Adaptation Leader
Comments to the SEC on the Climate Disclosure Proposed Rule
File Number S7-10-2

Summary headlines

In these comments Adaptation Leader would like to focus our attention on two main points:

First, the adherence to the TCFD framework as a basis for the SEC proposal has the effect of ignoring two other important disclosure initiatives that are playing out on the same timeline, i.e., the ISSB draft standards[1] and the EFRAG proposal.[2]

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[1] "The International Sustainability Standards Board (ISSB) has published the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft) which sets out the overall requirements for an entity to disclose sustainability-related financial information about all its significant sustainability-related risks and opportunities, to provide the market with a complete set of sustainability-related financial disclosures." Available at: https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/

[2] The European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) envisages the adoption of EU Sustainability Reporting Standards (ESRS). The European Financial Reporting Advisory Group (EFRAG) was requested to provide Technical Advice to the European Commission in the form of fully prepared draft standards and/or draft amendments to Sustainability Reporting Standards. "EFRAG launches a public consultation on the Draft ESRS Exposure Drafts (EDs) developed by the EFRAG PTF-ESRS. The consultation period will run until 8 August 2022." Access the EDs of Draft ESRS at: https://www.efrag.org/lab3

The overemphasis on the TCFD by the SEC, when the current state of play is so dynamic and complex, will prove to be a shortsighted strategy.

Second, the over-reliance on the TCFD framework has resulted in a proposed rule that is too focused on GHG reduction (i.e., climate mitigation) to the virtual exclusion of any useful text relating to the other significant half of the climate discourse (i.e., climate adaptation). The science tells us that mitigation efforts must continue with the utmost urgency, but the present draft is too mitigation-centric. This imbalance must be corrected to better reflect adaptation considerations before the regulations are finalized. In short, we believe equal attention should be paid to both mitigation and adaptation, which the current draft does not.

Adaptation Leader's role and our focus here

As a not-for-profit dedicated to advancing climate adaptation and resilience solutions, Adaptation Leader chooses to focus its comments on the surprising, disappointing absence of adaptation and resilience content in the proposed rule. In these comments we will attempt to point out examples of the imbalance in the draft proposal and offer some suggestions for how to fix the "adaptation gap" that is apparent in the ongoing SEC process.

We will simply note without elaboration here that Adaptation Leader was also disappointed that SEC opted to limit this proposed disclosure rule to "climate disclosure" rather than a broader ESG scope or full spectrum sustainability.[3] Climate change is an important consideration within ESG disclosure and sustainability reporting, and the topic may be viewed as a useful surrogate, but it does not present the full picture for disclosure purposes. Hopefully, the SEC will revisit a more comprehensive scope in the near term.

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[3] See prior ESG-framed petitions to the SEC regarding disclosure, e.g., Cynthia Williams & Jill Fisch, "Request for rulemaking on environmental, social, and governance (ESG) disclosure," docketed October 1, 2018 in SEC File No. 4-730 , available at: https://digitalcommons.osgoode.yorku.ca/reports/207/. Also available at: https://www.sec.gov/rules/petitions.htm

That said, within the much narrower climate disclosure framing presented in the proposed rule, Adaptation Leader believes that the SEC has done an excellent job of outlining disclosure requirements for GHG reduction and mitigation. In the proposed rule, however, the SEC failed to adequately address adaptation and resilience and instead focused on the TCFD and the GHG Protocol -- both of which are more relevant to GHG reduction and mitigation. Our goal in offering these comments is to call for SEC to pursue an equally robust approach on adaptation and resilience issues.

We expect most of the comments the SEC will receive on the proposed rule will follow the structure and narrative (and the numbered requests for comments) as published in the Federal Register. We feel that this approach discourages a holistic approach to the challenges of climate change and its risks to companies -- and therefore needs to be reframed. We will focus on our core adaptation issues and leave the multitude of important comments on mitigation to the many other organizations and individuals who will weigh in before the deadline. As you may be aware, GHG issues are much more familiar to US audiences, but we hope that the SEC will consider the comments received on adaptation and resilience as seriously.

