful for investors. In particular, the standardized format of disclosures and the requirement to disclose on a line-by-line basis would provide more clarity for investors on the financial impacts of climate-related activities (positive and negative).

To make the information more relevant, PGIM recommends that a higher materiality threshold be applied to such disclosures. "The financial impact metric disclosure requirements would require a registrant to disclose the financial impacts of severe weather events, other natural conditions, transition activities, and identified climate-related risks on the consolidated financial statements included in the relevant filing unless the aggregated impact of the severe weather events, other natural conditions, transition activities, and identified climate-related risks is less than one percent of the total line item for the relevant fiscal year."[25]

The proposed one-percent threshold is well below materiality thresholds for financial statement disclosures. Instead, PGIM recommends a five-percent, rather than a one-percent, threshold. PGIM notes that the threshold could vary by registrant. Regardless, PGIM believes that a low, one-percent threshold applied to all registrants would result in immaterial information being disclosed that is unlikely to sway either equity or credit views and that would only clutter the financial statements without offering benefits for investors. PGIM notes that should registrants wish to disclose impacts on the financial line items that are below the materiality threshold for the financial statements, they can do so in a separate "climate report" outside of the regulatory filings.

PGIM would also recommend that the Commission provide additional guidance on how to approach such disclosures to ensure comparability among registrants. For example, in the absence

[23] *Id.* at 110.
[24] *Id.*
[25] *Id.* at 120-121.

of a clear definition of transition activities, there will be many different interpretations of what constitutes a transition activity. PGIM expects that there will be many instances when expenditures on fuel/energy efficiency measures will generate reductions in carbon emissions and help companies manage transition risks. It is unclear whether expenditures that were planned by management in the normal course of business should be reported as "transition activities."

Similarly, for financial impact metrics, PGIM recommends that the Commission provide additional guidance on the scope of what should be considered a climate-related cost for purposes of the financial impact metric. For instance, the Commission should clarify whether all hurricane damage should be considered a climate cost, or only where an attribution study has been done that indicates that the hurricane was made materially more likely by human climate change. It is unclear whether registrants should only consider direct costs/benefits, or whether they should also consider costs in their supply chains as well. Also, guidance as to whether only "pro-transition" impacts should be considered would be helpful. For instance, should a government action that removes subsidies for wind power be considered a transition cost for a company making wind turbines?

Furthermore, given the potential overlap between the financial-impact metrics and expenditure metrics, PGIM recommends that expenditure metrics focus specifically on actions related to transition plans and mitigation of physical risks (as part of a transition plan).

PGIM also recommends that the Commission provide additional guidance for financial services companies, given the challenges in assessing impacts from climate-related events and transition activities on investment portfolios.

PGIM notes the need for investors to understand the effectiveness of the measures taken by management. While this type of information may not belong in the financial statements, PGIM believes that such information should be disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Form 10-K.

Given the challenges such disclosures would pose for registrants in the short term, PGIM recommends that the Commission provide additional time (e.g., an extra year) for registrants subject to this requirement to implement appropriate processes and controls to enable accurate disclosures. In PGIM's view, the benefit of having well-thought through and more accurate disclosures, based on accurate data and robust assessments and controls, outweighs the inconvenience of a one-year delay to the timeline proposed by the Commission. This would also allow the audit industry to develop robust procedures for testing company disclosures.

XII. GHG Emissions Disclosures

The Proposal "would require a registrant to disclose its GHG emissions for its most recently completed fiscal year."[26] The Proposal defines GHGs as carbon dioxide; methane; nitrous oxide; nitrogen trifluoride; hydrofluorocarbons; perfluorocarbons; and sulfur hexafluoride.[27]

The Proposal "would define GHG emissions to mean direct and indirect emissions of greenhouse gases."[28] "Direct emissions are GHG emissions from sources that are owned or controlled by a registrant, whereas indirect emissions are GHG emissions that result from the activities of the registrant but occur at sources not owned or controlled by the registrant."[29] The Proposal provides the following categories of GHG emissions:

- Scope 1 emissions as direct GHG emissions from operations that are owned or controlled by a registrant;
- Scope 2 emissions as indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling that is consumed by operations owned or controlled by a registrant; and
- Scope 3 emissions as all indirect GHG emissions not otherwise included in a registrant's Scope 2 emissions, which occur in the upstream and downstream activities of a registrant's value chain.[30]

PGIM supports disclosure of Scope 1 and 2 GHG emissions, and of requiring Scope 3 disclosures by registrants with material Scope 3 emissions. PGIM notes that Scope 3 emissions are already being used by investors, including PGIM, to assess the exposure to climate- transition risks, as well as to gauge the effectiveness of decarbonization efforts by registrants or their progress on meeting established net-zero targets.

As it stands, Scope 3 data is largely based on estimates, and these estimates can vary from one provider to another based on the methodology and assumptions made. Given that Scope 3 is an integral part of assessments and analyses by investors, estimates will continue to be used out of necessity when actual data is missing.

