
The American Exploration and Production Council (AXPC) appreciates the opportunity to provide input on climate change disclosure. APXC recognizes the importance of the Securities and Exchange Commission’s (SEC’s) mission of protecting investors, maintaining fair, orderly, and efficient markets, facilitating capital formation, and promoting public trust in the market. We look forward to a thorough and productive dialogue on how this mission applies to the issues of greenhouse gas emissions and climate change.

AXPC is a national trade association representing 25 of the largest independent oil and natural gas exploration and production companies in the United States. AXPC companies are among leaders across the world in the cleanest and safest onshore production of oil and gas, while supporting millions of Americans in high-paying jobs and investing a wealth of resources in our communities. Dedicated to safety, science, and technological advancement, our members strive to deliver affordable, reliable energy to consumers while positively impacting the economy and the communities in which we live and operate. As part of this mission, AXPC members understand the importance of ensuring positive environmental and public-welfare outcomes and responsible stewardship of the nation’s natural resources. The United States is a world leader in oil and natural gas production, achieving that status while at the same time substantially reducing emissions. AXPC members support continued progress on both fronts through innovation and collaboration.

Robust environment, social, and governance (ESG) reporting is important to both companies and stakeholders, and AXPC’s members are committed to engagement and progress on these issues. As a reflection of this commitment, AXPC has established an ESG committee to support member company commitments to sustainability and other relevant issues. Member-driven priorities have led us to take a deep dive into issues around reporting guidance and practices of the oil and natural gas industry from the perspective of exploration and production companies. While a number of reporting frameworks are
available, we found the upstream oil and gas industry has not employed a standardized framework for reporting consistent metrics with consistent definitions and methodologies. To provide investors and the public with transparent and consistent upstream indicators, AXPC’s ESG Committee developed and launched the AXPC ESG Metrics Framework and Template in February 2021. The Metrics and Framework are centered around five key metrics that AXPC members view as valuable for promoting more consistent reporting across its member companies: Greenhouse Gas (GHG) Emissions, Flaring, Spills, Water Use, and Safety. The Framework is intended to supplement, not supplant, any individual company’s efforts, and may be updated periodically as needed. It is available for use on a voluntary basis for reporting this year.

The Framework contains a range of upstream performance metrics; however, it should not be assumed all are material for every reporting entity. As discussed in detail below, while AXPC promotes its framework as a tool for voluntary reporting by upstream companies, we would still urge SEC to ensure that any new climate-related disclosure requirements are designed in line with the traditional principles governing disclosure, and principally with adherence to a standard of materiality.

With regard to GHG emissions specifically, AXPC’s Framework seeks to provide a common methodology for GHG emissions metrics that are clearly defined, using principles derived from the Environmental Protection Agency’s (EPA’s) GHG Reporting Program (GHGRP) principles. Though all reporting frameworks have their limitations, AXPC chose the GHGRP as it currently represents the best and most consistently reported emission inventory available. AXPC metrics include absolute emissions and emissions intensity for both GHG emissions overall and methane emissions in particular. AXPC commends this framework to SEC’s attention as a demonstration of our commitment to voluntary industry efforts in this regard. More information about AXPC’s ESG Metrics Framework and Template is available at https://www.axpc.org/esg/.

Below, we provide two categories of input on AXPC’s behalf in response to SEC’s request. First, we provide general thoughts on how SEC should approach any steps it takes in this area, divided into issues of substance and procedure. Second, we provide targeted responses to some of SEC’s enumerated questions.

**General Comments – Substance**

In evaluating its existing disclosure rules and considering whether and how to revise them, AXPC urges SEC to deliberate and to take a principles-based approach to any action it may take, in keeping with the Commission’s historical approach to substantive disclosure. AXPC believes that climate disclosures can and should be dealt with under the existing principles-based approach to disclosure.