We have identified aspects of these issues previously – please see our published Adaptation Leader commentaries.[4] We contributed to the comments submitted to SEC in 2021 prepared by members of the American Society of Adaptation Professionals (ASAP).[5] The ASAP comments favorably cited our Adaptation Leader commentaries as published in GreenBiz. The original ASAP comments are worthy of a second look by SEC staff since apparently few other submittals last

[4] Peter A. Soyka, "Why the ESG bandwagon must embrace adaptation," GreenBiz (March 2, 2021), available at:
https://www.greenbiz.com/article/why-esg-bandwagon-must-embrace-adaptation

Karl Schultz, "Is TCFD a catalyst for transformational climate adaptation?" GreenBiz (March 24, 2021), available at:
https://www.greenbiz.com/article/tcfd-catalyst-transformational-climate-adaptation

[5] American Society of Adaptation Professionals (ASAP). "Letter to Securities & Exchange Commission Chair Gary Gensler from Elizabeth Gibbons" (ASAP comments to SEC), docketed in file S7-10-22 on June 11, 2021, available at: https://adaptationprofessionals.org/wp-content/uploads/2021/07/ASAP-comments-to-SEC_Final_signed.pdf

year addressed any of the adaptation issues. We expect to release shortly our latest White Paper on "Adaptation through an ESG Lens." We will share our White Paper with SEC staff as soon as it is available to supplement these comments.

We hope our plea to recognize adaptation and resilience will result in a hard look by SEC staff at the current state of play in this community of practice which, to be sure, has always been the weak sister to mitigation considerations despite the balanced approach to mitigation and adaptation adopted in the Paris Agreement.

Adaptation Literacy: Critical Background for SEC on the Current State of Play in Adaptation and Resilience

Some may claim that attention to adaptation is premature or that the field is insufficiently developed, but we believe this is an ill-informed perspective for the following reasons:

- Awareness of adaptation and its importance and urgency have reached a tipping point and the upcoming COP 27 meeting in Egypt is likely to showcase adaptation – some are already calling it the "adaptation COP."[6] The SEC should therefore not miss the opportunity to include adaptation language/reporting requirements in the Final Rule.

- The 2015 Paris agreement was structured to address both mitigation and adaptation.[7] Indeed, this dual approach has defined the parameters of climate action ever since. With the subsequent acknowledgement of "loss

[6] See, e.g., Jack Stuart, *et al.,* "COP27 must deliver climate finance where it is needed most," (commentary) Mongabay, January 20, 2022, ("This opportunity to shape the "Adaptation COP" agenda…"), available at: https://news.mongabay.com/2022/01/cop27-must-deliver-climate-finance-where-it-is-needed-most-commentary/; and, Mariana Castano Cano, "Reflections on the Glasgow Climate Pact," 10 Billion Solutions, Nov. 30, 2021, ("COP27 must be the Adaptation COP."), available at: https://10billionsolutions.com/english/f/reflections-on-cop26?blogcategory=Newsletter

[7] The full text of the Paris Agreement is available at: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

& damage" as an additional category separate from adaptation, there really is no debate about how climate change is discussed.

- The 2022 IPCC report on Impacts, Adaptation and Vulnerabilities underscored the concerns that adaptation professionals have understood for years. Adaptation has received far less attention – and far less financing – than mitigation. It is therefore it is now urgent for us all – including the SEC -- to play catch up on solutions for adaptation and resilience.[8]

- As documented by the annual CPI studies on the flow of climate finance, adaptation finance still lags well behind financing for mitigation efforts. The latest report indicated recent gains for adaptation-oriented funding, but an enormous disparity remains.[9] The need for adaptation metrics or measures of success is at the root of the slow pace of finance for adaptation. The financial sector needs to be more confident that consensus metrics will track potential return on investment.

- The good news is that adaptation metrics are fast emerging -- various types are already in use reflecting different contexts, such as monitoring and evaluation, etc. The expert group Global Adaptation & Resilience Investment working group (GARI) is dedicated to advancing adaptation finance and has metrics on its current agenda. The International Platform for Adaptation Metrics (IPAM) is focused on the need for metrics not only for the financial sector, but also for agriculture and for cities.[10]

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[8] IPCC, 2022. *Climate Change 2022: Impacts, Adaptation, and Vulnerability.* Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press, available at: https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_FinalDraft_FullReport.pdf

[9] Climate Policy Initiative. 2021. "Global Landscape of Climate Finance 2021," (CPI financial flows report), available at: https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf

[10] International Platform on Climate Metrics (IPAM), website available at: https://adaptationmetrics.org/home

- Individual scholars and practitioners have pioneered innovative tools and approaches for measuring adaptation success. For example, scholar and practitioner Susi Moser has led the development of a Resilience Metrics Toolkit.[11] And through his Higher Ground Foundation, Karl Schultz has pioneered the concept of Vulnerability Reduction Credits (VRCs) along with an implementation framework.[12]

- In the ESG space itself, leading providers of ESG analytics are already beginning to roll out products and services based on adaptation and resilience metrics. Just as we drafted these comments, one leading organization, Sustainalytics, confirmed this trend by announcing the launch of their Physical Climate Risk Metrics (PCRM) -- an initiative "to help investors better understand their exposure to physical climate risks to align with evolving reporting needs."[13] This is being done in collaboration with XDI (an award-winning global leader in physical climate risk analysis.

