



August 16, 2022

Submitted via comments submission portal at www.sec.gov

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
Attn: File Number S7-10-22
100 F Street NE
Washington, DC 20549-1090

Re: *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices* 87 Fed. Reg. 36654 (June 17, 2022), File Number S7-17-22

Dear Ms. Countryman:

The National Alliance of Forest Owners appreciates the opportunity to submit the following comments on the Securities and Exchange Commission's (SEC) proposed rule regarding *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices* 87 Fed. Reg. 36654 (June 17, 2022), File Number S7-17-22 ("Proposed Rule").

The National Alliance of Forest Owners (NAFO) is a national advocacy organization advancing federal policies that ensure private working forests provide clean air, clean water, wildlife habitat and jobs through sustainable practices and strong markets. NAFO member companies, including investment advisers and investment companies, own and manage more than 46 million acres of private working forests. Private working forests are owned by individuals, families, small and large businesses, and Americans who invest in working forests for retirement. Private working forests are a critical nature-based solution to many of our most pressing environmental challenges.

Our sector recognizes the importance of voluntary disclosures of information to investors and stakeholders. Many NAFO member companies, including investment organizations, are already providing voluntary disclosures to their investors that report environmental, social, and governance (ESG) factors. We support the SEC's recognition that ESG information must be "consistent, comparable, and reliable."¹

Timber Investment Management Organizations

Timberland has long been recognized by institutional investors for its merits as a portfolio diversifier. Timber investment management organizations (TIMOs) are management groups that connect institutional investors to the economic and environmental benefits of working forests. In short, TIMOs manage forests to generate long-term returns, acting as both brokers for institutional clients and caretakers of their investment property. TIMOs can range in size and scale, and can operate as independent companies or within larger organizations.

¹ Proposed Rule, 87 Fed. Reg. at 36655.

Importance of Private Working Forests & Wood Products to Environmental, Social, and Governance Impacts

More than one-third of the United States is covered by forests, and 47% of U.S. forests are private working forests.² These forests are sustainably managed to supply a steady, renewable supply of domestically grown wood for lumber, energy, paper, and packaging, providing more than 5,000 items that consumers use every day. They support 2.5 million well-paying American jobs, mainly in rural communities.³

By providing a continuing cycle of growing, harvesting, and replanting, private working forests provide immense environmental and economic benefits. The unique long-term nature of modern, sustainable forest management is not only appealing for many investors, but it also supports key environmental, economic and societal outcomes related to ESG factors.

Sustainably managed working forests and the forest products they produce are already one of our nation's greatest assets for achieving our climate goals: U.S. forests and forest products neutralize 15% of U.S. industrial carbon emissions every year.⁴

We can break down that large number into more granular terms. Approximately 90% of the timber harvest for domestic wood and fiber used to make forest products in the U.S. comes from private working forests. At the same time, these forests account for 80% of our net forest carbon sequestration, removing more carbon from the atmosphere than is emitted by all passenger vehicles in the U.S. each year.⁵ Private working forests in the U.S. also store an estimated 82 billion metric tons of carbon. That amount is nearly half of the carbon stored in all U.S. forests combined.

In addition to climate mitigation, there are other important ESG related benefits associated with keeping working forests intact and productive. Forests are one of the leading land uses for protecting water resources. Through their natural structures and lifecycles, forests filter and clean our water, and influence where and how precipitation falls and flows into watersheds. Water supplies for communities around the country come from forested watersheds, where forests act as a natural filtration system for nearly 30% of the water we drink⁶. These natural benefits to water resources are why forests are often referred to as “green infrastructure,” essential to our well-being, communities, wildlife, and economy.

Similarly, private working forests also play an important role in supporting common species and conserving at-risk and declining species. These forests are widespread, representing 80% of the forestlands in some areas. Access to forests is vital to wildlife conservation, as 60% of our nation's at-risk species rely on private forestland for survival. NAFO forests provide connectivity among forested areas to allow for species to naturally move through their entire range during

² Oswalt, Sonja N.; Smith, W. Brad; Miles, Patrick D.; Pugh, Scott A., coords. 2019. Forest Resources of the United States, 2017: a technical document supporting the Forest Service 2020 RPA Assessment. Gen. Tech. Rep. WO-97. Washington, DC: U.S. Department of Agriculture, Forest Service, Washington Office. 223 p. <https://doi.org/10.2737/WO-GTR-97> Table 11.

³ Forest2Market. 2019. The Economic Impact of Privately-Owned Forests in the 32 Major Forested States. Available at https://nafoalliance.org/wp-content/uploads/2018/11/Forest2Market_Economic_Impact_of_Privately-Owned_Forests_April2019.pdf#page=9.

