MEMORANDUM

To: Comment File (S7-10-22) – The Enhancement and Standardization of Climate-Related Disclosures for Investors

From: The Office of the Chair, U.S. Securities and Exchange Commission

Date: August 19, 2022

Re: Meeting with PNC

On August 19, 2022, staff from the Office of the Chair, the Office of the Chief Accountant, and the Division of Economic and Risk Analysis met with PNC about the SEC's proposal for the enhancement and standardization of climate-related disclosures for investors. During the meeting, participants discussed the proposed financial statement provisions.

Attendees:

- Greg Kozich, Senior Vice President and Corporate Controller, PNC
- Kiernan Fallon, Chief Risk Officer, PNC
- Matt Hoyt, Senior Account Manager, PNC

SEC Attendees:

- Paul Munter, Chief Accountant
- Larry Yusuf, Office of the Chief Accountant
- Sarmad Makhdoom, Office of the Chief Accountant
- Giulio Girardi, Division of Economic and Risk Analysis
- Mika Morse, Office of the Chair

SEC Climate Disclosure Proposal

SEC Staff Discussion - August 19, 2022

Regulation S-X

Disclosure Estimate Discussion From Discrete/Significant Weather Events

Credit Loss and Expenses

- Credit losses to our consumer and commercial loan book and losses related to PNC property

Revenue

- Increased credit card spending within certain geographic regions
- Impacts to capital markets and treasury management fees, asset management fees and lost interest income for loans defaulting from a weather event

Balance Sheet

- Increased lending —e.g., draws on home equity lines around impacted region
- Increases to deposits from consumers and corporates depositing insurance checks from claims on property damage
- Increases to borrowings to strengthen PNC's liquidity position due to a severe weather event

Transition-related Activities ("First Order Activities")

- To the extent we effect change to mitigate (or take advantage of) the shift to a lower carbon economy, we can capture these "first order" expenses and potential revenues—for example,
  - Expenditures to reduce our own GHG emissions by implementing solar panels on our property
  - Implementing changes to our business as customer preferences shift—e.g., we increase our levels of sustainable financing

What We Can't Do

- Apportion effects of a significant weather event between that caused by *climate change* and that related to typical or slightly atypical weather
- Disclose forecasted impacts from potential weather events that have not yet occurred
- Attribute the impacts of "second or third order" transition activities to a direct financial impact to PNC —e.g. impact of automobile industry shifting to electric car manufacturing on a commercial borrower
- Capture impacts to the Statement of Cash Flows
- Build a SOX-compliant process that captures financial impacts to *every line item* that breaches a 1 percent threshold within the proposed timeline

Regulation S-K

Scope 3 GHG Emissions – Categories 1-15

- Scope 3 GHG emissions are complex, particularly for a bank which has to look through its lending activities to capture them.
- Many of our customers are nonpublic entities which complicates the process.
- It’s important to note that facts evolve and knowledge grows the longer constituents and others work with complex matters—e.g. the derivatives standard and CECL each took a decade to develop, and with CECL banks know much more today than when CECL was adopted.
- The industry will evolve to a much better place if we are allowed to utilize existing standards (e.g. GHG Protocol and PCAF) and enhance our disclosures over a reasonable amount of time—the SEC can influence along the way

PCAF Framework – Financed Emissions (Category 15)

- PCAF is the best framework we have right now.
- PNC is fully committed to adhering to this framework.
- SEC Proposal requires a disaggregation of emissions by constituent gases but the PCAF calculation is based solely on a carbon dioxide equivalent unit.