



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

June 16, 2022

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

**Release Nos. 33-11042; 34-94478; File No. S7-10-22**

Dear Office of the Secretary:

We appreciate the opportunity to respond to the Commission's proposal, [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#).

The Commission's consideration of climate disclosures is timely. As investors seek more in-depth and better quality information about climate risk, we agree that standard-setting will achieve more consistent and comparable disclosures. We believe the objective of such standard-setting should be to meet the needs of investors in a way that is practical and minimizes the costs to preparers; this view underpins our responses. Further, like other new disclosure requirements in the past, additional interpretive guidance and ongoing collaboration with standard-setters would be beneficial.

Through this lens, we are responding to the proposal based on our deep global experience in the following fields: financial reporting and the audit of financial statements, including internal control over financial reporting; climate strategy and decarbonization; and sustainability (and Environmental, Social and Governance) reporting, including that of greenhouse gas emissions.

We have been providing assurance over sustainability information, including emissions, for about two decades. During this time, we have been actively engaged with organizations in the largely voluntary landscape of sustainability standard-setting, including with the Value Reporting Foundation ahead of its consolidation into the International Sustainability Standards Board. Our global network is organized and coordinated across all of our business, and provides us with a broad perspective on the opportunities and challenges associated with the preparation, reporting and assurance of ESG information. The KPMG global 2022 Impact Plan was published in March 2022, and the US firm's edition was published in April 2022.<sup>1,2</sup>

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<sup>1</sup> [KPMG: Our Impact Plan 2022](#). KPMG, March 2022, <https://home.kpmg/xx/en/home/insights/2022/03/our-impact-plan.html>. Retrieved June 14, 2022.

<sup>2</sup> [2022 KPMG U.S. Impact Plan](#). KPMG, April 2022, <https://www.kpmg.us/about/kpmg-esg-report.html#:~:text=2022%20KPMG%20U.S.%20Impact%20Plan%20At%20KPMG%2C%20ESG>. Retrieved June 14, 2022.



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Our experience and perspective have informed our assessment of the proposal, including the observations and recommendations we make in this letter. This cover letter outlines our key messages, supported by more detailed explanations and examples in the Appendix.

## **Global baseline disclosures**

We support a ‘building blocks approach’ that would allow national and regional jurisdictions to build on a global baseline to set supplemental standards that serve their specific jurisdictional needs. This practical approach would allow the Commission (and others) to support a global baseline without sacrificing the nature or timeliness of its independent actions. It would also reduce the cost and complexity of compliance for companies with a global footprint.

In November 2021, the IFRS<sup>®</sup> Foundation announced the formation of the International Sustainability Standards Board (ISSB<sup>™</sup>) with the vision of creating that global baseline. The IFRS Foundation has had the advantage of being able to build on existing expertise, including that of the Task Force on Climate-related Financial Disclosures (TCFD) and the Value Reporting Foundation. It has considerable institutional support – from the G7, G20, International Organization of Securities Commissions (IOSCO) and the Financial Stability Board – as well as from companies and investors around the world. This gives it the best possible platform from which to move forward.

We note that the Commission is well-placed to play a meaningful role in these global developments through its various positions, including: member of the IFRS Foundation Monitoring Board; co-chair of the Monitoring Group of IOSCO; co-lead of IOSCO’s Technical Expert Group set up to assess technical recommendations of the ISSB; and member of the newly formed ISSB Jurisdictional Working Group to enhance compatibility between global baseline and jurisdictional initiatives.

SEC Chair Gary Gensler and the SEC staff have spoken about the degree of commonality between the Commission’s proposal and the climate proposal of the ISSB.<sup>3,4</sup> At the May 2022 meeting of the ISSB’s Jurisdictional Working Group, the Commission’s representatives acknowledged the compatibility between the proposals, and noted that a key focus is to understand differences between the proposals and the impact on stakeholders.<sup>5</sup> Acting Chief Accountant Paul Munter has

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<sup>3</sup>  [\(Webinar\) Briefing on the SEC Climate Disclosure Rule Proposal, with SEC Chair Gary Gensler](https://www.ceres.org/events/webinar-briefing-sec-climate-disclosure-rule-gary-gensler), Ceres, April 12, 2022, <https://www.ceres.org/events/webinar-briefing-sec-climate-disclosure-rule-gary-gensler>. Retrieved June 14, 2022.

<sup>4</sup> Exposure Draft IFRS S2, [Climate-related Disclosures](https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf). ISSB, March 31, 2022, <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>. Retrieved June 14, 2022.

<sup>5</sup> [Public summary of the International Sustainability Standards Board Jurisdictional Working Group Meeting held on 16 May 2022](https://www.ifrs.org/content/dam/ifrs/meetings/2022/may/jwg/jwg-meeting-summary-may-2022.pdf). IFRS Foundation, May 16, 2022, <https://www.ifrs.org/content/dam/ifrs/meetings/2022/may/jwg/jwg-meeting-summary-may-2022.pdf>. Retrieved June 14, 2022.