**Materiality**

Materiality is key to SEC’s overall regulatory approach, and central to disclosure. Materiality should govern SEC’s analysis of its existing rules as they apply to climate, and any potential revision of those rules that SEC may undertake in that regard. Under SEC Rule 405, the term “material,” where used as a qualifier to disclosure, “limits the information required to those matters to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to
Similarly, the Financial Accounting Standards Board has observed (and SEC has relied on this observation) that an item is material “if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.” SEC should view materiality with respect to climate in the same manner that it has traditionally done in other areas, and as the concept is generally understood. That is to say, what is material information with respect to climate will be fact-sensitive, dependent on the particular characteristics of a specific economic sector and the individual reporting company, and be guided by the principle that “material” information is that which is important to the reasonable investor in making their investment and voting decisions. Materiality requirements must continue to allow for evolving practices of risk characterization. This is critically important with regard to climate-related disclosures, given the novel and complex nature of the information involved.

**Liability**

Similarly, appropriate liability protections are crucial to any potential climate-related disclosure regime. As in traditional disclosure areas, good-faith efforts on the part of reporting entities and officers should not be subject to liability. This principle ensures that reporting entities and officers will engage with any new reporting requirements in a proactive and constructive manner. Additionally, any information provided should be deemed “furnished” and not “filed,” as sufficient methodologies to the degree required for filing certification do not exist to vet climate data.

**Neutrality**

Any new climate-related disclosure requirements should not be formulated or implemented in a manner that would discriminate against any economic sector or sectors. SEC’s mission is to promote transparency, integrity, and confidence in the securities markets. It should not use disclosure requirements to affirmatively shape the investment landscape in a particular substantive policy direction. This does not mean that standards must in all cases be uniform between sectors. In fact, the unique circumstances of different industries and companies necessarily require that companies have some discretion in what disclosures they make on climate-related matters.

**SEC in-house versus third parties**

AXPC urges SEC to avoid excessive reliance on third-party entities in analyzing these issues. The Commission should build and maintain its own internal capacity and expertise. This will mitigate against any potential conflict of interest. This should be distinguished from the question of whether SEC should leverage existing voluntary disclosure frameworks, including AXPC’s own as described above, when it considers whether and how to establish any new climate-related disclosure requirements. AXPC believes that SEC should proceed in that fashion where appropriate, subject to the caveats expressed in A6

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1 17 CFR § 230.405 (emphasis added). See also 17 CFR § 240.12b-2 (under the Securities Exchange Act of 1934). This is in keeping with the Supreme Court’s teaching that “[t]he question of materiality, it is universally agreed, is an objective one, involving the significance of an omitted or misrepresented fact to a reasonable investor.” *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 445 (1976).

below. Rather, in this general comment AXPC means only to urge SEC not to delegate the ultimate role of imposing—and, in particular, updating—any new requirements to an external body.

**Costs and benefits**

SEC should consider the tradeoff between the benefit to be gained from any potential additional climate-related disclosure requirements on the one hand, and the cost that such requirements would impose on the other. This is a general background principle applicable to all regulation in the absence of specific Congressional direction to the contrary, see generally Michigan v. EPA, 135 S. Ct. 576 U.S. 743, 752-53 (2015). This is further in keeping with the overall principle of materiality discussed above. SEC should also consider whether certain climate-related disclosure requirements could disproportionately impact smaller issuers, including because smaller issuers likely have fewer internal resources available to meet such requirements.

**Clarity and comparability**

In AXPC’s view, it would be unwise for SEC to impose any new climate-related disclosure requirements in the absence of clear guidelines for evaluation and quantification of the underlying information to be disclosed. SEC’s approach to climate disclosures should remain mindful of the overall principle that disclosure should be limited to material information and that materiality may vary based on the unique characteristics of an individual reporting entity. As discussed in more detail below, one way in which SEC could adopt this approach and still be responsive to investor calls for comparability would be to identify certain disclosure templates that would provide presumptively adequate climate disclosures. If SEC does choose an existing third-party framework or frameworks, rather than utilizing a strict principles-based approach, certain industry-specific templates could serve as a guide (e.g., AXPC’s framework). However, SEC should look to those frameworks that have been developed in line with the criteria discussed in A6 below.