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[26] *Id.* at 147.
[27] *Id.* at 148.
[28] *Id.* at 149.
[29] *Id.*
[30] *Id.* at 149-150.

PGIM appreciates that there are many types of upstream and downstream emissions, and that it would be unrealistic to require that registrants report on all emissions categories at this stage. As such, PGIM supports giving registrants flexibility to report only on their most material Scope 3 emissions. PGIM expects that over time, as data collection in the value chains improves, such disclosures can be expanded to all issuers and that additional categories of Scope 3 emissions may be added to reduce the reliance on estimates by investors.

To ensure consistency of disclosures, PGIM also recommends that the Commission either provide guidance on which industries and activities would require Scope 3 disclosures and on the most material emissions categories for each industry or refer to an external source for such guidance. PGIM does not believe that setting a percentage threshold for determining the materiality of Scope 3 emissions would be practical, as registrants would struggle to determine applicability given that, at this stage, most registrants are still unable to calculate all of their Scope 3 emissions. PGIM also believes that qualitative analysis of materiality would present a challenge for many companies while also leading to inconsistencies in disclosures.

PGIM supports the use of ranges when a registrant presents its estimated Scope 3 emissions, but PGIM's preference would be to see the level of confidence registrants have in the provided data, recognizing that this would depend on the methodology used. For example, even when a company presents a central estimate, it would still be useful to have a confidence range, as the estimates can vary significantly depending on a few assumptions. It would be helpful for investors to know the degree of uncertainty in the estimate.

PGIM understands the rationale behind exempting smaller reporting companies ("SRCs") from Scope 3 emissions disclosures at this stage as this represents a significant additional reporting burden on smaller companies. At the same time, for industries where a bulk of real-world emissions fall under Scope 3, investors will continue to use estimates in the absence of real data, which may put companies that do not provide such disclosures at a disadvantage. PGIM recommends that the Commission keep this aspect of the Proposal under review and collaborate with other regulators and international standard setters to develop Scope 3–emissions calculation methodologies that would help smaller companies calculate and report their material Scope 3 emissions.

PGIM is supportive of disclosure of emissions data in gross terms. PGIM believes that it would be difficult for companies to collect emissions data on time for the annual reporting cycle, and therefore also agrees with the proposal to allow companies to use estimated data for fourth quarter emissions and issue a follow-up notification to investors should the actual fourth quarter emissions prove to be materially different from the estimated emissions data. In addition to any estimated data included in the annual report, there should be a requirement for registrants to report on actual data emissions in the following year's Form 10-K.

"In addition to requiring the disclosure of its GHG emissions in gross terms, the [Proposal] would also require a registrant to disclose the sum of its Scopes 1 and 2 emissions in terms of GHG intensity."[31] PGIM notes that the added value of intensity disclosures remains unclear. As long as registrants provide emissions disclosures, disclosures of relevant financial measures, and measures of economic output, most investors are capable of calculating an intensity number. As such, PGIM recommends removing any requirement that registrants provide intensity disclosures.

As different industries will necessarily be using different units of economic output, PGIM recommends that the Commission specify the units to be used by specific industries (e.g., Transition Pathway Initiative[32] specified this and even some ESG data vendors are moving into this direction). PGIM believes that having absolute numbers of emissions and consistent disclosures of financial and economic output measures would help make calculation of intensity metrics easier and more useful for investors.

"The [Proposal] require[s] disclosure to be provided for the registrant's most recently completed fiscal year and for the historical fiscal years included in the registrant's consolidated financial statements in the applicable filing, to the extent such historical GHG emissions data is reasonably available."[33] PGIM supports reporting historical data for periods starting after the adoption of any specific requirements, but believes that quantitative disclosures tied to historical financial statement periods preceding the adoption of such requirements will be of limited value to investors, as such information will in many cases be unavailable or incomplete.

"With regard to GHG emissions methodology and related instructions, the [Proposal] would require a description of the registrant's methodology which includes the registrant's organizational boundaries, operational boundaries, calculation approach, and any calculation tools used to calculate the registrant's GHG emissions."[34] "Organizational boundaries would be defined to mean the boundaries that determine the operations owned or controlled by a registrant for the purpose of calculating its GHG emissions."[35] PGIM supports the proposal to set the organizational boundaries for GHG emissions disclosure using the same scope of entities, operations, assets, and other holdings within the business organization as those included in, and based upon the same set of accounting principles applicable to, the consolidated financial statements. PGIM agrees that the scope of consolidation and reporting should be consistent for financial data and GHG emissions data. PGIM notes that the Proposal is different from the approach taken by the GHG Protocol, which also gives companies the option to set organizational boundaries based on the operational control. The latter approach is used by many companies. PGIM therefore recommends that

[31] *Id.* at 179-180.

[32] The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative that assesses companies' preparedness for the transition to a low-carbon economy. Link: Overview of the TPI - Transition Pathway Initiative.

[33] *Id.* at 183.

[34] *Id.* at 185-186.

