



June 10, 2021

The Honorable Gary Gensler, Chair
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

RE: Request for input on climate change disclosures

Dear Chair Gensler:

We appreciate the opportunity to share our views in response to then Acting Chair Allison Herren Lee's request for input on climate change disclosures. In her March 15 statement, Lee noted that while existing Regulation S-K rules require issuers to make certain climate disclosures, questions arise about whether these disclosures adequately inform investors about known material risks, uncertainties, impacts, and opportunities, and whether greater consistency could be achieved. We are pleased to provide our perspectives, which are informed by our interactions with clients and investors, our experiences as a global business, and our history of engagement and proactive thought leadership on ESG matters.

Investors across the business spectrum are increasingly asking for enhanced climate disclosures. Shareholder proposals related to environmental impact are on the rise in number and level of support. Companies are voluntarily responding and increasingly making climate commitments—net zero, carbon neutral, carbon negative.

Although SEC filings include some required disclosures on climate risk, companies disclose even more climate information in other public forums due to voluntary disclosure initiatives or other regulatory requirements. As a result, the corporate reporting system does not consistently provide investors with objective, relevant, and timely climate information. We believe that further rulemaking is needed to address climate disclosures, which could be subsequently expanded to address the other elements of ESG.

As part of its process, we believe the SEC should coordinate and collaborate with international bodies to build on work done to date and to contribute to a global system. Further, although we believe a universal set of standards should be the goal, we recognize that the SEC needs the flexibility to adopt jurisdictional-specific requirements for the US, consistent with the building blocks approach set out by international organizations. The SEC should also evaluate how to subsequently interpret, maintain, or expand disclosure requirements to keep pace with changes in investor demand.

Although we support the development of minimum disclosures applicable to all registrants, we also recognize that several industries have developed their own guidance on climate or ESG disclosures that they believe are important to their investors. When applicable for specific industries, supplemental disclosures could be in addition to, but not a substitute for foundational disclosures.



To support informed decision making, investors should be provided with an integrated, holistic report including both financial and non-financial information. This view informs our belief that climate disclosures should be included in annual reports (e.g., the Form 10-K). In addition, investors are entitled to the same confidence in climate information as they currently expect from financial disclosures. Hence, any new requirements should be subject to internal control requirements and management certifications. Further, independent third-party assurance—that is made available to the public—would provide investors with additional confidence in the quality of climate information and enhance its credibility; a company’s external auditor possesses the independence, requisite skills, knowledge, and experience to provide that assurance.

We are aware that achieving symmetry in the confidence investors have in financial and climate disclosures will take time. Not every company does or can produce high-quality climate information right now. The effective date of any final rules should be phased and should also consider the time needed to develop and implement related systems, processes, and controls.

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The appendix provides more detailed information. We would be pleased to discuss our comments or answer any specific questions that the Commission or its staff may have. Please contact Wes Bricker at wesley.bricker@pwc.com or Heather Horn at heather.horn@pwc.com regarding our submission.

Sincerely,

A handwritten signature in dark ink that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

cc: The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner



Appendix

1. **How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?**

Information is the basic ingredient for rational decision making and drives investment behavior. Investors, regulators, and stakeholders are demanding information about a company's climate risks and impact. Companies are being asked to not only do more on key sustainability topics, but also to increase transparency about climate risks and opportunities and the related actions they are taking. Increasingly, companies are responding with disclosures on their websites or in speeches, press releases, corporate sustainability reports, proxy statements, or earnings calls. However, currently, the type and extent of disclosure related to climate are largely voluntary and provided outside of the structure of the SEC's rules, even though in some cases it is impacting investment decisions.

The SEC's disclosure mandates are designed, in part, to improve the efficiency of the capital markets through transparent public disclosures. Regulation S-K already includes rules that require companies to disclose certain material climate information (e.g., risk factors, description of business). The SEC staff's focus on compliance with these existing rules can be expected to increase the quality and consistency of disclosures consistent with current rules, but it appears that more rulemaking is needed to meet investor interest in expanded and more consistent disclosures. Such rulemaking could help by providing a set of foundational disclosures using common terminology and requiring the identification of key judgments and assumptions.

One type of climate disclosure that should be considered relates to the increase in the number of companies making public climate-related commitments, such as committing to net zero carbon emissions by a specified future year. Some investors are using these commitments as a basis for investment decisions. A company's progress in relation to its commitments may impact its business, outlook, access to markets, pricing, operating expenditures, capital expenditures, liquidity, and other capital resources. Given the increasing use of this information by investors, we believe rules requiring the disclosure of climate commitments and related progress (e.g., net zero 2030) should be considered. Such disclosure could include:

- the target and summary of milestones,
- a summary of related critical judgments, estimates, and assumptions,
- an update of previously-issued forecasts and milestones and actual results, and
- the impact the company's progress has on its business, outlook, capital expenditures, and resources.