- The International Organisation for Standardization (ISO-Geneva) has already developed and published international voluntary standards for the

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[11] Resilience Metrics Toolkit, available at: https://resiliencemetrics.org/about. See, Amber Manfree, "National Toolkit Offers Steps & Metrics," May 17, 2022, available at: https://www.kneedeeptimes.org/national-toolkit-offers-steps-and-metrics/.

See also, Arnott, J., S.C. Moser, and K. Goodrich (2016). "Evaluation that counts: A review of climate change adaptation indicators & metrics using lessons from effective evaluation and science practice interaction." Environmental Science & Policy, 66C: 383-392; doi: 10.1016/j.envsci.2016.06.017, available at: https://www.sciencedirect.com/science/article/abs/pii/S1462901116303483

[12] For details on VRCs, see the project log: Karl Schultz," Vulnerability Reduction Credits: Development of a universal metric for the results of climate adaptation projects," available at: https://www.researchgate.net/project/Vulnerability-Reduction-Credits-Development-of-a-universal-metric-for-the-results-of-climate-adaptation-projects

13 Morningstar Sustainalytics, "Assess & disclose Physical Consequences of climate change related exposure," June 7, 2022, available at: https://www.sustainalytics.com/investor-solutions/esg-research/climate-solutions/physical-climate-risk-metrics basics of climate adaptation with other more specialized adaptation standards expected as the series evolves.[14]

- Many of the leading international adaptation and resilience research and policy initiatives have turned their attention to measurement of adaptation success. Most notably, The Race to Resilience and the Adaptation Research Alliance (ARA) were quite visible last year at COP 26 in Glasgow. "The Race to Resilience, launched in January 2021, has developed a metrics framework for non-state actors to verify the climate resilience impact of their actions. This new metrics framework, for the first time, allows non state actors to report action, and quantify and verify impact under a common framework."[15] The ARA seeks to "the ARA will catalyse and scale investment in action-oriented research and innovation for adaptation that strengthens resilience in communities most vulnerable to climate change."[16]

- In other countries, regulatory and policy authorities are advancing adaptation initiatives. Building on a series of recent research reports, the Agency for the Ecological Transition in France, ADEME, has produced a methodology that it will pilot for companies to assess their adaptation strategies.[17]

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14 ISO 14090:2019 "Adaptation to climate change — Principles, requirements and guidelines", available at: https://www.iso.org/standard/68507.html

ISO 14091:2021 "Adaptation to climate change — Guidelines on vulnerability, impacts and risk assessment", available at: https://www.iso.org/standard/68508.html

15 "The Race to Resilience Metrics Framework" (November 2021), available at: https://racetozero.unfccc.int/wp-content/uploads/2021/11/202111_R2R_Metrics_framework.pdf

16 The Adaptation Research Alliance, "Joint Statement on Launch – 9 November 2021," available at: https://ukcop26.org/adaptation-research-alliance-ara-joint-statement-on-launch-9-november-2021/

17 ADEME (Agency for Ecological Transition, France) 2022. "ACT Adaptation: Physical risks & adaptation," available at: https://actinitiative.org/wp-content/uploads/pdf/act-adaptation-methodology_draft.pdf

- Because forward-looking corporate organizations have been developing and implementing adaptation-related activities, both academics and practitioners are producing a burgeoning body of literature on the implementation of corporate adaptation strategies. Various research analyses and collections of case studies are readily accessible. In the footnote, we list the most recent of these articles on corporate adaptation strategies -- those published since 2019 -- for possible further consideration by SEC staff [18]

See also, ADEME, "ACT Adaptation Methodology" available at: https://actinitiative.org/wp-content/uploads/pdf/act-adaptation-methodology_draft.pdf

Especially helpful for practitioners are the three recent reports from ADEME:

ADEME (2021). "How to make business decisions to adapt to climate change? Methods and case studies in France and internationally," available at: https://librairie.ademe.fr/changement-climatique-et-energie/4758-how-to-make-business-decisions-to-adapt-to-climate-change--9791029717994.html

ADEME (2020). "Assessing the impacts of climate change on a company: A compendium of international experience," available at: https://librairie.ademe.fr/changement-climatique-et-energie/4048-assessing-the-impacts-of-climate-change-on-a-company-9791029716874.html