[35] *Id.* at 186.

registrants be given additional time to comply with the requirements so that they can re-adjust their approach to comply with applicable new requirements.

With respect to disclosures for registrants in the financial sector, in order to ensure consistency and comparability of reporting, the financial industry needs a clear methodology for calculating GHG emissions across all major asset classes. PGIM notes that the Proposal refers to the Partnership for Carbon Accounting Financials' ("PCAF's") Global GHG Accounting & Reporting Standard as one source of potential guidance.[36] Given that the PCAF standard does not yet address many of the issues faced by the financial industry in reporting Scope 3 emissions, PGIM recommends that the Commission clarify what alternative methodologies would be acceptable. Furthermore, based on the current PCAF methodology, PGIM recommends that the Commission clarify the following:

- As pointed out in the Proposal, "the PCAF Global GHG Accounting & Reporting Standard covers six asset classes: (1) listed equity and corporate bonds; (2) business loans and unlisted equity; (3) project finance; (4) commercial real estate; (5) mortgages; and (6) motor vehicle loans."[37] PGIM's investment activities span more asset classes and types of investments than are currently covered by the PCAF Global GHG Accounting & Reporting Standard. In view of the methodological challenges when it comes to calculating financed emissions for a large number of asset classes and types, PGIM recommends that the Commission clarify whether the asset classes not covered by the PCAF Global GHG Accounting & Reporting Standard should be excluded from disclosures until further guidance becomes available under an established international standard. If these asset classes were to be included, or to the extent that new asset classes are added in the future, clear emissions calculation guidance would be needed.

- The PCAF Global GHG Accounting & Reporting Standard currently requires reporting of investees' absolute Scopes 1 and 2 emissions. Scope 3 emissions are required for certain asset classes only (e.g., listed equities and corporate bonds) and even for those asset classes where a phased-in approach is applied. PGIM recommends that the Commission clarify whether a similar approach would be acceptable under the Proposal or the final adopted requirements. Furthermore, the Commission's proposed exemption from reporting for SRCs creates an inconsistency with the PCAF Global GHG Accounting & Reporting Standard, which bases Scope 3–emissions reporting requirements on the registrant's industry classification rather than size.

- PGIM notes that the PCAF Global GHG Accounting & Reporting Standard explicitly excludes reporting on assets and investments that are not on the balance sheet of the

[36] *Id.* at 196.
[37] *Id.* at 197.

financial institutions. This would suggest that an investment manager that is a public company or a subsidiary of a listed financial services group would not be required to include in its disclosures emissions attributable to either assets managed on behalf of its clients or the registered investment companies it manages. PGIM recommends that the Commission confirm whether this interpretation is in line with the Commission's expectations. Should disclosures with respect to managed assets be required, PGIM recommends that these be reported separately from owned assets. Similarly, PGIM recommends that the Commission clarify how banking groups should treat their capital markets activities with respect to emissions disclosures under the Proposal or any adopted requirements.

PGIM believes that more time is needed by investors in certain asset classes to develop data estimation, collection and management processes. For example, for real estate debt investors there is currently no ability to require borrowers to provide data; hence, the development of robust estimation methodologies is essential and requires further guidance from the Commission and longer implementation timeframe.

In addition, while PGIM supports the requirement that GHG emissions disclosure be subject to third-party attestation, as well as of the limited assurance for Scopes 1 and 2 emissions disclosure that scales up to reasonable assurance after a transition period as specified in the proposal, PGIM recommends that registrants be given an additional year to the timeline proposed by the Commission so that both registrants and attestation providers could prepare for attestation.

XIII. Targets and Goals Disclosures

"If a registrant has set any climate-related targets or goals, the Proposal would require the registrant to provide certain information about those targets or goals."[38] PGIM supports this requirement. As different baseline years are used by registrants within the same industry to set emission reduction targets, PGIM recommends that the Commission require registrants to explain the reasons for choosing a specific baseline year.

PGIM also notes that targets are often set in terms of carbon intensity. In those instances, where targets are defined in terms of carbon intensity, PGIM recommends that registrants be required to disclose what such terms mean with regard to expected absolute emissions in the target year. PGIM believes that an estimate or an estimated range would be acceptable for this purpose.

[38] *Id.* at 266.

XIV. Implementation Timeline

PGIM supports the proposed implementation timeline for Scope 1 and Scope 2 emissions disclosures. However, PGIM believes that the proposed timeline should be delayed by one year for all other proposed disclosures, as well as for attestation, to allow registrants sufficient time to implement the necessary changes, processes and controls.

PGIM also recommends that the Commission consider differentiating the timeline by industry rather than registrants' size. Such differentiation should be based on materiality of GHG emissions as well as availability of emissions calculation methodologies.

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We appreciate the opportunity to submit comments on this initiative. If you have any questions or need additional information, please contact the undersigned at [redacted].

Sincerely,
/s/ Eugenia Jackson

Eugenia Jackson
Global Head of ESG
PGIM