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spoken about ‘maximizing interoperability’, which is consistent with the messaging of the G7 Finance Ministers.<sup>6,7</sup>

Consistent with the theme of maximizing interoperability, we agree with the Commission’s proposal to leverage of the work of the TCFD and the Greenhouse Gas Protocol (GHG-P); the ISSB has taken the same approach in its climate proposal. However, we stress that achieving a global baseline that is practical, and minimizes the costs to preparers, requires an alignment of principles, structure and measurement bases that underpin the disclosures – not simply the disclosures themselves. Our response highlights areas where we believe there is opportunity for the Commission’s and the ISSB’s respective proposals to be better aligned on those underpinnings.

### **Standard-setting collaboration**

The Commission’s proposal has implications for the preparation of financial statements, the audit of financial statements, and the attestation of GHG emissions. In each of these areas, we encourage the Commission to actively liaise with other US standard-setters, namely the FASB, the PCAOB and the AICPA.

In respect of the proposed financial statement disclosures, their scope is more expansive than other Commission-mandated disclosures. Interpretative guidance would help achieve the desired level of consistency and comparability, and would benefit from a process that involves ongoing collaboration with the FASB. Given the scale and scope of this proposal, we believe such collaboration would be particularly helpful in meeting the Commission’s objectives.

Although the proposal is industry agnostic, we recognize that regulators in some industries, in particular financial services, are developing climate-related risk frameworks. For example, in keeping with their safety and soundness authorities, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have each released draft principles to guide large banks in identifying and managing climate-related risks. Consistent with the Administration’s government-wide strategy, these efforts are evolving in parallel to those of the Commission as well as those of international standards-setters (e.g. the Financial Stability Board) in which federal regulators are actively participating. We recommend the Commission and other federal regulators maintain ongoing dialogue to help enable a coordinated and transparent approach.

We also recommend interaction with the International Auditing and Assurance Standards Board (IAASB), and with other regulators globally. Similar to sustainability disclosures themselves,

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<sup>6</sup> Remarks by Paul Munter, SEC Acting Chief Accountant. AICPA & CIMA Conference, Current Developments in Sustainability Standard-Setting and SEC Rulemaking, May 19, 2022.

<sup>7</sup> [G7 Finance Ministers and Central Bank Governors’ Petersberg Communiqué](https://www.bundesfinanzministerium.de/Content/DE/Downloads/Internationales-Finanzmarkt/G7/g7-meeting-bonn-koenigswinter-communique-en.pdf?__blob=publicationFile&v=11). G7 Germany 2022, May 20, 2022, [https://www.bundesfinanzministerium.de/Content/DE/Downloads/Internationales-Finanzmarkt/G7/g7-meeting-bonn-koenigswinter-communique-en.pdf?\\_\\_blob=publicationFile&v=11](https://www.bundesfinanzministerium.de/Content/DE/Downloads/Internationales-Finanzmarkt/G7/g7-meeting-bonn-koenigswinter-communique-en.pdf?__blob=publicationFile&v=11). Retrieved June 14, 2022.



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preparers and practitioners would benefit from collaboration and maximum interoperability at this level of standard-setting.

## Financial statement disclosures

We understand the Commission's desire to bridge the current information gap between the perceived needs of certain investors versus the reality of applying current accounting and auditing standards. Below we raise some of our main observations, with further explanations in the [Appendix](#).

We recognize the importance of companies disclosing the actions they are taking to deliver on their climate ambitions and the effects of climate risk in general, and acknowledge that one way to achieve this is to identify specific line items in the financial statements that are affected.

However, if disclosure is triggered by 1% of *any* line item in the financial statements (including absolute values of immaterial amounts), the proposed approach means that an event, condition or activity that is otherwise clearly not material could trigger disclosure. At the same time, other events that are arguably more important to the company's operations might not exceed the 1% threshold and therefore would not be disclosed. It is not clear to us that this type of disclosure is what investors are seeking, and it would likely be costly and difficult to implement.

While the disclosure threshold is not described as a materiality threshold, we believe the effect could be the same in terms of its application. We recommend that the final rule be framed in the context of existing materiality guidance; however, to overcome the investor-preparer information gap, the Commission could consider an alternative (top-down) approach to better connect identified material risks to their manifestation in the financial statements; we explain this approach in the [Appendix](#).

Regardless of what the disclosure threshold may be, the following are two examples of the interpretive issues we believe would need to be addressed; we include further examples in the [Appendix](#).