ADEME (2019). "The Adaptive Capacity of Businesses to the Impacts of Climate Change," available at: https://librairie.ademe.fr/changement-climatique-et-energie/4080-adaptive-capacity-of-businesses-to-the-impacts-of-climate-change-9791029713705.html

[18] As corporate adaptation strategies evolve, we found that a simple Google search for "corporate adaptation strategies" in the climate change context identifies an increasing number of articles. The most recent of these articles are listed here in chronological order:

Jose DiBella (2019). "The spatial representation of business models for climate adaptation: An approach for business model innovation and adaptation strategies in the private sector," Bus Strat Dev. 1–16. DOI: 10.1002/bsd2.92, available at: https://www.researchgate.net/profile/Jose-Di Bella/publication/338013056_The_spatial_representation_of_business_models_for_climate_adaptation_An_approach_for_business_model_innovation_and_adaptation_strategies_in_the_private_sector/links/5dfa24f292851c8364857038/The-spatial-representation-of-business-models-for-climate-adaptation-An-approach-for-business-model-innovation-and-adaptation-strategies-in-the-private-sector.pdf

Daniel Nyberg & Christopher Wright (2019). "Making Climate Change Fit for Capitalism: The Corporate Translation of Climate Adaptation." Academy of Management, Published Online:1 Aug 2019, available at: https://journals.aom.org/doi/abs/10.5465/AMBPP.2019.90

Johanna Nalau (2019). "Climate Adaptation and Businesses: The case for private sector leadership in the Asia-Pacific." Chapter 5 in Byrne, C. & West, L., "State of the Neighbourhood 2019." available at: https://www.griffith.edu.au/asia-institute/partnerships-collaborations/state-of-the-neighbourhood

A. Goldstein, W.R. Turner, J. Gladstone, et al. (2019). "The private sector's climate change risk and adaptation blind spots." Nature Clim Change 9, 18–25, available at: https://www.nature.com/articles/s41558-018-0340-5

M. E. C. Aguinaldo, T. Daddi, M. Hamza & F. Gasbarro (2019). "Climate change perspectives and adaptation strategies of business enterprises: a case study from Italy." International Journal of Sustainable Development & World Ecology, 26:2, 129-140, available at: https://www.tandfonline.com/doi/abs/10.1080/13504509.2018.1528571

Timo Busch (2020). "Industrial ecology, climate adaptation, and financial risk." Journal of Industrial Ecology, 24 (2), 285-290, available at: https://onlinelibrary.wiley.com/doi/abs/10.1111/jiec.12938

Laura M. Canevari-Luzardo, Frans Berkhout, & Mark Pelling (2020). "A relational view of climate adaptation in the private sector: How do value chain interactions shape business perceptions of climate risk and adaptive behaviours?" Bus. Strat. Env 29:432-444, available at: https://onlinelibrary.wiley.com/doi/pdfdirect/10.1002/bse.2375?download=true

Tsegaye Ginbo, Luca Di Corato & Ruben Hoffmann (2021). "Investing in climate change adaptation and mitigation: A methodological review of real-options studies." Ambio 2021, 50:229–241, available at: https://link.springer.com/content/pdf/10.1007/s13280-020-01342-8.pdf

Sugeeth Saranga Patabendige (2021). "Corporate climate adaptation proactivity: an empirical investigation of managerial perceptions and the role of environmental management control systems. "Dissertation, Doctor of Philosophy (PhD), RMIT University, available at: https://researchrepository.rmit.edu.au/esploro/outputs/doctoral/Corporate-climate-adaptation-proactivity-an-empirical/9922012306101341

Samuel Tang (2022). "Why do companies not disclose climate change adaptation strategies?" Research Square pre-print, available at: https://assets.researchsquare.com/files/rs-1362845/v1_covered.pdf?c=1647540074

- Most importantly, business and industry has been aware of the significance of adaptation and resilience for well over a decade. There is ample evidence of this online and in the literature, with perhaps the best-known US examples being the decade-long work by organizations such as Business for Social Responsibility (BSR) and the Center for Energy and Climate Solutions (C2ES) As early as 2008, the Pew Center on Global Climate change, the predecessor to C2ES, produced guidance on climate adaptation for business and industry and BSR has continued to raise awareness for the enlightened members of the regulated community with subsequent contributions.[19] Thus, there can be no credible claim of surprise or blindsiding for the private sector at this late date.