**General Comments – Procedure**

**Observance of procedural requirements**

AXPC urges SEC to observe all applicable procedural requirements to the extent that it should promulgate mandatory disclosure requirements beyond those already in existence. This must include full observance of the requirements of the Administrative Procedure Act, 5 U.S.C. § 551 et seq., including but not limited to public notice and adequate opportunity to comment on any proposed requirements. In this regard, while AXPC appreciates this opportunity to provide input, we note respectfully that “request[ing] … public input … from investors, registrants, and other market participants”⁴ through a webpage, without observance of the Paperwork Reduction Act requirements governing information collection, see 44 U.S.C. § 3501, 3507, is at the very least in tension with that Act. AXPC understands that SEC may wish to move quickly and flexibly in soliciting public input, and we recognize that there is an inherent tradeoff between procedure and speed. But procedural requirements have value: they ensure that any potential future disclosure requirements will be appropriate and legitimate in actuality and in public perception. AXPC does not intend this as an objection to the fact that SEC has requested public

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input on these issues at this point, but rather as support for its general comment that any future steps SEC takes must abide by all applicable procedural requirements.

Need for reasonable timelines

Should SEC promulgate any new requirements, it should allow for ample time both for public comment on any proposal, and for implementation and compliance with any new requirements that it may finalize. At the absolute minimum, regulated parties should be afforded a year from finalization before any new requirements take effect, and SEC should consider phasing in any new requirements in stages thereafter, to track the burden and complexity of aspects of such new requirements. Small issuers in particular may be disproportionately burdened by any new requirements; in any given economic sector, the reporting companies may vary widely in size, and smaller companies will likely need more time and flexibility to prepare for and execute accurate, standardized climate-related disclosures.

Avoiding redundancy and overburden

To avoid redundancy, overburden, and potential confusion on the part of both reporting parties and investors, SEC should leverage existing reporting structures and frameworks to the maximum extent possible, including those that have been voluntarily developed by industry and financial companies and organizations, as well as those developed for existing mandatory reporting requirements, such as EPA’s reporting program, discussed in more detail at A2 below.

Specific Responses to Enumerated Questions

[Please note: AXPC labels the following responses to some of SEC’s enumerated questions as “AN” to correspond to the specific question numbered “N” posed by SEC.]

Q1: 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? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

A1: The existing disclosure framework already requires issuers to provide material climate-related information. Therefore, as a general matter, SEC should focus on identifying any material gaps that may exist in the disclosure requirements and procedures already in force that prevent or hinder material climate change disclosures, rather than establishing an entirely new disclosure framework that may be unnecessary or redundant. Furnishing should be allowed in any Regulation FD compliant manner, in order to minimize the burdens on companies in preparing and providing these disclosures.

Q2: 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? 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? 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?

A2: AXPC refers SEC to its general comment above regarding avoiding redundancy. To the extent that the United States government already requires companies to report certain information in a publicly visible way, SEC should not require duplicate reporting, as that would impose an additional burden without providing investors with information to which they would otherwise not have access. However, if SEC requires reporting of scope 1 emissions, or of scope 1 and scope 2 emissions, any SEC disclosure requirement in this regard should be completely in line with EPA’s Greenhouse Gas Reporting Program (“GHGRP”), including the Scope 2 Guidance issued by GHG Protocol and referenced by EPA in this regard. See generally https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance.

EPA is the federal agency with expertise on matters regarding air emissions, including how to monitor and calculate the same. Therefore, SEC should rely on EPA’s expertise in any reporting requirements it promulgates. AXPC urges SEC to engage in all appropriate communications with EPA regarding EPA’s existing reporting program, including specifically as SEC reviews the comments submitted in response to this request for public input, as SEC develops any potential new guidance or proposed regulations in this subject area, and more broadly as SEC continues to work on these issues.

SEC must also be aware of timing issues associated with EPA’s reporting requirements as compared to SEC’s reporting requirements. For example, annual reports for large, accelerated filers are due within 60 days of fiscal year-end, which for many companies is approximately February 28. However, emissions reports submitted under the GHGRP are not due until March 31. Therefore, SEC should only adopt EPA’s reporting requirements to the extent information can be provided at the same time as required under the GHGRP or later, such as in a company’s voluntary annual sustainability report. Similarly, other reporting districts, such as those outside the U.S. may have differing timing constraints or considerations that SEC should take into account. Or, in the alternative, SEC should permit reporting companies to rely on their most recent submissions to EPA, or other similar regulatory authorities, rather than compelling them to develop reports in advance of when they would otherwise be due.

