June 11, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Via E-mail: rule-comments@sec.gov

Re: Climate Change Disclosures

Dear Ms. Countryman:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the Securities and Exchange Commission's request for public input on climate disclosures. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

Property-casualty insurers have been long-time leaders in addressing the impacts of climate change by advocating for stronger mitigation, resilience efforts, and building codes. As insurers of physical risks, insurance companies confront climate change in the normal course of their business. Property-casualty insurers are experts in understanding and measuring climate-related risk and already address it in their enterprise risk management practices. Insurers continue to enhance modeling capabilities, while developing innovative products and incentives for policyholders to mitigate the risks posed by climate change.

APCIA believes there should not be a separate protocol for evaluating and reporting on climate change risks. Climate reporting is far less exact than financial reporting and data quality is not comparable. A prescriptive approach, as implied by the fifteen groups of questions in the SEC's request for public input on climate change disclosure, would be unduly burdensome, while concurrently failing to provide meaningful information for the investing public. If the SEC concludes it should move ahead with creating a new climate-related disclosure requirement, we offer the following comments.

- Insurers are already making extensive climate-related disclosures. Many insurers are required by the states to complete a standard Climate Risk Disclosure Survey (the Survey), as developed by the National Association of Insurance Commissioners (NAIC). The Survey is intended to provide a better understanding of how insurers are considering and addressing climate change and climate risk in their business operations, underwriting, and reserves. Alternatively, insurers may comply with the requirement to complete the

Survey by filing a report utilizing the disclosure recommendations contained in the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD). Over 1,200 insurers complete the NAIC's Survey annually, covering approximately 70 percent of the industry's premium. Company responses to the Survey are public and easily accessible to investors, policyholders, and other stakeholders on the California Department of Insurance's website.[1]

- In general, we believe climate change reporting guidance must be sufficiently adaptable to allow disclosures that appropriately reflect the reporting entity's business model, including property-casualty insurers' business model. A uniform, one-size-fits-all approach across all industries is not advisable.

- It is critical that disclosures be tailored to provide only information that is material, as that term has been defined by the U.S. Supreme Court. Materiality-based disclosure requirements best serve the objectives of protecting investors and maintaining efficient capital markets. Any requirement for reporting climate change information should be based upon the key principle that the cost of producing that information should not exceed the benefit of providing that information. Finally, to be meaningful, any quantitative climate information required to be disclosed should be measurable, using standard definitions to improve comparability of such information.

Below we offer responses to a number of the more specific questions in the Commission's request for information.

Materiality

The SEC's existing guidance for climate-related disclosures and the SEC's current materiality guidance already provide an appropriate framework for disclosing substantive, relevant and reliable information. We believe modifying the materiality threshold would subject insurers and their policyholders to litigation risk for insignificant omissions, while potentially burying material disclosures beneath layers of extraneous information.

We do not believe SEC disclosure requirements should go beyond material information. If the Commission decides further climate-related guidance is needed, the SEC should expand its 2010 interpretative guidance on climate disclosures,[2] which is grounded in the SEC's current guidance on materiality. The SEC should not attempt to expand climate disclosure requirements unless there is a substantial likelihood that a reasonable investor would consider the additional information to be important in deciding how to vote or make an investment decision.

Deviating from materiality-based requirements for climate change disclosures would impose significant new costs for both reporting entities and investors, and run counter to the SEC's mission of protecting investors and maintaining efficient capital markets. Extensive disclosure requirements not rooted in materiality run the inherent risk of obscuring material information by submitting investors to a flood of irrelevant disclosures. Such expansive disclosure requirements

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[1] http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/ClimateSurvey/

[2] Commission Guidance Regarding Disclosure Related to Climate Change, Release No. 33-9106 (Feb. 2, 2010)

would impose new costs on regulators and the investing public, who would need to filter out extraneous disclosures themselves, without a corresponding benefit to investors or markets. Likewise, companies would face unnecessary compliance costs and new securities litigation risks for disclosures that are not useful to investors.

Furthermore, climate change disclosures, especially metrics that are intended to measure the potential impact of climate change risk, should only be contained in areas of periodic filings for which safe harbor statements are permitted. Climate change occurs over a long period of time; accordingly, the effectiveness of related metrics may not become apparent for a significant period of time. Insurers and their policyholders should not be subject to litigation risk due to metrics, the efficacy of which cannot be determined at the time the metrics are disclosed.

To the extent the SEC believes that additional disclosure requirements are advisable, it should avoid prescribing climate change metrics, which are, by nature, industry specific. Each industry should have the flexibility to identify the metrics that are relevant for that industry. Any qualitative disclosure requirements should be principles-based to allow insurers the flexibility of providing information that management has determined is material (since materiality is company specific and may also be different from industry to industry).