The evidence is clear regarding the great urgency needed to catch up on the adaptation side of the climate discourse as compared to mitigation efforts. To paraphrase the great Gretzky, the SEC should take note of "where the puck is going" in climate reporting. Adaptation can no longer be ignored and inaction by companies and lack of disclosure cannot be tolerated going forward. Just last

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[19] See, e.g., Frances G. Sussman & J. Randall Freed, "Adapting to Climate Change: A Business Approach," Pew Center on Global Climate Change, April 2008, available at: https://www.c2es.org/wp-content/uploads/2008/04/adapting-climate-change-business-approach.pdf

Katy Maher & Janet Peace, "Weathering the Next Storm: A Closer Look at Business Resilience," Center for Climate and Energy Solutions (C2ES), September 2015, available at: https://www.c2es.org/wp-content/uploads/2015/09/weathering-the-next-storm-full-report.pdf

BSR. 2011. Adaptation to Climate Change: BSR's Industry Guides (Consumer Products; Energy and Utilities; Financial Services; Food, Beverage, and Agriculture; Information and Communication Technology; Mining; Transportation), available at: www.bsr.org

Cameron, E., Harris, S. & Prattico, E. 2018. "Resilient Business, Resilient World: A Research Framework for Private-Sector Leadership on Climate Adaptation." BSR Report, available at: https://www.bsr.org/reports/BSR_Resilient_Business_Resilient_World_A_Research_Framework_for_Private_Sector_Leadership_on_Climate_Adaptation.pdf week, a World Resources Institute (WRI) commentary observed that "climate adaptation should matter as much to investors as climate mitigation."[20]

Should adaptation reporting requirements and/or guidance be added to this proposed rule, the SEC will be making an enormous contribution to overall US climate action by drawing attention to adaptation and resilience through disclosure. Any delay in incorporating specific guidelines for adaptation and resilience disclosure in the Final Rule will be counterproductive. Now is the time to highlight the significance of adaptation, not to ignore it.

Specific recommendations

1. **The introduction to the final rule must acknowledge the mitigation-adaptation dichotomy as it is routinely understood in the climate change policymaking and practitioner discourse.**

The first order of business in drafting the Final Rule must be to re-frame the introduction. The introduction in the proposed rule fails to establish the fundamental context for the current climate discourse. The current state of play must be more accurately presented with respect to mitigation and adaptation.

We offer the following text, drawn largely from our forthcoming Adaptation Leader white paper, as an example of introductory text that can more adequately strike the balance and linkage between adaptation and mitigation:

> The Paris Climate Agreement established the expectation that an effective response to climate change must include both GHG emissions reduction (mitigation) and climate adaptation, and that these two imperatives should receive equal attention and support.[21] Moreover, mitigation and

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[20] Lihuan Zhou & Hayden Higgins, "Investors: Sustainable Finance Demands More than Just Cutting Carbon," World Resources Institute (WRI) commentary, June 8, 2022, available at: https://www.wri.org/insights/paris-agreement-aligned-investments

[21] The full text of the Paris Agreement is available at: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

Kathleen Mogelgaard, *et al.,* "What Does the Paris Agreement Mean for Climate Resilience," WRI, December 23, 2015 ("That set the stage for negotiations and an Agreement that placed adaptation are inextricably linked – the more we mitigate (curtail) GHG emissions, the less need there will be to adapt to a changing climate. Moreover, the old canard that "adaptation equals defeatism" must now be rejected. Current facts on the ground dictate that we must now prepare to actively adapt to a range of alternative climate change scenarios.

Most climate action activity to date, however, in both the public and private sectors, has been focused on mitigation. This has led to large gaps in climate adaptation assessment, planning, capacity-building, and implementation, posing large residual risks at multiple spatial/geographic scales. Although there has been a discernible increase internationally in the extent and completeness of climate adaptation planning, financing, and implementation, a much greater and more consistent commitment to building climate-resistant companies, economies, and societies is needed. Sectors in which the need for additional investment is particularly acute include agriculture, infrastructure, water, and disaster management.[22]

In general, adaptation and resilience-related risks and corresponding business opportunities have not been adequately recognized, planned for, or acted upon by either corporate executives or investors.

Adaptation Leader would be pleased if the SEC staff were to adopt such an approach and use the above language, or portions thereof, for a re-framed introduction.

2. **The decision of the SEC staff to rely on the TCFD and the GHG Protocol as "widely-accepted" must be revisited, and its perspective must be expanded to include climate adaptation.[23]**

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adaptation issues on par with mitigation."), available at: https://www.wri.org/insights/what-does-paris-agreement-mean-climate-resilience-and-adaptation.