Consistent with the language companies use when disclosing estimated sales, earnings, earnings per share, and other measures, forecasts related to climate should provide for cautionary language about the inherent uncertainties of forecasted data to protect from legal liability when forecasts are prepared on a reasonable basis and issued in good faith.



Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

As noted above, companies currently disclose climate information in various forums. There is relevant information in the financial statements, in other parts of the Form 10-K, in sustainability reports, and made publicly available on corporate websites, in responses to investor surveys, and in other corporate communications. Diversity in the formats and locations adds to the complexity for investors—in finding the information, understanding the disclosures, and comparing them across companies—and may also lead to inconsistent levels of quality and reliability.

We believe there is value in greater integration of financial and non-financial disclosures by including any required climate change disclosures in the Form 10-K. Annual reporting of relevant financial and non-financial information in one filing will facilitate its use in investment decisions.

Because of the increasing demand, investors will want climate information on the same timeline as the financial statements and other financial information included in the Form 10-K. We recognize that there may be situations when data as of the period end date is not available within the applicable reporting timelines. In this circumstance, we believe management should begin with the most recently available information and make its best estimate as of the end of the period, no different than how management makes estimates for use in the financial statements. FASB's Conceptual Framework for Financial Reporting (CON 8) addresses the use of estimates in the financial statements and states that "a representation of [an] estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate." The same model could be applied to climate information.

In addition, certain elements of climate information may already be estimated for use in financial reporting (e.g., emissions liabilities, purchases of renewable energy credits). Inclusion of the climate change information on the same timeline and in the same document as the financial statements will further support the importance of preparing and reporting this information on a consistent basis.

- 2. What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?**

These questions request input on three separate topics: disclosure, valuation, and phasing. We believe questions related to what can be quantified and disclosed and how that information is considered by registrants and investors are more appropriately answered by investors, analysts, and other stakeholders.



Should disclosures be tiered or scaled based on the size and/or type of registrant? If so, how? Should disclosures be phased in over time? If so, how?

We believe that the increased transparency provided by quality climate information is important for the liquidity and efficiency of the capital markets. Stakeholders want information on climate risk from all registrants, whether large or small. Therefore, we do not recommend scaled or more limited disclosures for any class or size of registrant, recognizing that specific disclosures could be excluded if not material for certain registrants.

However, we would support a phased approach to the effective dates for any new requirements, potentially beginning with large accelerated filers. Such an approach would provide investors with new information as soon as reasonably practicable, while allowing smaller companies time to prepare for implementation. In addition, phased effective dates may allow for any post-implementation review of the impact of the final rules to benefit subsequent adoption by other registrants, potentially reducing the cost and burden of implementation on those smaller registrants.

3. What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?

There is a widespread belief that there is a need for more, and more consistent, climate disclosure than what is currently being provided under today's disclosure requirements. In recognition of the growing importance of climate data, certain industries have developed their own disclosure frameworks. These disclosure standards provide a basis for reporting consistency among companies within an industry; however, disclosure standards developed by industry participants and influenced by specific stakeholders may not be the same as those that would be developed by an independent standard setting body.

We believe the SEC should establish foundational disclosure requirements that apply to all entities. Some disclosures will relate to matters that can be reasonably assumed to cut across industries (e.g., greenhouse gas emissions). This is similar in concept to US GAAP standards that are consistent across industries even though they may not be applicable to all companies (e.g., standards on derivatives, inventory, business combinations, or contingencies).

Although we support the development of universal standards, we also recognize that individual industries may have supplemental disclosures that they believe are important. Similar to our view on broader metrics, investors may be challenged to rely on industry-specific information if there is no consistency in the format, location, or quality of disclosure. When applicable for specific industries, supplemental disclosures—which could be developed by the industry and its stakeholders or perhaps preferably as part of the SEC's broader rulemaking process—could be in addition to, but not a substitute for foundational disclosures.

4. What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?

See Question 3 for our perspectives on industry-specific disclosures.



- 5. What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?**

Investors are demanding more high-quality, consistent information in the near term. However, defining their needs, developing a high-quality disclosure framework, and determining the long-term future of climate and broader ESG standard setting in the US will take time.

We believe the SEC should initially focus on foundational rules applicable to all registrants. The existing ESG frameworks provide an important starting point for adoption of initial climate rules. In particular, we believe the recommendations of the Task Force on Climate-related Financial Disclosures, with their focus on disclosing comparable and consistent information about the risks and opportunities presented by climate change, and their core elements related to governance, strategy, risk management, and metrics, may be helpful for the SEC to consider as it develops its foundational requirements. See also Question 9.