Metrics for greenhouse gas emissions are not meaningful for the property-casualty insurance industry due to the industry's inconsequential carbon footprint. Although insurers act as underwriters for, and investors in, firms that may have a larger carbon footprint, the underwriting and investment risks are already reflected in the insurer's value chain. However, the carbon impact of those firms should not be imputed to the insurers but should be assessed at the level of the individual policyholder or investee. Likewise, the SEC should avoid granular reporting requirements because they undermine the concept of materiality.

Harmonization of International Frameworks

In the event the SEC determines to promulgate new climate disclosure rules, APCIA supports drawing on existing frameworks, such as those developed by the TCFD, the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB). The plethora of existing frameworks already leads to competing and conflicting measurements of climate change risk. Creating yet another disclosure standard would further confuse the current reporting environment. Instead, through rulemaking that includes the public notice and comment process, the SEC should focus on creating a structure for harmonizing the array of existing reporting frameworks, rather than establishing its own framework or picking its favorite among competing frameworks.

A harmonized structure should require all of the following:

- **Access** – all discussions among standard-setters should be accessible (either in person or via open electronic format) to allow all stakeholders the ability to hear deliberations.
- **Transparency** – the rules of engagement should be publicly available so that stakeholders know how their views can be provided, and all tentative and final conclusions must be reached by vote of the members of the standard-setting body during public meetings.

- **Due Process** – stakeholders should have the ability to review and comment on tentative decisions; thus, a clearly identified period for comments should be provided, as well as an opportunity for open discussion of the comments.
- **Cost/benefit justification** – conclusions should be subject to a cost/benefit justification analysis that is publicly available.
- **Reasonable effective dates and transition periods** – any final disclosure requirements should be established with a reasonable effective date that allows preparers sufficient time to make internal systems and reporting changes to support the disclosures, along with reasonable transition rules (e.g., effective prospectively, retroactively for comparative purposes, or a modified approach).

Audit or Assurance Standards

For audits of U.S. public companies, PCAOB Auditing Standard 2710, *Other Information in Documents Containing Audited Financial Statements*, provides the requirements and guidance for auditor involvement when other information is included in a document with audited financial statements. The auditor's responsibility with respect to that information does not extend beyond the financial information identified in the auditor's report, i.e., no audit procedures are performed on the information outside of the financial statements. Instead, the auditor is required to read the other information, including ESG information, outside of the audited financial statements and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.

We believe the current audit guidance and approach is appropriate for non-financial information included in a document with audited financial statements and do not believe ESG-related disclosures warrant different treatment than any other non-financial information that may be included in such documents with respect to assurance (i.e., if they are outside the financial statements, they should not be included in audit procedures performed by auditors).

Additionally, given that there is no agreement that any of the existing sustainability reporting frameworks can provide for predictable and reliable results, discussion of new or supplementary audit or assurance standards for climate-related disclosures is inappropriate in the early stages of application. Climate change itself occurs over a long period of time and is not susceptible to verifiability in the short term. Accordingly, to provide some level of consistency and efficacy, audit standards will need to be developed incrementally to coincide with the development of disclosure standards. As a result, it would be difficult to establish targeted, climate-related audit standards at this time. Once disclosure standards and related audit standards have been developed, audit firms will need time to train and prepare staff for such engagements.

We do not believe the Commission can or should develop other measures to ensure the reliability of climate-related disclosures. Currently, a material misstatement or omission is actionable under Section 10b of the Exchange Act and Rule 10b-5, regardless of where the disclosure is located. Companies are aware of these requirements and understand the consequences of not complying. As a result, it is not clear why there should be more measures to ensure reliability of ESG disclosures (as opposed to all other disclosures). To the extent any information, including ESG information, is not material there is no liability to the reporting company and investors are not overburdened with immaterial disclosures.

Any new reporting guidance from the SEC should recognize that management already has a duty to evaluate its system of internal controls. If, during a reporting period, a climate change-related event should create a risk to the internal controls or a material risk to the enterprise, management is already obligated to report that development. Thus, new guidance is not necessary to tell registrants to do that which they are already obligated to do.

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In summary, APCIA believes there should not be a separate protocol for evaluating and reporting on climate change risks. Climate reporting is much less exact than financial reporting and data quality is not yet comparable. A prescriptive approach, as implied by the fifteen groups of questions included in the request for public input, would be unduly burdensome, while concurrently failing to provide meaningful information for the investing public.

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

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