Connor Group, Inc.
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October 21, 2022

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

Re: The Enhancement and Standardization of Climate-Related Disclosures for Investors - File No. S7-10-22

Dear Ms. Countryman:

Connor Group, Inc. is pleased to provide our comments on the Securities and Exchange Commission's ("SEC" or "Commission") request for public comment on its climate-related disclosures proposal.

Connor Group is a specialized professional services firm of Big 4 alumni and industry executives. Our team of experienced professionals helps financial executives with complex and significant matters, including financial accounting and operations, IPO and M&A services, digital solutions, and managed services. We have served over 1,000 clients on six continents including a substantial number of companies undergoing initial public offerings. Our client portfolio includes multi-billion-dollar public, mid-cap public, and pre-IPO companies ranging from early stage to late stage. Since the firm was founded, it has grown to more than 500 professionals with industry experience in biotech, cleantech, consumer products, fintech, gaming, Internet, life sciences, social networking, software, and technology.

We believe that climate-related disclosures are an important step toward improving the quality of information provided by companies to their investors and assessing the impact business operations have on our environment. We encourage the Commission to strive to attain an appropriate balance in its final climate-related disclosure regulations between the amount and depth of information registrants will be required to provide and the related costs of compliance. We agree with the SEC's proposal to utilize the existing Task Force on Climate-Related Financial Disclosures ("TCFD") framework and the Greenhouse Gas Protocol ("GHG Protocol"), as many investors are already familiar with the two frameworks given that many organizations use them to issue climate-related disclosures on a voluntary basis. However, we also encourage the Commission to work to harmonize the climate reporting requirements across key world economies to reduce the burden on companies and maximize comparability for investors. Additionally, to the extent the Commission decides that it is appropriate to include climate related disclosures in the financial statements, we recommend it work to establish the requirements through the existing framework of delegation of authority, i.e. the Financial Accounting Standards Board ("FASB"), which should author the related guidance on this topic.

In this regard, we have outlined below our views on how the final regulations may enable a better balance between the costs of compliance and the benefits to investors.

Disclosure Threshold

The Commission's proposal requires disclosures of impacts of climate-related matters on the financial statements for any financial statement line items where such impact is 1% or greater based on the total of the absolute values of both positive and negative amounts. We believe the proposed 1% bright-line disclosure threshold can result in the reporting of information that may not be meaningful or significant to investors, and would result in increased costs that outweigh the added benefit. Furthermore, applying the bright-line disclosure threshold would be inconsistent with the materiality framework applied for other purposes within the registrant's financial statements. It is also inconsistent with the instances where the Commission has commented on the use of quantitative thresholds for purposes of assessing materiality. For example, in Staff Accounting Bulletin 99 (Topic 1.M) the Commission has referred to a 5% threshold as a threshold that "may provide the basis for a preliminary assumption that – without considering all relevant circumstances – a deviation of less than the specified percentage with respect to a particular item on the registrant's financial statements is unlikely to be material."

As such, we suggest modifying the disclosure threshold from the bright-line of 1% for each financial statement line item to one that considers the overall context of the financial statements and the concept of materiality as applied in the preparation of the financial statements. In other words, we recommend disclosure of impact of climate-related events that are individually or in the aggregate material to the financial statements as a whole. Applying the concept of materiality includes the evaluation of both qualitative and quantitative considerations and judgments, as could be applied by a reasonable user of the financial statements. We believe incorporating broader materiality principles within the financial statements will result in more comprehensive climate-related disclosures, with a focus on information that is most meaningful to investors.

Location of the Climate-Related Disclosures

The Commission's proposal requires inclusion of climate-related disclosures in the footnotes to the financial statements, which would be subject to audit by an independent registered public accounting firm and within the registrant's Internal Controls over Financial Reporting ("ICFR") requirements. We believe determination of certain quantitative disclosures in the proposal as currently written requires high levels of subjectivity, that is substantially above and beyond the levels of subjectivity incorporated elsewhere in the financial statements. One observed example is whether to disclose a transition activity if the activity was already planned by the registrant independent of potential climate-related benefits or costs. Another example is how to quantify the impact of specific climate-related physical risks on a registrant's financial statements, where the entity's performance was likely affected by multiple external and internal factors. For example, it may be relatively easy to determine the impact of existing sales cancellations due to occurrence of an adverse event in nature. However, determining the relationship between this amount and the impact on the financial statements can be highly speculative, due to a variety of mitigating factors, unknown sales that have not yet occurred at the time the event occurred, the impact of competitive forces, general economic developments,

human factors, etc. In addition to being highly speculative, this level of subjectivity will require a significant amount of alignment of interpretation for judgments to be consistently applied by registrants and their independent registered public accounting firms.

We believe the proposed climate-related disclosures in the financial statements are more akin to the quantitative and qualitative factors affecting the entities' key business activities, which are captured within the Management's Discussion and Analysis ("MD&A") section of periodic reports. We recommend relocating the requirement to include such climate-related disclosures to within the MD&A, given that the disclosures are related to company's performance and are subject to more subjectivity and judgment. While audits and ICFR requirements would not apply to such amounts, we believe the existing level of oversight, regulation and liability associated with SEC filings would provide for meaningful, complete, and accurate disclosures.