- If a number of factors drive an activity (e.g. the purchase of a new plant that is energy-efficient), at what point would that activity fall into the transition risk category and trigger disclosures?
- Although direct impacts can be easily measured (e.g. the amount spent), how would indirect effects be measured and how far would that analysis extend? For example, a vehicle fleet is upgraded to electric and at the same time wholesale changes in fleet management and logistics are implemented because of the range of the vehicles relative to customer locations. In this example, would fuel efficiency of the new fleet be measured against (hypothetical) benchmarks? And to what extent would the consequential effects of the changes in fleet management and logistics be included, and how would they be measured?

As noted above, we believe a process would need to be in place to provide ongoing interpretive guidance, and we recommend active collaboration with the FASB.



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## GHG emissions

We agree with the Commission's leverage of the work of the GHG-P, which is the leading source of guidance on the measurement and reporting of emissions. We also understand the Commission's reasoning that it should allow flexibility in measurement methodologies and not simply wholesale import the standards and guidance of the GHG-P, which is not currently subject to regular updates and maintenance.

To that end, we think the recent announcement by the GHG-P that it is embarking on a project to assess and update its guidance is a positive step.<sup>8</sup> Consistent with our previous comments on collaboration, we recommend that the Commission actively engage with the GHG-P's project. In the meantime, we support continued use of the GHG-P while it is being updated or until such time as an alternative complete emissions accounting model emerges. Below we raise some of our main observations, with further explanations in the [Appendix](#).

The proposal would require the company's organizational boundaries to be consistent with that of the financial statements, and based on similar accounting principles. We understand this idea conceptually, but believe the practical implications should be further considered – in collaboration with the GHG-P and others – before companies are required to change their basis of accounting for GHG emissions. We provide examples of our concerns in the [Appendix](#).

We note that the ISSB's climate proposal allows a policy choice consistent with the GHG-P, and we recommend that the Commission take the same approach. That would allow time for further consideration of a method that best aligns with the financial statements.

The GHG-P includes other valuable guidance that has not been carried through to the proposal, which we believe should be included in the final rule. In particular, we support the GHG-P requirement that base year emissions (and following periods) be retroactively recalculated when overall there is a significant effect from the following: (1) a structural change (e.g. an acquisition or disposal), (2) a change in methodology or improvement in the accuracy of emissions factors or activity data, and/or (3) errors.

We support the attestation of Scopes 1 and 2 emissions because it enhances the reliability of the disclosures for the benefit of investors, and for this reason we agree that reasonable assurance should be the ultimate goal. The utility of an attest engagement is increased by a consistent understanding of limited and reasonable assurance, and we note that the PCAOB, AICPA and IAASB have existing processes to develop and publish additional clarifying application guidance to support consistent execution by attestation service providers.

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<sup>8</sup> Press release, [GHG Protocol to assess the need for additional guidance building on existing corporate standards](https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards). Greenhouse Gas Protocol, March 31, 2022, <https://ghgprotocol.org/blog/ghg-protocol-assess-need-additional-guidance-building-existing-corporate-standards>. Retrieved June 14, 2022.



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In addition to encouraging the Commission to collaborate with the PCAOB on audit and attest matters, we encourage the Commission to actively dialogue with the AICPA relative to application guidance on attestation standards, including interpretation of the proposed rule and information that companies voluntarily file or furnish. As noted above, we also recommend interaction with the IAASB, and with other regulators globally.

### **Other disclosures**

Although we have some observations in the [Appendix](#), we are broadly supportive of the remaining proposed disclosures, which we note are substantially aligned with the recommendations of the TCFD.

### **Transition**

The proposal represents a new phase in corporate reporting for most companies and it will take time to both develop and implement processes and controls over all of the proposed disclosure requirements. Similar to the implementation of a significant new accounting standard, we believe the period to adoption should be commensurate with the size of the undertaking. There are a number of approaches to transition that could be explored, but ultimately we encourage the Commission to thoroughly consider responses from registrants regarding the time they need to prepare for the final rule.

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Our more detailed responses are included in the Appendix.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Scott Flynn at [REDACTED] or Maura Hodge at [REDACTED]

Very truly yours,

*KPMG LLP*

KPMG LLP

cc:  
Chair Gary Gensler  
Commissioner Caroline A. Crenshaw  
Commissioner Allison Herren Lee  
Commissioner Hester M. Peirce



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## Appendix

This Appendix contains our more detailed responses to the proposal. It is organized by theme and cross-referenced to the specific questions asked by the Commission. We have answered those questions where we believe we have the relevant experience and perspective.