[22] UNEP, "The Gathering Storm: Adapting to Climate Change in a Post-Pandemic World)," (the Adaptation Gap Report 2021), Nov. 1, 2021, available at: https://www.unep.org/resources/adaptation-gap-report-2021

[23] Several examples of the over-reliance on TCFD and GHG Protocol follow:

To be sure, the TCFD has been influential, but as we have pointed out, the TCFD framework is mitigation-centric and, indeed, the TCFD drafters have readily acknowledged that adaptation was not in their remit. For example, in a recent TCFD guidance, when discussing an organization's transition plan, the Task Force acknowledged the importance of also having an adaptation plan: "Both transition and adaptation plans may be components of an organization's overall business strategy."[24] However, it was quickly noted that the adaptation plan was beyond the scope of this TCFD guidance.[25]

From p.35 of the proposed rule: "Both the TCFD and the GHG Protocol have developed concepts and a vocabulary that are commonly used by companies when providing climate-related disclosures in their sustainability or related reports. As discussed in greater detail below, the Commission's proposed rules incorporate some of these concepts and vocabulary, which by now are familiar to many registrants and investors."

From p.36 of the proposed rule "The TCFD framework has been widely accepted by issuers, investors, and other market participants, and, accordingly, we believe that proposing rules based on the TCFD framework may facilitate achieving this balance between eliciting better disclosure and limiting compliance costs."

From p.52 of the proposed rule: "TCFD justification -- The consistency and breadth of these comments comport with our understanding that the TCFD framework has been widely accepted by issuers, investors, and other market participants and reinforce our view that the framework would provide an appropriate foundation for the proposed amendments.

[24] "The Task Force recognizes that an organization's transition plan is one component of its strategy to address its climate-related risks and opportunities and believes its recommendations implicitly cover the key aspects of transition plans. However, given the increasing focus on such plans, as described below, the Task Force determined explicit guidance may be useful. Another important component of an organization's strategy to address climate-related risks and opportunities is its adaptation plan, which is beyond the scope of this guidance." Task Force on Climate-related Financial Disclosures (TCFD). "Guidance on Metrics, Targets, and Transition Plans," October 2021, p.39, available at: https://www.fsb.org/wp-content/uploads/P141021-2.pdf

[25] *Id*. at note 77: "An adaptation plan lays out how an organization aims to minimize risks and capture opportunities associated with physical climate changes. Though guidance on adaptation planning is not included in this document, the Task Force encourages other frameworks and standard setters to consider developing guidance on designing and disclosing adaptation plans."

Therefore, while TCFD is an excellent base for GHG-related disclosures, SEC staff neglected to see that it was not a solid base for all of climate disclosure -- especially given the recent attention to adaptation and resilience, most notably in the IPCC report released this year.[26]

As we note above, there are ample sources of guidance on how disclosure requirements for climate adaptation might be crafted, and we urge SEC to invest the time and effort necessary to develop and include such requirements before finalizing this rule.

3. **Strengthen and clarify the somewhat confusing language describing the distinction between "physical risk" and "transition risk" so that it adequately describes adaptation and resilience.**

Some assume that "transition risk" equals adaptation – it does not. There is potential for confusion without a clear articulation here. In fact, the definition of transition risk, as presented on p.62 in the discussion of the proposed rule, does refer to both mitigation and adaptation:

> "The proposed rules would define transition risks to mean the actual or potential negative impacts on a registrant's consolidated financial statements, business operations, or value chains attributable to regulatory, technological, and market changes to address the mitigation of, or adaptation to, climate-related risks."

Unfortunately, here there is no further explanation and no examples of transition risk as it relates to adaptation in the proposed rule. Moreover, limiting the discussion of climate risk to pigeon-holing a risk as "physical" or "transition" is not very helpful to those who are more accustomed to the mitigation-adaptation dichotomy. For example, the following passage at p.59 in the discussion of the

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[26] See, e.g., IPCC, 2022, "Summary for Policymakers" [H.-O. Pörtner, D.C. Roberts, E.S. Poloczanska, K. Mintenbeck, M. Tignor, A. Alegría, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem (eds.)]. In: *Climate Change 2022: Impacts, Adaptation, and Vulnerability.* Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press, available at: https://www.ipcc.ch/report/ar6/wg2/

proposed rule explicitly asks the registrant to identify a risk as physical or transition:

> "The proposed rules would require a registrant to specify whether an identified climate- related risk is a physical or transition risk so that investors can better understand the nature of the risk and the registrant's actions or plan to mitigate or adapt to the risk."