⁴ Janowiak, M.; Connelly, W.J.; Dante-Wood, K.; Domke, G.M.; Giardina, C.; Kayler, Z.; Marcinkowski, K.; Ontl, T.; Rodriguez-Franco, C.; Swanston, C.; Woodall, C.W.; Buford, M. 2017. Considering Forest and Grassland Carbon in Land Management. Gen. Tech. Rep. WO-95. Washington, D.C.: United States Department of Agriculture, Forest Service, p.68.

⁵ Oswalt et al.

⁶ <https://www.fs.usda.gov/managing-land/private-land>

each stage of their lifecycle. Working together across ownership boundaries and jurisdictions is key to understanding and sustaining fish and wildlife. That's why NAFO members are partnering with public and private stakeholders, like the U.S. Fish and Wildlife Service (USFWS).⁷ Collaborative conservation efforts such as the National Alliance of Forest Owners' [Wildlife Conservation Initiative](#) can benefit species while keeping private working forests intact and productive.

The unique alignment of environmental and economic interests that result from modern, sustainable forestry delivers societal benefits while supporting many of the goals of ESG-oriented investors. Private working forests support many rural communities where timber is the driver of the local economy with \$288 billion of sales and manufacturing and \$109 billion in payroll. In addition to this rural community support, NAFO members also make more than 39 million acres of forestland available for public recreation, an area larger than the entire state of Georgia.

Many forestry companies, including TIMOs, are third-party certified for sustainable forest management. Sustainable forest management ensures increased use of wood in construction truly achieves climate, carbon, and other positive environmental outcomes. In the U.S., certification includes programs to certify forests to a forest management standard, chain of custody certification programs, and responsible wood fiber sourcing programs provided by the [Sustainable Forestry Initiative](#), the [American Tree Farm System](#), and [Forest Stewardship Council](#). These programs require substantial reporting of many of the same factors that are covered in ESG disclosures.

As a part of their business-as-usual operations, private working forests are already producing many of the ESG-related benefits that other sectors are looking to start or improve. Access to funding through healthy forest product markets and investments will continue to allow private working forests to deliver the environmental, social, and economic benefits many ESG investors are seeking.

Comments

We appreciate the opportunity to comment on the proposed ESG-related rule amendments. Given the importance of private working forests as a driver for environmental and economic benefits, we support the SEC's recognition that lack of clarity within the ESG investment marketplace can pose financial risks and that publicly disclosed information must be accurate, comparable, and understandable by all stakeholders. It is also critical to ensure policy responses to those risks are as simple to implement as possible in order to minimize any further financial risks to investors. We offer the following comments on elements that could reduce undue burdens on investors; help achieve the goal of consistent, comparable and reliable disclosures; and eliminate disincentives for improved ESG impacts.

- 1. Accounting and reporting standards for greenhouse gas emissions continue to evolve. In the case of the forestry sector, the Greenhouse Gas Protocol's (GHG Protocol) Land Sector and Removals guidance and methodology are not yet complete. The SEC should recognize this continued evolution, take a principles-based approach, and provide ongoing flexibility to allow methodologies to mature and develop.**

⁷ Robles, M.D., C.H. Flather, S.M. Stein, M.D. Nelson, and A. Cutko. 2008. The geography of private forests that support at-risk species in the conterminous United States. *Front. Ecol. Environ.* 6:301–307.

The SEC’s proposed rules on enhanced disclosures recognize the Greenhouse Gas Protocol (GHG Protocol) as “the most widely used accounting and reporting standard for greenhouse gas emissions.”⁸ The SEC describes its proposed GHG emissions disclosure requirement as having been based primarily on the GHG Protocol as adopted by the Partnership for Carbon Accounting Financials (PCAF) and the Task Force for Climate-Related Financial Disclosures (TCFD).⁹

While the proposed rule notes, “The GHG Protocol has been updated periodically since its original publication,”¹⁰ the proposed rule does not address new guidance currently under development. The GHG Protocol is currently developing new guidance on accounting for greenhouse gas emissions and carbon removals from land use, land use change, bioenergy, and related topics in companies’ greenhouse gas inventories, called the Land Sector and Removals Guidance.¹¹ The complexity of carbon accounting in the land sector¹² is recognized by the GHG Protocol, which publishes the most widely recognized and comprehensive greenhouse gas accounting protocol in the world.¹³

As entities like the GHG Protocol learn more about emissions and removals data and build out additional sector-specific guidance, it is natural to expect changes or updates to existing frameworks and methodologies. The GHG Protocol recently announced that it would assess the need for additional guidance to build on the existing set of corporate GHG accounting and reporting standards for Scope 1, Scope 2, and Scope 3 emissions.¹⁴ Application of the GHG Protocol’s existing Scope 3 guidance has inherent limitations and uncertainties in the forestry context. Most notably, it does not expressly address how to account for Scope 3 emissions associated with land use change. And while the GHG Protocol’s Land Sector and Removals Guidance is expected to contribute to the current dialogue on how to calculate emissions, particularly (but not exclusively) for Scope 3 emissions in the forestry and forest products sector, significant components of this guidance are in flux and will not be ready until 2023 at the earliest.