AXPC urges SEC not to include scope 3 emissions reporting in any potential new disclosure requirements. Scope 3 is (at least at this point, and perhaps inherently) highly amorphous and sufficiently expansive that basing any new disclosure regulations on it poses an unacceptable risk of confusion among both reporting entities and the investing public, including the risk of double-counting. At present, scope 3 emissions are estimated using a variety of techniques, including market-based approaches and emission factors. None of these approaches provide issuers with the ability to rigorously audit actual emissions data. As a result, scope 3 emissions data do not at this point rise to a level of reliability where mandatory disclosure would be appropriate. Specifically, there is no clear, reliable standard against which to gather this information. Methodologies for determining scope 3 emissions are still unsettled. For example, even the financial sector has not settled on calculation methodologies (or even a uniform definition) for scope 3 emissions, despite a multi-year pilot led by the United Nations Environment Programme Finance Initiative to improve climate disclosure practices, as well as the
convening of several consortia focused on emissions quantification. In the absence of settled methodological practices, a host of unregulated organizations have vied to establish their own definition of scope 3 emissions, with some even purporting to “grade” companies in this regard. These efforts have a destabilizing force on the value of scope 3 emissions reporting. Until the methodology for such reporting is more fully settled, any requirement to report on scope 3 emissions will be undermined not only by a lack of comparability between reports, but also by a lack of reliability in the data. Therefore, AXPC is strongly opposed to any scope 3 emissions reporting requirement.

AXPC further urges SEC to limit any new disclosure requirements to information connected to facilities that the reporting entity itself owns and operates, rather than facilities in which it may have only an equity or otherwise passive interest. This will provide the investing public with information relevant to facilities over which the reporting company has actual control, establishing a link between investor choices and reporting company behavior that will further SEC’s mission.

Additionally, AXPC notes that investor needs vary and that there are a wide variety of frameworks that have been established to address these needs. SEC should exercise caution before adopting overly prescriptive requirements for the disclosure of climate-related risks, as “one-size-fits-all” requirements will necessarily result in both over- and under-inclusive reporting. Instead, AXPC encourages SEC to allow companies to use any appropriate and commonly adopted framework for their disclosures instead of mandating the use of a designated set of disclosures. SEC could review frameworks and provide a list of those the use of which would create a presumption of adequate disclosure so as to constitute compliance with any requirements adopted by SEC. Additionally, we believe that registrants should provide an explanation of their rationale for selecting a framework for their disclosures or, if applicable, for not using such a framework in their approach. This would allow companies flexibility while also contextualizing disclosures in a manner that is helpful to investors. (For further discussion of this subject, see A12 below, regarding the “comply or explain” approach.)

Q3: 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.)?

A3: Any new disclosure requirements should use NAICS codes, rather than either two- or four-digit SIC codes. The latter are outdated and insufficiently precise.

Q4: 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?

A4: AXPC refers SEC to its general comment regarding neutrality, above. However, the energy sector does need standards tailored to its own characteristics. As noted above in AXPC’s general comment regarding materiality, climate risks vary from sector to sector, and so what information is material for investors in a sector will likewise vary. Indeed, existing voluntary reporting frameworks recognize the need for reporting specific to an industry. We would recommend that SEC take this into account by allowing, but not requiring, companies to meet any new disclosure obligations by reporting in line with
existing disclosure frameworks that have been developed with these industry needs in mind, such as the one developed by AXPC. However, if SEC elects to use an existing third-party framework, any new climate-related disclosure requirements that SEC develops or otherwise imposes on an industry should be developed with input from reporting entities and investors in that specific industry instead of relying on frameworks that did not include input from these key groups.