If the SEC is requesting registrants to help investors better understand actions or plans for both mitigation and adaptation, then the Final Rule will need much more description of and specific disclosure requirements for adaptation content than are found in the proposed rule.

4. **Emphasize change management in addition to risk management**

In adaptation and resilience circles, there is an unfortunate tendency to reduce everything to a question of "risk management." While risk management is important, especially to investors and the financial community, Adaptation Leader believes that limiting adaptation and resilience to a risk-based orientation would be incomplete.

Climate change involves "change" – literally. Yet the change management aspects of adaptation and resilience are often ignored. The risk-only lens causes many organizations to overlook the complexity of the adaptation challenge in their strategic thinking and budgeting, potentially with material effect.

The use of a "change management" lens – to complement risk management considerations -- allows for improved scenario planning by the organization and offers a basis for more realistic cost estimates and timelines. We recommend the explicit inclusion of change management considerations as a component of the adaptation and resilience provisions to be added in the Final Rule.

5. **Clarify the usage of important terms such as "adaptation" and "resilience."**.

The mentions of "adaptation" and "resilience" throughout the proposed rule are generally gratuitous mentions as part of a longer litany. These mentions provide no context and no detail, but this can be remedied.

There are sections in the proposed rule that could be readily enhanced and re-written to better emphasize adaptation and resilience. For example, we point the SEC to passages on p.66 and p.76 in the discussion of the proposed rule as potential "hooks." [27] These sections can be improved – in this draft they are totally buried. We further suggest that the passage at p. 110 relating to transition plans would also be a good place to expand on adaptation and resilience. [28]

Moreover, as a separate but related point, the use of the term "resilience" is inconsistent through the proposed rule -- sometimes referring to a company's strategy, sometimes referring to its business model, and, by our count, only once when referring to assets and operations. Indeed, in one passage the proposed rule refers to the resiliency of the US economy. We do not expect the SEC to resolve the problematic nature of resilience terminology – "resilience" can mean many different things depending on context. Therefore, we suggest the SEC be specific in its usage (discipline, sector, scale, etc.) to avoid confusion. That said, the clarity and consistency must be improved regarding both adaptation and resilience in the Final Rule.

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[27] Potential hooks include:

From p.66 of the proposed rule: "To help ensure that management considers the dynamic nature of climate-related risks, we are proposing to require a registrant to discuss its assessment of the materiality of climate-related risks over the short, medium, and long term."

From p.76 of the proposed rule: "Because proposed Item 1502 would require a registrant to identify material climate-related impacts that may manifest in the short, medium, and long term, a registrant's narrative discussion of the likely climate-related impacts on its consolidated financial statements should cover more than just short-term impacts."

[28] Another hook relating to transition plans:

From p. 110 of the proposed rule: "If a registrant has adopted a transition plan as part of its climate-related risk management strategy, the proposed rules would require the registrant to discuss, as applicable, how it plans to mitigate or adapt to any physical risks identified in the filing, including but not limited to those concerning exposure to sea level rise, extreme weather events, wildfires, drought, and severe heat."

6. **Develop and promulgate parallel rationales and guidance addressing adaptation analogous to those addressing mitigation (e.g., attestation, metrics, and scenarios).**

As noted above, the brief mentions of adaptation and resilience are superficial and unhelpful. The adaptation references pale in comparison to mitigation references, as if there were no examples, metrics or methodologies to offer. As discussed above, there is plenty of business-oriented guidance on adaptation and resilience to build upon.

While multiple sections of the proposed rule explain the rationale for several different mitigation-related provisions, like attestation, metrics, scenarios, etc., there is not even one analogous section offering rationale or guidance relating to adaptation.

For example, there are no sections for adaptation in the proposed rule that are analogous to Section G (GHG Emissions Metrics Disclosure) or to Section H (Attestation of Scope 1 and Scope 2 Emissions Disclosure). The mitigation-oriented Sections G and H are both lengthy and detailed. To exclude any discussion about adaptation disclosures – even if the practice is not as developed as mitigation – is disappointing to say the least.

Specifically, in the proposed rule the existence of adaptation standards and metrics must be included -- to encourage their use in framing disclosures. In contrast to the fulsome discussion of GHG metrics (see text in the proposed rule beginning at p.154), there is no complementary guidance for adaptation metrics.

Another example where adaptation is curiously absent in the proposed rule is on the topic of attestation. Clearly the SEC is taking attestation for GHG disclosures (Scope 1 and Scope 2) seriously. There is no analogous concern expressed for adaptation-related disclosures. Since independent third-party review of corporate adaptation plans are already being piloted,[29] the SEC should be encouraging further development of that attestation practice.