We use the following abbreviations in this Appendix:

- DCP: disclosure controls and procedures
- EFRAG: European Financial Reporting Advisory Group
- FASB: Financial Accounting Standards Board
- GAAP: generally accepted accounting principles, which would be US GAAP for domestic registrants
- GHG: greenhouse gas
- GHG-P: Greenhouse Gas Protocol
- IAASB: International Auditing and Assurance Standards Board
- ICFR: internal control over financial reporting
- ISSB: International Sustainability Standards Board
- SASB: Sustainability Accounting Standards Board [Standards]
- SRC: Smaller reporting company
- TCFD: Task Force on Climate-related Financial Disclosures

We have also compared the Commission's proposal to the approach taken by the ISSB in its exposure drafts issued on March 31, 2022.<sup>9</sup> This aligns with the support for global baseline disclosures outlined in our cover letter to this response, and the need to maximize interoperability between standards.

### 1. Climate-related definitions

*Corresponding questions: 9, 10, 17, 18, 63, 71*

The climate-related definitions (or descriptions) relevant to application of the proposal can be found in two places.

- Formal definitions in proposed §229.1500, which also apply to the financial statement disclosures by virtue of proposed §210.14-01(b).
- Within proposed §210.14-02 as part of the description of the climate-related metrics that would be disclosed.

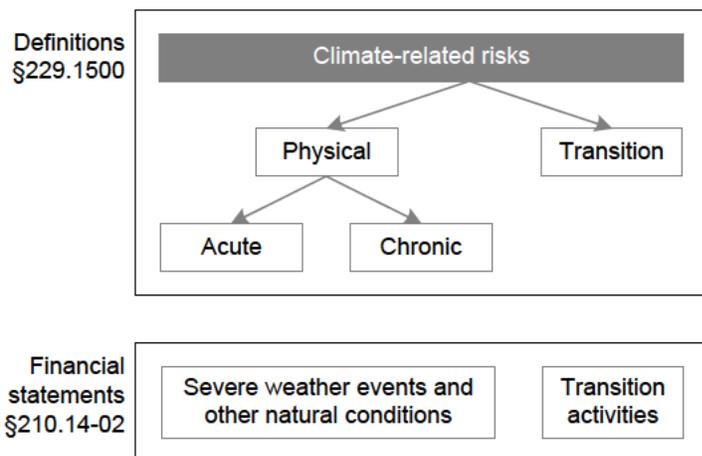
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<sup>9</sup> Exposure Drafts IFRS S1, [General Requirements for Disclosure of Sustainability-related Financial Information](#), and IFRS S2, [Climate-related Disclosures](#). ISSB, March 31, 2022, <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>. Retrieved June 14, 2022.



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The following diagram highlights this interplay in the context of risks, with opportunities similarly structured.



We agree with the definitions in proposed §229.1500 related to climate-related risks and opportunities, which are substantially aligned with both the TCFD and ISSB’s proposals. However, we are unclear as to the intent behind the change in terminology used for the financial statement disclosures in proposed §210.14-02 parts (c) (financial impacts), (e) (mitigation expenditure) and (g) (estimates and assumptions).

The proposal (commentary section F) implies that the physical risks captured in these proposed disclosures are a subset of the physical risks that would be captured in the Regulation S-K disclosures: “We are proposing to require disclosure of the impacts from severe weather events and other natural conditions and transition activities, which should capture a broad spectrum of these two types of climate-related risks (physical risks and transition risks).”

We recommend that the Commission use the definitions in proposed §229.1500 throughout the final rule, which would help achieve connectivity throughout the annual report. It would also allow registrants to use the guidance developed under other recognized frameworks (e.g. TCFD) and standards (e.g. SASB Standards) in interpreting what are climate-related risks and opportunities. This approach underpins our recommended top-down approach to the disclosures (see [section 2.1.2](#)).

Further, aligning the definitions would reduce the number of separate interpretive questions about what constitutes a severe weather event or other natural condition. For example, how does a registrant determine what constitutes a ‘severe’ weather event? The National Weather Service has a Winter Storm Severity Index that rates storms from 1 to 6; one registrant might consider anything rated 4 (moderate impacts) and above to be severe, while another might consider anything rated 6 (extreme impacts) to be severe. A third registrant might base its interpretation on what it considers to be ‘normal’ or baseline weather conditions; using a different example, a human-caused forest fire in an area prone to annual forest fires might not be considered ‘severe’ or ‘natural’.



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## 2. Financial statement disclosures

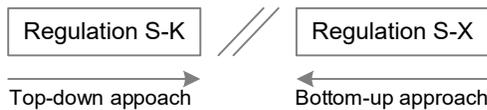
### 2.1 Overall approach

*Corresponding questions: 25, 61, 64, 65, 66, 67, 68, 77, 83*

We understand the Commission's desire to bridge the current information gap between the perceived needs of certain investors versus the reality of applying current accounting and auditing standards. However, we believe the proposed disclosures raise significant interpretative issues.

We also understand that by proposing a bright-line disclosure threshold in §210.14-02(b), the Commission is seeking to reduce the risk of underreporting climate impacts on the financial statements. As explained below, we think the Commission could explore a more deliberately connected approach that follows identified material risks through to their manifestation in the financial statements while still achieving its overall objective.

