

June 10, 2021

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

Re: Request for Public Input on Climate Change Disclosures

Dear Ms. Countryman,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to SEC Commissioner and former Acting Chair Allison Herren Lee's request for public input on climate change disclosures. This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$14 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

Executive Summary

We commend the Commission for evaluating its regulation of climate change disclosures. We support efforts to provide material, decision-useful information to investors, and such disclosure may facilitate greater transparency into and accountability over an entity's relationship with climate-related risks, uncertainties, impacts, and opportunities. As preparers of financial information, climate-related matters are not our area of expertise, but we do have extensive experience and skills related to implementing rigorous and controlled processes for purposes of external reporting and compliance with SEC rules and regulations. Therefore, we can provide perspective that is useful in developing and implementing climate-related disclosure requirements that meet the needs of investors without imposing undue burden or unjustified costs on registrants. Below, we include certain considerations related to due process, materiality, and a principles-based rulemaking approach that we believe are important for the Commission to contemplate in its response to demand from investors for climate-related information.

Due Process¹

We commend the effort that has gone into creating existing climate-related frameworks and standards and recognize their key role in helping companies to organize their climate-related reporting. We believe that existing frameworks and standards may serve as a useful starting point as the Commission considers climate-related disclosure requirements. However, to date, preparers of financial information have not substantively engaged in the development of these frameworks and standards. Moreover, many of these frameworks and standards have evolved without the financial reporting considerations inherent in the SEC's due process, which is foundational to creating and updating disclosure requirements that provide decision-useful information to investors in a cost-effective and timely manner. Therefore, regardless of whether the Commission draws on existing frameworks and standards, we believe proper due process will be essential to the successful development and implementation of any climate-related disclosure requirements.

As preparers of financial information, we stand ready to participate in the SEC's due process and provide insight on key considerations for determining the scope and implementation timeline for any new or updated climate-related disclosure requirements. Specifically, we strongly urge the Commission to evaluate the following considerations:

- **Time and costs required to implement additional systems to collect data for compliance with climate-related disclosure requirements:** Building systems to collect and store incremental data needed for any new climate-related disclosures can be expected to require time and resources depending on the nature and extent of the disclosure requirements. For some registrants, the data sources currently used for climate-related reporting are not subject to the same rigor of internal controls as financial reporting data. System modification or redesign and enhanced data validation testing may be necessary in these situations to ensure compliance with the required level of completeness and accuracy. Although some registrants already have processes or systems in place to obtain decision-useful climate information for management and facilitate current climate-related reporting efforts, many registrants perform such efforts manually and have only limited systems for gathering and managing climate-related data. Financial reporting systems have developed over many years and at great cost, and we anticipate that the implementation of systems and data tools to comply with new climate-related disclosure requirements may likewise be achieved across all registrants only after considerable time and costs are incurred.
- **Time and costs required to establish new processes, controls, and governance:** Many registrants will need time to develop, implement, and refine processes, controls, and governance to support the preparation of information included in any SEC-mandated climate disclosures. In many cases, governance over any SEC-mandated climate disclosures would need to be formalized and strengthened, as some operational teams who generate, gather, analyze, and report climate-

¹ Due process is used broadly and includes statutory requirements, such as requirements under the Administrative Procedure Act to publish a general notice of proposed rulemaking, provide the opportunity for interested persons to participate in the rulemaking, etc., as well as other matters of good regulatory practice, such those outlined in [Circular A-4](#).

related information currently operate outside of the financial reporting function, and, as a result, may not have consistently applied the same degree of rigor and controls that is required for financial reporting.

- **Constraints on the timeliness and availability of data, and the impact on financial reporting deadlines:** Current financial reporting timelines were not designed with climate-related reporting efforts in mind. If the Commission requires new climate-related disclosures, registrants will need time to determine the data needed for reporting purposes, assess the availability of that data in relation to reporting timelines, and, if the data is not readily available, develop appropriate estimation techniques. Emissions data, for example, is often obtained from third parties that may not have necessary data readily available. As the Commission considers different rulemaking options, we believe it is important to retain current financial reporting timelines and afford flexibility in climate reporting timelines.

Cost-Benefit Analysis

As part of due process, we strongly urge the Commission to conduct comprehensive outreach on any potential climate-related disclosure requirements to fully inform its cost-benefit analysis. For example, based on our experience, we believe that higher costs will be incurred if additional climate-related disclosures are required to be provided to the SEC in Form 10-K, whereas these costs could be mitigated if such disclosures could be provided outside of Form 10-K and at a time when financial reporting teams are less resource constrained. We welcome the opportunity to expand on the considerations noted above and provide more targeted feedback through field testing, comment letters, and other forms of outreach to foster greater understanding of the costs and benefits of policy alternatives.