- 6. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?**

As discussed in Question 5, in the interest of expediency, the SEC may find it helpful to consider the important work done to date globally around climate to develop a foundational set of minimum required climate disclosures. This would allow the SEC to meet current investor interest in enhanced disclosures while it develops a longer term process for adoption of climate and other ESG disclosures.

We believe any rules adopted in the US should be developed in cooperation and coordination with a global standard setter, such as the International Sustainability Standards Board. This approach supports global consistency while ensuring the US rules are reactive to jurisdictional priorities and reflect an understanding of the unique legal environment in which US companies operate.

See Question 9 for our views on a global standard setter and the potential use of frameworks that meet the SEC's minimum requirements by foreign private issuers.

- 7. What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?**

As discussed in Question 1, we believe new rules are needed. However, we do not believe a new regulation devoted entirely to a specific risk is warranted. Regardless of the location of the new requirements and the resulting disclosures, management needs to have appropriate processes and controls in place to ensure the quality of the information provided. The quality of the disclosures should be the same, regardless of their status as filed or furnished for purposes of liability under the Exchange Act for misstatements or omissions.



8. How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?

Risks and opportunities related to climate can impact a company's business strategy. In its oversight role, the company's board is responsible for ensuring that the company's strategy is appropriate and for overseeing associated material risks. Because of the climate's impact on strategy, risk, and the company's ability to create long-term value, understanding how the board is executing its oversight responsibilities is important to investors. One option would be for the board's internal governance and oversight of climate risk to be included in the proxy statement. Board committee charters can also be amended to address committee oversight responsibilities related to climate.

With regard to disclosing the connection between climate and executive compensation, a registrant's Compensation Discussion and Analysis (CD&A) is required to explain all material elements of the registrant's compensation for its named executive officers, including the objectives of the registrant's compensation programs and what the compensation program is designed to reward. The instructions to Regulation S-K Item 402 indicate that the CD&A should include "the most important factors relevant to analysis of [the registrant's] policies and decisions." As such, we expect that existing registrants would already be disclosing material elements of compensation tied to climate targets.

9. What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

We understand that registrants, investors, and other stakeholders have concerns about the proliferation of available standards for reporting on climate and other ESG-related matters. To meet stakeholder needs, many registrants are currently reporting under multiple frameworks or compiling disclosures by selecting metrics from among various frameworks. In this environment, we think the SEC's efforts to establish minimum guidelines for registrants will be welcomed.

We encourage the SEC (or its designee) to coordinate and collaborate with global standard setters to develop metrics and disclosures that serve the needs of investors. Active participation by the SEC in influencing both the content and timeliness of developing standards—such as those contemplated by the IFRS Foundation and the European Financial Reporting Advisory Group under a directive from the European Commission—will help ensure that they are as comprehensive and suitable for the US capital markets as possible. The SEC should also consider permitting foreign private issuers to use other frameworks that meet its requirements (e.g., similar to the acceptance of IFRS in some circumstances).

Although we believe a universal set of standards should be the goal, we recognize that the SEC needs the flexibility to adopt jurisdiction-specific requirements that reflect the US environment, consistent with the building blocks approach set out by international organizations. As discussed in



Question 6, we believe the SEC could prepare initial rules to meet the immediate investor need for consistent, enhanced information while setting up a local US standard setter, perhaps under the Financial Accounting Foundation. This will provide the US with a mechanism to work with global standard setters while also ensuring its rules recognize the unique challenges and investor expectations for the US capital markets.

10. How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks?

Robust US capital markets rely on quality financial reporting that has been achieved through the collective work of a high-functioning ecosystem of players, including management, auditors, standard setters, and regulators. Confidence in the financial and non-financial information disclosed by registrants is a critical component of efficient capital markets. Independent, third-party assurance enhances the credibility and reliability of climate disclosures.

The starting point for investor confidence in assurance is independence. Guidance from the SEC's Office of the Chief Accountant notes, "Ensuring auditor independence is as important as ensuring that revenues and expenses are properly reported and classified." In addition to independence, those providing assurance should have:

- expertise in evaluating internal systems and processes for collecting, analyzing, and reporting information,
- an effective system of quality control to monitor the consistent application of attestation standards,
- established procedures for how to leverage the input of specialists and a process to assess their qualifications and objectivity,
- staff that is appropriately trained, including having knowledge of business models, risks, and controls, experience in accounting and assurance standards, technology and digital knowledge, and the ability to be objective and exercise due professional care, and
- established standards that define performance and reporting requirements in order to ensure the consistency and comparability of the provided assurance.