#### 2.1.1 Commission's proposed hybrid approach



The proposal includes the following disclosures outside of the financial statements (a top-down approach):

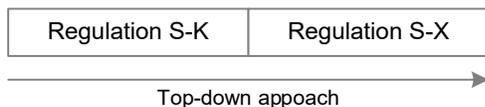
- description of material climate-related risks; [§229.1502(a)]
- classification of these risks between physical (acute or chronic) and transition; [§229.1502(a)(1)]
- time horizon(s) over which the risk will manifest; [§229.1502(a)(2)]
- concentrations of risk; [§229.1502(a)(1)(i)]
- description of the actual and potential impacts of climate-related risks on the registrant's strategy, business model and outlook; and [§229.1502(b)]
- discussion of how these material risks are expected to manifest in the financial statements. [§229.1502(d)]

These disclosures are supplemented with the financial statement metrics in proposed §210.14-02 (a bottom-up approach); our comments on the specific disclosures being proposed are in [section 2.3](#) and [section 2.4](#). The two sets of disclosures (outside versus inside the financial statements) are independent and therefore will not necessarily reconcile (connect). Providing that connectivity appears to be the role of proposed §210.14-02(i), which would require disclosure in the financial statements of the impact of any climate-related risks identified under §229.1502(a) on any of the financial statement metrics disclosed.



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## 2.1.2 Potential top-down approach



Instead of the current hybrid approach, we encourage the Commission to consider a fully top-down approach, which we believe could (1) provide better connectivity between the front part of the annual report and the financial statements, and (2) overcome some of the disadvantages of the 1% disclosure threshold (see [section 2.2](#)) and interpretive issues related to the required metrics (see [section 2.3](#) and [section 2.4](#)). The following is an example of how a top-down approach could work.

Proposed §229.1502(a)(2) would require a registrant to describe how it defines short-, medium-, and long-term time horizons. For the short-term risks identified in proposed §229.1502(a), the Commission could require the financial statement impacts to be disclosed at a specified threshold – thereby creating a direct link between the risk and the impact. That disclosure could be supplemented by requiring disclosure of any other impacts on the financial statements without prescribing a disclosure threshold – i.e. applying the existing concept of materiality (see [section 2.2](#)).

For example, a water utility might identify certain types of flooding as a risk, and the actual and potential effects might include supply interruptions and unplanned outages in the short term, and investment in flood resilience in the medium term. Under a top-down approach, the registrant might then disclose the following in the financial statements (not exhaustive):

- Related to the short-term risk: [disclosure at the level of a specified threshold]
  - \$XX recognized in cost of services.
  - \$XX recognized in selling, general and administrative expenses.
  - Supporting contextual information explaining the amounts disclosed – e.g. increased labor costs caused by overtime related to supply disruption, as well as additional repairs and maintenance expenditure, and penalties incurred related to performance against service-level agreements.
- Other impacts: [disclosure based on existing financial statement materiality]
  - Identifying a disclosed business combination as being related to the acquisition of a company specializing in flood risk mitigation, with a cross-reference to the relevant disclosures provided under ASC 805, *Business Combinations*.
  - Change in the useful lives of certain plant and equipment ahead of planned replacement as part of the investment in flood resilience, with a cross-reference to the relevant disclosures provided under ASC 250, *Accounting Changes and Error Corrections*, and ASC 360, *Property, Plant, and Equipment*.



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The impacts disclosed under this top-down approach would be based on amounts recorded in the financial statements – i.e. hypothetical disclosures such as lost revenue and assumed cost savings would not be required (see [section 2.3.3](#)).

In addition, depending on the nature of the disclosure, we do not believe it would always be necessary to disclose a single amount; a range may be appropriate (see [section 2.3.4](#)).

## **2.2 1% disclosure threshold**

*Corresponding questions: 65, 66, 67, 68, 77, 83, 91*

As explained in [section 2.1](#), we recommend the Commission consider a fully top-down approach to the financial statement disclosures. We recognize the importance of registrants disclosing the actions they are taking to deliver on their climate ambitions and the effects of climate risk in general, and acknowledge that one way to achieve this is to identify specific line items in the financial statements that are affected. However, here we outline what we see as the disadvantages to the proposed 1% disclosure threshold.

Line items in the financial statements vary in amount. If disclosure is triggered by 1% of *any* line item (including absolute values of immaterial amounts), the proposed approach means that an event, condition or activity that is otherwise clearly not material could trigger disclosure (including contextual disclosure) because it is 1% of a smaller line item. At the same time, other events that are arguably more important to the registrant's operations might not exceed the 1% threshold and therefore would not be disclosed. It is not clear to us that this type of disclosure is what investors are seeking, and it would likely be costly and difficult to implement.