The SEC should continue to recognize these developments and future changes to methodologies when considering GHG emissions disclosures by taking a principles-based approach and providing flexibility to allow methodologies to mature and develop.

- 2. The SEC’s final enhanced disclosure rules should recognize that some sectors, like the forestry and forest products sectors, already remove and store carbon. The term used in the rule, “GHG Emissions Metrics Disclosure” is insufficient to characterize these removals. The SEC’s final rule should use a term such as “emissions balance” to acknowledge and provide opportunities to account for the full carbon benefits of sectors like the forestry and forest products sectors.**

⁸ Proposed Rule, 87 Fed. Reg. at 36677.

⁹ Ibid. at 36676.

¹⁰ Ibid. at 36677.

¹¹ New Greenhouse Gas Protocol Land Sector and Removals Guidance, <https://ghgprotocol.org/blog/new-greenhouse-gas-protocol-land-sector-and-removals-guidance>.

¹² Defined by the GHG Protocol as “greenhouse gas emissions and removals from agriculture, forestry, other land use, and land use change.” https://ghgprotocol.org/sites/default/files/standards_supporting/LSR_Overview.pdf. Accessed August 3, 2022.

¹³ <https://ghgprotocol.org/about-us>

¹⁴ GHG Protocol to assess the need for additional guidance building on existing corporate standards, Greenhouse Gas Protocol, <https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards>. Accessed August 3, 2022.

The use of the term “GHG Emissions Metrics Disclosure” is insufficient to capture activities in the forestry and forest products sectors. As noted above, these sectors sequester and store carbon naturally in carbon storage pools like forests, trees, soil, and long-lived wood products. A more complete term should be used such as “emissions balance.”

The GHG Protocol’s upcoming Land Sector and Removals Guidance potentially provides insight into why the term “emissions balance” may be more applicable. The guidance is not yet final but will be in the relatively near future (currently expected in the first half of 2023).¹⁵ The following definitions illustrate the many ways the forestry and forest products sectors remove and store carbon:

- 1) Removals: the transfer of greenhouse gases from the atmosphere to storage within a pool. Removals can be from biogenic or technological sinks and stored in land-base, product or geologic carbon pools.
- 2) Land sector emissions/removals: Accounting and reporting for greenhouse gas emissions and removals from agriculture, forestry, other land use, and land use change.
- 3) Biogenic product carbon pool: Carbon in products or materials derived from living organisms or biological processes but are not fossilized or from fossil sources.¹⁶

These definitions illustrate how using the term “emissions balance” creates a more accurate picture not just for forestry, but for agriculture and any sector or fund that goes emissions negative in the future.

3. The SEC should recognize that some fund disclosures may include reductions for inherently carbon-negative portfolio companies.

Among its member companies, NAFO represents TIMOs, who manage forests for specific financial outcomes in their role as brokers for institutional investors in the forestry sectors. When TIMOs manage the forests, they are managing trees that sequester and store carbon as they grow. This means that many, if not all, TIMOs have a negative annual carbon footprint.¹⁷ Some TIMOs generate carbon offsets for the marketplace from the carbon their forests are sequestering and storing; some do not. But all have forests that are sequestering and storing carbon as part of the normal course of business. The proposed rule notes:

“We believe that disclosing GHG emissions data without giving effect to any purchased *or generated* carbon offsets is appropriate, not only because such a measure would provide investors with important information about the magnitude of climate-related risk posed by a fund portfolio’s financed GHG emissions, but also because the value of offsets may change due to restrictions imposed by regulation or market conditions.” (emphasis added)¹⁸

By proposing that generated carbon offsets be omitted from the Weighted Average Carbon Intensity (WACI) of a fund, the SEC may potentially prevent TIMOs from declaring their actual carbon balance – which would be negative – because the negative carbon balance could be

¹⁵ Land Sector and Removals Guidance, <https://ghgprotocol.org/land-sector-and-removals-guidance>.

¹⁶ Ibid.

¹⁷ See www.forestcarbondataviz.org for a visualization of federal climate data for private working forests, which encompass TIMOs.