Implementation Considerations

Based on the breadth of impacts noted above, we believe that the implementation of any new climate-related disclosure requirements may require a phased approach. Depending on the extent of new requirements, this approach could include a multi-year adoption period, similar to the time allotted for implementing significant new accounting standards.² We ask that the Commission also consider providing liability protection for registrants as they manage potentially significant operational hurdles. For instance, if new climate-related disclosures are required, the Commission may consider providing a mechanism for these disclosures to be furnished rather than filed for purposes of the Exchange Act. We also urge the Commission to provide a liability safe harbor for information that is provided to comply with any new climate-related disclosure requirements.

² For instance, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, was released in May 2014 and took effect for most public companies beginning in 2018. ASU 2016-02, *Leases (Topic 842)*, was released in February 2016 and took effect for most public companies beginning in 2019.

Common Understanding

We believe another important aspect of due process will be establishing clarity and common understanding around definitions for climate-related terminology and metrics used in rulemaking. A common understanding of current financial reporting requirements was developed over many years, and we believe a commensurate level of common understanding of climate-related disclosures is prerequisite to inclusion in SEC documents. As requirements evolve and become broadly understood, stakeholders can also provide more informed feedback on the appropriate level of assurance around climate-related disclosures.

Materiality

We recognize that climate-related information is becoming increasingly important to individual companies and across various stakeholder groups. We believe that voluntary disclosure of climate-related information can be effective in satisfying the needs of many of those stakeholders. However, we believe one of the biggest challenges to providing decision-useful, comparable information to investors is the variety of materiality concepts, such as double, nested, and dynamic materiality,³ that exist currently in climate-related frameworks and standards. As preparers of financial information, we apply the investor-focused concept of materiality defined by U.S. securities law when reporting under U.S. financial accounting standards and SEC requirements.⁴ To provide consistent and comparable disclosures for investors,⁵ we believe this same definition of materiality should apply to any climate-related disclosures proposed by the SEC. With the emergence of various materiality concepts, many of which contemplate a broader audience than investors, we believe there is potential for confusion and therefore request that, for any new climate-related disclosure requirements, the Commission reaffirm the continued applicability of the materiality concept defined by U.S. securities law and described in prior SEC guidance.⁶

Principles-Based Approach

In conjunction with a clearly defined and consistent concept of materiality, we believe a principles-based rulemaking approach would allow the Commission to respond quickly to investor demand for climate-related information and still promote meaningful disclosure. The nature of climate risks, uncertainties, impacts, and opportunities can vary significantly across industries and between registrants, and a principles-based approach allows investors to appreciate such diversity without the need to prescriptively address these differences. Furthermore, the flexibility of principles-based rules allows disclosures to evolve over

³ For example, the European Commission's Non-Financial Reporting Directive has a double materiality perspective that considers both the impact of a matter on a company's value and the external impacts of a company's activities (see the European Commission's [guidelines on reporting climate-related information](#)). The CDP, CDSB, GRI, IIRC, and SASB issued a joint paper, [Reporting on enterprise value](#), which discusses dynamic and nested materiality concepts.

⁴ SEC Staff Accounting Bulletin No. 99 notes that the definition of materiality in Statement of Financial Accounting Concepts No. 2, which is the same definition used today in Chapter 3 of Financial Accounting Concepts No. 8, is in substance identical to the formulation used by the courts in interpreting the federal securities laws.

⁵ Facilitating disclosures that are targeted primarily toward investors is a concept reflected in the SEC's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

⁶ See Staff Accounting Bulletin No. 99

time without direct regulator involvement. For example, registrants often seek to attract investors by differentiating themselves from peers and tailoring disclosures in response to changing investor priorities. By preserving the materiality concept defined by U.S. securities law, principles-based disclosure requirements that include broad guidelines and considerations for registrants to assess when making disclosure decisions also may be preferable to investors because such disclosures highlight how management evaluates and makes resource allocation decisions, helping investors to better predict management's reactions to changes in the environment.

If the Commission decides to require any prescriptive disclosures, we recommend they be required only to the extent they are material, as defined by U.S. securities law. In this way, the Commission can retain some of the benefits of principles-based rules and prevent the promulgation of disclosures that are not decision useful to investors. We acknowledge that certain disclosures may need to be prescriptive by nature, but we believe that an overall principles-based approach can coexist with and complement specific prescriptive requirements.

Conclusion

We commend the Commission for its responsiveness to investors and willingness to engage with stakeholders on this timely issue. We support the Commission's efforts to improve climate-related disclosures with an eye toward facilitating the disclosure of information that is material and decision-useful to investors, and we hope the specific considerations provided in this letter from the preparer perspective are taken into account as part of the Commission's next steps in this endeavor. We stand ready to assist in continued dialogue on this topic.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International