While the disclosure threshold is not described as a materiality threshold, we believe the effect could be the same in terms of its application. Materiality is a concept that is well understood and consistently used in applying the accounting and auditing standards. Layering on top a bright-line threshold that applies to every line item would not change the concept of materiality in reference to a 'reasonable investor', which is applied by the auditor to the financial statements as a whole under AS 2105, *Consideration of Materiality in Planning and Performing an Audit*. In considering materiality and applying PCAOB Staff Practice Audit Alert No. 9, *Assessing and Responding to Risk in the Current Economic Environment*, items that warrant special attention at a lower level of materiality might include line items that are particularly important to a regulatory requirement.

As such, because of the pervasive nature of the proposal to the financial statements, additional guidance on applying AS 2105 may be required. Therefore, if the current disclosure approach is maintained, we recommend the Commission liaise with the PCAOB staff about possible guidance on auditing the completeness and accuracy of climate factors impacting the financial statements, including the interaction with materiality.

We recommend that the final rule be framed in the context of existing materiality guidance, which is driven by Supreme Court precedent and the additional interpretive guidance issued by the SEC staff



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in SAB Topic 1M, *Materiality*. However, to overcome the investor-preparer information gap, the Commission could consider an alternative (top-down) approach that connects identified material risks to their manifestation in the financial statements (see [section 2.1.2](#)).

## **2.3 Financial impact metrics**

*Corresponding questions: 59, 60, 64, 70, 71*

In addition to the population of events, conditions and activities (see [section 1](#)) that would trigger the need for disclosure in the financial statements, we believe there are significant interpretive issues related to the proposed disclosures, related to both completeness and accuracy. Below we outline our suggested resolution of these issues, but in general we recommend that the Commission liaise with the FASB in working toward a final rule.

### **2.3.1 Isolating climate risks**

*Corresponding questions: 9, 60, 79*

As acknowledged by the Commission, in some cases climate risk will only be one of multiple drivers behind a physical event or condition, or a transition activity. In that case, however, if a number of factors drive an activity (e.g. the purchase of a new plant that is energy-efficient), at what point would that activity fall into the transition risk category and trigger the need for disclosure?

In such cases, we do not believe that attributing all of the financial statement impact or expenditure to climate risk – or requiring development of an entity-specific allocation methodology – would result in decision-useful information. Instead, we recommend attribution only when climate risk is a significant contributing factor, and otherwise requiring contextual information to explain the impact. While we acknowledge that this determination would require judgment, it would help avoid accusations of greenwashing that might occur through attributing (substantially) all events, conditions and activities to climate risk.

This approach is accommodated in our recommended top-down approach to the disclosures (see [section 2.1.2](#)), which would follow the risk through to its impact on the financial statements rather than requiring a separate (bottom-up) analysis.

### **2.3.2 Physical vs transition risks**

*Corresponding question: 9*

The disclosures in proposed §210.14-02 parts (c)-(d) (financial impacts), (e)-(f) (mitigation expenditure) and (g)-(h) (estimates and assumptions) require separation between physical and transition risks. However, this separation may not always be feasible other than on an arbitrary basis, and it is not clear to us that it would always be desirable. For example, a facility is destroyed in a storm and the registrant decides to rebuild with both additional storm-protection features and



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LEED-certification. What portion of the related expenditure is mitigating exposure to physical versus transition risks?

We recommend that the final rule allow for a hybrid categorization, with the distinction being explained in the contextual information.

### 2.3.3 Basis of calculation

*Corresponding questions: 53, 58 64*

Proposed §210.14-01(c) generally would require the financial statement metrics to be based on the same accounting principles as those used in the preparation of the financial statements. We agree with this approach, and note that it is consistent with the Commission's intent (as outlined in commentary section E) to require disclosure of "disaggregated climate-related impacts on existing financial statement line items."

However, the disclosures as proposed appear to go beyond this intent, as do some of the examples included in the proposal. Proposed §210.14-02(c)(1) would require disclosure of the impact of severe weather events and other natural conditions as it relates to "changes to revenues or costs from disruptions to business operations or supply chains." Further, proposed §210.14-02(d)(1) would require disclosure of the impact of a registrant's transition efforts as it relates to "changes to revenue or cost due to new emissions pricing or regulations resulting in the loss of a sales contract." These examples could be interpreted to mean registrants are being asked to determine 'what might have been' in an MD&A-like disclosure, which would not be consistent with GAAP.

For example, a registrant purchases a fleet of new, electric vehicles that we assume falls entirely into the category of transition risk (see [section 1](#)). In addition to disclosing the cost of the vehicles under proposed §210.14-02(f), the potential financial impacts disclosed under proposed §210.14-02(d) could include the following (not exhaustive): savings in fuel costs, a change in insurance premiums, a change in repairs and maintenance costs, and a different depreciation method. And if the change is done in conjunction with wholesale changes in fleet management and logistics because of the range of the new vehicles relative to customer locations, there would likely be further cost and efficiency implications. Measuring these financial impacts would require hypothetical assumptions based on the registrant's own historical position or third-party data. And to what extent would the consequential effects be included?