Transition Period for Large Accelerated Filers

The Commission's proposal requires that the climate-related disclosure requirements be included in Large Accelerated Filers' ("LAF") registration statements and annual reports for fiscal year 2023 (assuming the registrant has a December 31st year-end), to be filed in early 2024. We anticipate that implementation of the climate reporting will require entities to design, add, validate and test multiple incremental processes, policies, and controls that would enable tracking, accumulation, assessment and reporting of various financial and non-financial information for purposes of the newly required disclosures. In addition, to the extent the information will be included in the financial statements, it will also be subject to audit and testing of effectiveness of internal controls over financial reporting, thereby necessitating an even greater level of management validation of processes and related internal controls.

In our experience, substantially all of an entity's business activities generate greenhouse gas (GHG) emissions. Similar to how enterprise reporting systems accumulate monetary amounts that are eventually included in the entity's financial statements, we anticipate that most registrants will need computerized GHG reporting systems to accumulate and report emission data. While a number of such systems are already in existence and available, for most entities they will require significant integrations into these entities' other existing reporting and operational systems and may also require significant customization. A major system implementation takes a substantial amount of time, cost, and effort. Based on our interactions with various registrants, most entities, including LAFs, have not initiated substantial implementation activities pending publication of the final SEC regulations, to avoid incurring costs that may not be necessary and due to existing economic uncertainties and other competing priorities.

As such, given the proximity to the reporting deadlines for LAFs, we recommend the Commission consider deferring the proposed effective date currently set out in the proposal by a minimum of one year. Absent such deferral, we anticipate many LAF registrants will be at a high risk of failing to implement the required climate reporting on a timely basis, and/or could face a high risk of reporting material weaknesses in internal controls over financial reporting.

Filer Status Transition

The Commission's proposal provides an informative roadmap with tabular presentations of transition periods for the adoption of the proposed rules by filer status. We recommend the Commission also provide guidance clarifying the transition requirements for registrants changing their filer status based on their annual assessments during the phase-in period. Examples of a change in status include a registrant becoming or ceasing being a large accelerated filer during 2023, ceasing being a smaller reporting company, etc. In a worst-case scenario, the entity may find itself as of the last day of its second fiscal quarter to be slated to become a large accelerated filer by year-end, in a year when the LAFs have to adopt climate reporting, and having its period to comply with the climate reporting regulations shrink from approximately twenty to approximately eight months.

Initial Public Offerings

We also recommend the Commission add transition requirements for the proposed climate-related disclosures for companies filing their initial public offering (IPO) registration statements. There are currently no special transition provisions for such companies. Initially these companies will benefit from the phase-in period afforded to non-accelerated filers, who do not have to comply with the climate reporting requirements until the end of their fiscal year 2024 (as per the proposal). However, eventually these companies will have to provide climate related reporting as part of their registration statements, including for the final two or three years of operating as private companies. An IPO is a challenging period for most companies, who have barely sufficient resources to comply with the already existing reporting requirements. Adding to these challenges the requirement to report on climate matters will likely be an undue burden. In addition, companies who have not implemented timely tracking of GHG emissions may be, practically speaking, precluded from pursuing an IPO (or another path of going public) until they have accumulated data for the period required to be included in the registration statement.

We recommend providing exemptions from climate reporting requirements to companies going public, similar to those afforded to Emerging Growth Companies. The deferral would allow additional time for registrants to implement appropriate technology along with formal processes and controls over climate-related information and data, significantly improving the reliance of reported disclosures.

We also recommend complete exemption of any periods prior to the effective date of the initial registration statement from all climate-related reporting.

Scope 3 Disclosures

The Commission's proposal requires that most registrants disclose material Scope 3 emissions. We anticipate that entities may have difficulties collecting all relevant data timely from third parties and validating that such data is complete and accurate. This is particularly related to obtaining data from private company vendors regarding their emissions that would constitute Scope 3 upstream emission for registrants. Accumulating their own emission information may lead private companies to incur substantial efforts and costs, and in various cases may lead to such entities electing not to sell to public company customers, or

being disqualified from such sales by the procurement requirements that public companies could elect to impose. Even when information is provided, its completeness and quality may be questionable, and the value to investors significantly diminished. It is also not clear how public companies will have to address significant corrections of previously reported Scope 3 information that are likely to be required from time to time, as their vendors who do not have robust systems and processes discover errors in their greenhouse gas reporting.

Information about downstream Scope 3 emissions (e.g., GHG emissions based on customer usage of the entity's products or services) will be by its very nature based on significant estimates and assumptions and as such may be grossly inaccurate.

Considering the practical limitations of the quality of Scope 3 information, and the potential impact on investors' decision making should such information be material for their purposes, we recommend the Commission consider the extent to which Scope 3 emission information should be required of registrants.

Entity Structuring for Climate Reporting Purposes

We are anecdotally aware of instances where public company entities with a relatively heavy carbon footprint have taken steps to divest of those components of their operations with the heaviest footprint and where technology, cost or other constraints make it difficult to reduce the carbon footprint. Such entities undertook these actions due to the heightened focus on climate reporting and the perception of value placed by investors and others on entities who work to reduce their carbon footprint. However, mere divestiture of such components does not help the environment. It simply shifts the impact outside of the scope of the reporting entity.

While the issue may be eventually alleviated to an extent through Scope 3 upstream (vendor) emission reporting, we recommend that the final regulations require entities to provide transparency about their strategies to reduce the carbon footprint through divestiture of operations and other similar business strategies, and whether such strategies are expected to result in a reduction of carbon footprint on an aggregated "pro forma" basis, i.e. taking into account the future emissions of the divested components.

We would be pleased to respond to any questions the SEC or its staff may have concerning our comments. Please reach out to Corey Saunders ([redacted]) and Aleks Zabreyko ([redacted]) with any questions.

Sincerely,

Connor Group, Inc.