¹⁸ Proposed Rule, 87 Fed. Reg. at 36679.

considered “generated offsets” even if they are not sold; the SEC does not indicate one way or the other but should do so for clarity. The SEC should also recognize that forestry outcomes are subject to potentially large fluctuations based on timing of silvicultural treatments and harvest, and that understanding performance and emissions balance over time is important for context. As the SEC decides how to make funds easier to compare, it should ensure that timber investment management funds can disclose their full carbon balance as part of the required reporting. If it does not, the SEC runs the risk of penalizing companies that are carbon negative in their normal course of business. The importance of providing an accurate carbon balance increases as more companies achieve being carbon neutral or carbon negative over time.

4. The SEC’s final enhanced disclosure rule should include safe harbor to protect investment advisers and investment companies from potential liability arising from refinements to accounting practices or changes to the accounting methodologies upon which their GHG emissions disclosures are based.

The GHG Protocol’s Land Sector and Removals guidance and methodologies are not yet complete for the Scope 3 emissions of the forestry and forest products sectors. NAFO asks the SEC to recognize that work is underway in certain sectors to improve methodologies in GHG calculations (see Comment 1, above).

The SEC’s proposed rules recognize the inherent and unique challenges with Scope 3 emissions reporting.¹⁹ To address this, the SEC asks if it should provide a safe harbor GHG emissions data.²⁰ NAFO believes a safe harbor is necessary and recommends that it expressly encompass changes in future statements made based on refinements to the application of existing methodologies, changes to the underlying methodologies themselves, and changes or improvements to data availability over time. Further, the final rules should make clear that there is no obligation to restate prior reports when an investment adviser or investment company has made such refinements or where the relevant methodological standards and data quality and availability have evolved in subsequent years.

Ensuring that these statements are covered by the safe harbor will provide investment advisers and investment companies the needed assurance that changes in disclosures based on changes in methodologies or their application will not be penalized – and that investment advisers and investment companies can avoid the future burden of restating as methodologies evolve. This assurance will incentivize registrants to calculate emissions using the most up-to-date methodologies and provide investors with the most accurate information available.

5. This rule would apply to investment advisers and investment companies of different sizes and reporting capabilities. This rule will also have follow-on effects on companies that are not investment advisers or investment companies. The rule should consider relative burden for small- and mid-size investment advisers and investment companies. It should also consider follow-on impacts for suppliers to

¹⁹ “Because of the limited information regarding Scope 3 emissions currently available, PCAF follows a phased-in approach to Scope 3 reporting, with reporting of Scope 3 emissions only for certain select sectors that provide Scope 3 emissions data. PCAF recognized the difficulties inherent in the comparability, coverage, transparency, and reliability of Scope 3 data of the investments held by a financial institution when attempting to capture the Scope 3 dimension of financed emissions. Therefore, by separating Scope 3 emissions from Scope 1 and 2 emissions and having Scope 3 emissions reported by sector, the PCAF Standard seeks to make Scope 3 emissions reporting more common practice by improving data availability and quality over time.” Proposed Rule, 87 Fed. Reg. at 36678.

²⁰ “Should we provide a safe harbor from liability for fund disclosure of GHG emissions data?” Proposed Rule, 87 Fed. Reg. at 36685.

the portfolio companies as it lays out timelines and should embrace technological tools to ensure that reporting requirements are affordable and reasonable to comply with.

The forestry and forest products sectors include investment advisers and investment companies, publicly traded companies, and a supply chain comprised of organizations of a variety of sizes and sophistication. Some of these are investment advisers or investment companies. Some are suppliers who may be exposed indirectly through Scope 3 disclosure requirements that flow down through commercial relationships. As the SEC considers timelines and disclosure requirements, it should consider making disclosure requirements feasible event for small investment companies and investment advisers. It should also extend timelines in all cases where Scope 3 data may be required to accommodate companies that are not investment advisers. Leveraging economic studies, sector-wide analyses, credible modeling, and other approaches will be an important requirement for successfully ensuring the participation of small and mid-size companies across the supply chain.

Conclusion

Private working forests and forest products are an important climate solution. Many investment advisers, investors, and companies in the forestry and forest products sectors are proactively disclosing ESG-related data. The SEC's final rule should acknowledge and provide opportunities for registrants to account for the full carbon benefits of forests and forest products. We support the SEC's recognition that investors should have access to transparent and comparable data to compare funds that use ESG factors to make investment decisions. Given developing methodologies and guidance in calculating emissions and removals, we suggest a principles-based approach to disclosure and encourage strong safe harbor rules that recognize this evolution. NAFO appreciates the opportunity to comment on the draft rule. Please contact Anne Clawson at [REDACTED] for any follow up questions.

Respectfully,



David P. Tenny
President and CEO
National Alliance of Forest Owners
122 C Street, NW, Suite 630
Washington, DC 20001
[REDACTED]