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[29] ADEME (Agency for Ecological Transition, France), "Companies: Assess your adaptation strategy" (2022 announcement of corporate adaptation pilot), available at: https://actinitiative.org/wp-content/uploads/pdf/act_call_for_proposals_experimentation_vf.pdf

We believe that the absence of adaptation provisions will send the wrong signal to the regulated community. We do not think the SEC will want to be seen as saying, "let's not worry about adaptation just yet." If not now, then when?

7. **Develop and include examples of climate change adaptation and resilience in the final rule, to parallel those addressing mitigation.**

A rare example in the proposed rule that gets specific and granular about adaptation is found at p. 110 in the proposed rule:

> "If a registrant has adopted a transition plan as part of its climate-related risk management strategy, the proposed rules would require the registrant to discuss, as applicable, how it plans to mitigate or adapt to any physical risks identified in the filing, including but not limited to those concerning exposure to *sea level rise, extreme weather events, wildfires, drought, and severe heat."* (emphasis added)

Unfortunately, no further guidance is provided regarding disclosures related to these identified climate impacts and they need to be added.

While the proposed rule text is replete with GHG-oriented mitigation guidance, there is none to be found for adaptation and resilience. Especially when talking about "transition plans" as in this cited provision, it should be explained that corporate transition plans must cover both mitigation and adaptation when discussing climate change. Even the note on p.361 defining transition plans ignores adaptation and calls out "reducing its own emissions," i.e., mitigation.[30]

Another example in the proposed rule that requires a much better linkage to adaptation and resilience is the discussion of scenarios. When explaining the utility of scenarios in the proposed rule, it is at best left implicit that these implicate adaptation and resilience. Here the SEC should be clearer and must be

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[30] From the proposed rule, p.361:

"Transition plans would be defined as a registrant's strategy and implementation plan to reduce climate-related physical and transition risks and increase climate-related opportunities, including by reducing its own emissions."

explicitly state that scenario planning is critical for developing a corporate adaptation strategy and, if employed by the company, it must be disclosed.

8. **If the SEC determines that adaptation cannot be addressed in the Final Rule, then SEC must commit to immediate further action to address adaptation and resilience.**

While we firmly believe that the "adaptation gap" can be corrected in the Final Rule, the SEC may decide to take a closer look at the available options. To suggest an alternate approach, in its response to comments in this rulemaking, the SEC could commit to expeditiously developing adaptation-oriented provisions through a follow-on rulemaking or another process. Regardless, Adaptation Leader is eager to assist the SEC in remedying the imbalance evident in the proposed rule. Below, in our concluding remarks, we recommend that SEC convene a multi-stakeholder process or a series of listening sessions to become better informed on adaptation and resilience.

Concluding remarks

After reviewing our comments, one could assume that the SEC staff may not have had the requisite background or literacy in adaptation and resilience to prepare a proposed rule that would adequately and appropriately balance mitigation and adaptation. Therefore, Adaptation Leader is prepared to assist SEC staff in convening a multi-stakeholder dialogue or, as Federal agencies sometimes prefer, "listening sessions" to inform the drafting of the Final Rule. We have already approached several other adaptation and resilience groups who would join us in convening an "adaptation literacy" effort for SEC.

The SEC may not be aware that the adaptation community of practice is almost entirely separate from the mitigation/GHG community of practice. There are few mitigation experts who have an in-depth understanding of adaptation. Sadly, many mitigation experts assume that mitigation is more complicated than adaptation when the opposite is true. As one striking example, GHG mitigation depends on one metric (CO_2 equivalents) while adaptation is multi-factorial. This failure to grasp the complexity of adaptation should not deter SEC staff from building capacity and understanding.

The fact that the adaptation space is not as developed as the mitigation space does not justify SEC's inattention to adaptation and resilience disclosures in the proposed rule. To the contrary, SEC should strongly acknowledge how important adaptation is in the climate risk equation and therefore urge greater corporate attention to developing and implementing adaptation strategies. The SEC should encourage innovation and experimentation, including through pilots. As best practices emerge, SEC can issue circulars providing more specificity on adaptation metrics and guidance on the materiality of adaptation and resilience related expenses.

In the Biden administration's "whole of government" approach to climate change, the SEC must play its part. The SEC proposed rule cannot be isolated or cordoned off in its own financial silo. SEC's efforts must mesh with the climate initiatives launched by other Federal agencies. The only coherent approach to take at this juncture is one that addresses both climate mitigation and climate adaptation.

Respectfully submitted,

ADAPTATION LEADER INC.

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