**Q6:** 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?

**A6:** In this regard, AXPC refers SEC to its general comment above on the subject “SEC in-house versus third parties.” SEC should consider developing a sub-group of its new Climate and ESG Task Force to handle any potential updates to any new climate-related disclosure requirements. Any delegation of an updating role to an outside party would be problematic, as industry parties and other stakeholders under that approach might not have an opportunity to meaningfully participate in the development of changes to disclosure requirements. AXPC further notes that SEC, when designing regulations, should ensure that they are clear, transparent, consistent, comparable, and developed with appropriate industry input. While, in the case of the oil and gas industry, certain existing third-party frameworks, such as the one developed by AXPC, meet these criteria, that is not the case for all existing third-party frameworks. This is another reason why AXPC urges SEC to adopt a principles-based approach instead of establishing specific, technical disclosure requirements or mandating the use of a designated third-party standard. Instead, reporting companies should be allowed (but not required) to use the disclosure framework or frameworks that best meet their particular circumstances after carefully reviewing the frameworks available to them in light of the principles that SEC will have enunciated. As noted above, if SEC is concerned that allowing companies to select their own disclosure framework would reduce comparability, SEC could also review and publish guidance identifying certain frameworks that would be deemed to produce presumptively adequate climate-related disclosures.

**Q7:** 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?

**A7:** As in A1 above, as a general matter, SEC should focus on identifying any material gaps that may exist in the disclosure requirements and procedures already in force that prevent or hinder material climate change disclosures, rather than establishing an entirely new disclosure framework that may be unnecessary or redundant. As discussed above in our general comments on liability, this information should be “furnished,” not “filed,” because of the complexities surrounding the data and the impracticality or impossibility of currently meeting the attestation requirements associated with the information being considered “filed.”

**Q9:** 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?

A9: A global standard for climate-related disclosure would require global standards for reporting emissions and could potentially also require globally uniform regulation of emissions. Such uniform reporting and regulatory standards do not exist. A globally uniform regime in any event might not be flexible enough to take into account different regions’ risks and priorities. If SEC does establish any new reporting requirements standards, AXPC believes they should be sufficiently credible to serve as a generally accepted baseline elsewhere but would urge SEC not to establish standards more onerous than comparable ones existing or contemplated elsewhere, which would risk driving investment away from U.S. companies towards those with lesser standards of financial oversight and less environmentally sound operations.

Q10: 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? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?

A10: AXPC does not believe that making disclosures subject to audit or another form of assurance would be appropriate. While certain models exist to assess non-financial information, these models generally provide less assurance than historic audit models and should not be seen as comparable to those historic models. Moreover, these assurance models are focused primarily on historical sustainability data; they are not designed to properly address forward-looking climate-related disclosures. Additionally, many disclosures that investors typically request regarding climate change relate to company practices, which involve a significant qualitative component. Therefore, audits or other assurance measures would be of minimum benefit while imposing significant further costs on companies. For these reasons, AXPC is opposed to any requirement for audits or other assurance measures for climate-related disclosures.

However, to the extent that SEC establishes any auditing requirements, reporting companies should be allowed to rely on outside auditors to the extent that they are currently able to do so under existing disclosure requirements. AXPC refers SEC to the general comments on materiality, liability, and in-house versus third party, above.

Q11: 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?
A11: We would urge the Commission to not require certification of climate disclosures, as the methodologies currently available for climate data are evolving at a rapid pace and are not yet sufficiently advanced to provide for the rigor necessary for any such certification. However, to the extent SEC adopts any certification requirement, that requirement should at most apply to a company’s CEO. In any event, any certification requirement would require clear and confined standards of materiality and liability, for which see our general comments above.

Q12: 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?

A12: AXPC strongly supports a “comply or explain” framework for any potential new climate disclosure requirements that SEC may wish to establish, to include any underlying requirements of modeling scenarios, pricing methodologies, and the like. This is fully in keeping with the general background principles discussed above. Reporting companies should be permitted to either disclose in keeping with the framework or frameworks that SEC selects, or to explain in reasonable detail why they have not done so and what it is instead that they have done and are doing. This will fulfil SEC’s mission of ensuring that both reporting companies and the investing public have a clear understanding of applicable requirements and material information informing investment risks, while avoiding a “one size fits all” regime that would lack necessary flexibility and fact-sensitivity. An explanation of why a company is not providing the certain information SEC contemplates would allow investors to decide whether they are satisfied with that explanation, and to allocate their investments accordingly.

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AXPC thanks SEC for the opportunity to provide input on climate change disclosure. We look forward to further opportunities to discuss these important issues and look forward to a formal notice-and-comment procedure on any steps you may take towards promulgating any potential new binding obligations. Please do not hesitate to contact us with any questions.

Sincerely,

Anne Bradbury
CEO
American Exploration & Production Council