We recommend that the final rule clarify that the required disclosures are indeed a disaggregation of amounts already recognized in the financial statements. Further, we think it would be helpful for the Commission to consider incorporating specific examples into §210.14-02 – e.g. how a chronic risk of drought in the supply chain might impact the financial statements over time.



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### **2.3.4 Estimation uncertainty**

*Corresponding question: 53*

The proposal assumes that the financial impact due to climate-related risk can always be reduced to a single amount. However, there would be certain financial statement impacts where management would need to make estimates, and where disclosure of a range and/or contextual information would make more sense from a cost-benefit perspective than a point estimate.

We recommend that the final rule allow for the disclosure of either a single amount or range, with appropriate contextual information. This approach would align with the ISSB's proposal (albeit outside of the financial statements). If the Commission proceeds with a single amount, registrants would require interpretive guidance on how that amount should be determined (e.g. best estimate, lowest point in a range).

### **2.3.5 Risks vs opportunities**

*Corresponding questions: 18, 62, 65, 85*

In some cases, a climate-related opportunity may arise directly from the mitigation of a climate-related risk. For example, a registrant puts in place a structured program to replace its infrastructure assets with low-carbon alternatives over the next five years. As a direct result of the registrant's environmental strategy and risk management, it is able to raise funding through green finance initiatives that reduce its cost of funding.

If the Commission accepts our recommended top-down approach to the disclosures (see [section 2.1.2](#)), we believe that opportunities with a direct connection to a related risk could be disclosed without triggering the need to disclose all opportunities. Such disclosure may provide a more balanced view of a registrant's response to risks.

## **2.4 Expenditure metrics**

*Corresponding questions: 72, 73, 74, 75, 76, 78, 79*

Beyond the general practical application challenges noted in [section 2.3](#), we agree with the Commission's point in Question 73 that there is significant overlap between the financial statement and expenditure impact disclosures. The expenditure metrics in proposed §210.14-02(e)-(f) appear to function as a catch-all in case a valuable disclosure was not captured in the threshold for financial impact disclosures.

We believe this additional disclosure is unnecessary because the financial impacts would cover the statement of cash flows – e.g. if a capitalized cost is more than 1% of the relevant line item in the statement of cash flows, it would be disclosed as part of the financial statement metrics. In addition, this disclosure would not be necessary under our recommended top-down approach (see [section 2.1.2](#)).



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## **2.5 Financial estimates and assumptions**

*Corresponding questions: 81, 82, 83, 84*

We agree with the Commission that disclosure of the impact of climate-related risks on estimates and assumptions would be an appropriate way to inform investors about the impact of climate on the financial statements. However, our caution related to isolating climate risks (see [section 2.3.1](#)) is also relevant for this disclosure.

Our understanding of the proposal is that the thresholds in proposed §210.14-02(b) do not apply to the disclosures in proposed §210.14-02(g)-(h) – i.e. that disclosure would be required only if material to the financial statements. However, the wording of Questions 81 to 84 seems to imply that the Commission intended to propose more granular disclosure (i.e. *any* impact). We believe that disclosure only when material to the financial statements is appropriate. Further, we do not believe it is necessary to require quantitative disclosures because proposed §210.14-02(g)-(h) are already supplementary to the disclosure of financial statement impacts.

## **3. GHG emissions**

### **3.1 Leveraging the work of the GHG Protocol**

*Corresponding question: 115*

We agree with the Commission's leverage of the work of the GHG-P, which is the leading source of guidance on the measurement and reporting of GHG emissions. In particular, we agree with the definitions of Scopes 1, 2 and 3 emissions in proposed §210.14-01. We also understand the Commission's reasoning that it should allow flexibility in measurement methodologies and not simply wholesale import the standards and guidance of the GHG-P, which is not currently subject to regular updates and maintenance.

To that end, we think the recent announcement by the GHG-P that it is embarking on a project to assess and update its guidance is a positive step.<sup>10</sup> Consistent with our previous comments on collaboration, we recommend that the Commission actively engage with the GHG-P's project. In the meantime, we do have concerns about aspects of the approach proposed by the Commission – see [section 3.2](#) to [section 3.8](#)) – and we support continued use of the GHG-P while it is being updated or until such time as an alternative complete emissions accounting model emerges.