Audit firms are valued members of the financial reporting ecosystem and meet these criteria. A company's financial statement auditor already has an understanding of the company's operations, systems, processes, and reports, as well as the roles and responsibilities of company employees. The external auditors' broad understanding of the company will inform the scope and approach to providing assurance over climate change information as well as provide context for the findings.

What relationship should the Commission or other existing bodies have to such tasks?

Regulators also play a key role in the financial reporting ecosystem. The PCAOB has been charged with oversight of auditors "to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports." This in turn, contributes to investor confidence in the financial statements. To provide the same level of credibility for climate change disclosures, those providing assurance on this information should be registered with the PCAOB and comply with its requirements related to inspections and reporting; auditing standards; and, investigations and enforcement.



What assurance framework should the Commission consider requiring or permitting?

Almost all audit reports on financial statements filed with the SEC must be issued by independent accountants registered with the PCAOB, and those audits must be conducted under PCAOB standards. We believe reports on climate change disclosures should be subject to the same requirements. The PCAOB has existing interim attestation standards (e.g., AT 101). The AICPA standards on which the PCAOB attestation standards were based have been recently clarified and enhanced. We recommend the PCAOB update its attestation standards to support high-quality attestation services over climate information.

High-quality information is important to achieving the market liquidity and efficiency transparent climate disclosure is designed to support. Therefore, consistent with the level of assurance provided on the financial statements, ultimately, we believe “reasonable assurance” should be the goal of independent auditor attestation. Lesser assurance would erode confidence at a cost to investors.

Consents

In some instances, Section 7 of the Securities Act requires an SEC registrant to file a written consent from an expert as an exhibit to a Securities Act registration statement. To the extent the SEC requires the involvement of third-party experts and a report on climate information, we encourage the SEC to consider addressing the requirements to file an opinion and related consent in any proposed rules.

11. Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management’s annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

Investors are entitled to the same level of confidence regarding the reliability of climate disclosures as they have come to expect from the financial statements. The SEC and SEC staff have noted that internal controls are “the first line of defense in detecting and preventing material errors or fraud in the financial statements.” Similarly, effective controls are critical to the provision of high-quality climate change information.

This means that companies should develop appropriate controls and processes surrounding these disclosures, similar to existing controls over financial reporting. We also believe the related disclosure controls and procedures should be subject to management’s certification.

12. What are the advantages and disadvantages of a “comply or explain” framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should “comply or explain” apply to all climate change disclosures or just select ones, and why?

We believe the disclosures should be required for all registrants (subject to phasing as discussed in Question 2). We are aware of only limited examples that allow a registrant to omit a required disclosure or to disclose the rationale for why a required disclosure is not provided. However, if a registrant omits a mandated disclosure because it is not applicable or immaterial, we believe there is value to an investor in understanding management’s rationale for that conclusion. As such, we



would support a requirement for management to explicitly state that the information is not material or not applicable.

13. How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?

We believe that climate-related metrics should be accompanied by disclosure and analysis. In our experience, data requires context. Even metrics with broad applicability to any registrant (e.g., greenhouse gas emissions) are impacted by the facts and circumstances of a company's operations.

A sustainability disclosure and analysis should have as its objective a principle similar in nature to that of MD&A with respect to the financial statements. This narrative will provide context for changes over time and how the specific nature of the company's operations may have impacted the metrics. This understanding will inform investors and support their ability to make comparisons between companies.

14. What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?

Although the SEC has some ability to influence the disclosures of private entities, including those issuing securities under exempt offerings, we believe that the SEC should focus on the disclosures required by public companies.

Further, we do not believe that the exempt offering framework needs to be modified to specifically require climate disclosures. Part of the support for reduced reporting requirements for exempt offerings is an acknowledgement of the limited scope of impact these offerings have on the broader capital markets. We believe the existing rules, and bankers, lawyers, and investors involved in exempt offerings, should dictate the scope and sufficiency of the disclosures.

Investment advisers and funds

We also believe the SEC should continue to release information regarding its review of investment advisors and funds offering ESG products and services. The Division of Examinations' April 2021 Risk Alert identified areas for improvement, noting that the variability and imprecision of industry ESG definitions and terms can create confusion among investors. Increased transparency regarding the qualification of investments to be included in certain funds or strategies marketed as "green," and increased confidence in how investment advisors and funds are verifying that companies included in these funds meet the criteria defined by their strategies, would benefit investors in the funds.



- 15. In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?**

We believe the interests of investors and other stakeholders are best served by enhancing and standardizing ESG-related disclosures expediently. Because it may not be feasible to perform the necessary research and outreach to address all elements of ESG rulemaking concurrently while maintaining an aggressive timeline, we agree with the initial focus on climate disclosures.

We recommend that a detailed plan and timeline be developed for adoption of broader metrics around other aspects of ESG, prioritizing those factors that most influence enterprise value.