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<sup>10</sup> See [footnote 8](#)



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### **3.2 Organizational boundaries**

*Corresponding questions: 116, 118, 119, 121*

In principle, we agree with proposed §229.1504(e)(2) that the organizational boundaries and determination of control should be consistent with the registrant's consolidated financial statements. Aligning the determination of control with the registrant's GAAP is particularly important, because the examples in the GHG-P were developed based on International Financial Reporting Standards as they were in 2000. While users of the GHG-P can interpret the descriptions of the three approaches to the organizational boundaries through the lens of current GAAP, this highlights the need for the GHG-P to be regularly maintained and updated.

However, notwithstanding any shortcomings of the current edition of the GHG-P, we believe the practical implications of the Commission's proposal require further consideration – in collaboration with the GHG-P and others – before registrants already reporting under the GHG-P are required to change their basis of accounting for GHG emissions.

If the Commission decides to proceed along the lines proposed then, taken in isolation, the definition of organizational boundaries in proposed §229.1500(m) – “boundaries that determine the operations owned or controlled by a registrant for the purpose of calculating its GHG emissions” – could be read as including only subsidiaries and any arrangement that is proportionately consolidated. That interpretation would exclude equity method investees, for example.

In contrast, the supporting commentary in the proposal (section G(2)(a)) indicates an intention to include equity method investees, and also results in emissions being deliberately double counted. For example, Parent holds 70% of and consolidates Investee, and therefore accounts for 100% of the emissions of Investee; Investor holds the other 30% of Investee and applies the equity method of accounting, and therefore accounts for 30% of the emissions of Investee. By virtue of the formula – as opposed to difficulties in tracking and attributing emissions – 130% of Investee's emissions would be reported. Although double counting is often unavoidable (e.g. different registrants adopt different approaches), the GHG-P Corporate Standard was designed to prevent double counting within each of Scopes 1 and 2. Therefore, it appears that conceptually the approach proposed by the Commission deserves further consideration.

From an operational perspective, the Commission states (commentary section G(2)(a)), “Applying existing GAAP could help limit the compliance burden for registrants as they would be able to use familiar concepts from financial reporting when preparing their required GHG emissions disclosures.” We have a different perspective and believe that requiring a registrant to change its organizational boundaries for the purpose of adopting the final rule would in many cases impose significant additional burden without a clearly demonstrated benefit.

For registrants currently using one of the control approaches in the GHG-P, in addition to the general effort that will be required to adopt the final rule (see [section 9](#)), they would need to obtain data (to the required standard of quality) for equity method investees, for example. In addition, when the



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operational control approach is used, in our experience consumption information is typically collected at the operational asset level rather than at the legal entity level, which could result in significant reassessment of existing Scopes 1 and 2 emissions. Further, a change in organizational boundaries may in some cases have a significant effect on a registrant's base year numbers, which might trigger a recalculation of its emissions reduction targets.

We recommend that the Commission allow registrants to use one of the methods in the GHG-P. That would allow time for further consideration and global agreement of a method that best aligns with the financial statements while achieving the objective of not double counting within Scopes 1 and 2. As an alternative, the Commission could require registrants to follow the equity approach in the GHG-P. This approach would align better with the financial statements, but may still require registrants to change approach twice – to comply with the final rule, and again if and when there is global agreement on the most appropriate approach.

The benefits of collaboration to achieve alignment are further highlighted by the seemingly different proposals made by the ISSB and EFRAG in their climate proposals even though their objectives are the same as the Commission's in aligning the reporting entity's boundaries with those used for financial reporting.

- The ISSB has proposed that companies elect one of the methods in the GHG-P, with supplemental disclosure of emissions related to certain entities not included in the consolidated accounting group (including equity method investees).<sup>11</sup>
- EFRAG proposes a reporting boundary based on the financial statements, but expanded to cover the broader value chain, including equity method investees (associates).<sup>12</sup>

In all cases, we believe a registrant should disclose its organizational boundaries in enough detail that the reader understands the underlying components – e.g. the treatment of equity method investees. However, if the Commission decides to accept the methods in the GHG-P, we do not think that a more granular reconciliation back to the scope of its financial reporting is necessary.

### **3.3 Reasonable estimates and quality of data**

*Corresponding questions: 115, 125, 128*

Proposed §229.1504(e)(4) contemplates the use of 'reasonable estimates' in two instances:

- (i) Q4 estimates, with material adjustments to actual being disclosed in a subsequent filing.

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<sup>11</sup> ED IFRS S2 (see [footnote 9](#)), para 21(a)(i) and accompanying [Basis for Conclusions](#), para BC114. ISSB, March 31, 2022, <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>. Retrieved June 14, 2022.

<sup>12</sup> Exposure Drafts ESRS E1, [Climate change](#), para AG43(b) and ESRS 1, [General principles](#), para 63. EFRAG, April 29, 2022, <https://www.efrag.org/lab3?AspxAutoDetectCookieSupport=1>. Retrieved June 14, 2022.



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(ii) reporting Scope 3 in a range.

The data used in GHG emissions calculations is generally of varying quality and there is inherent estimation uncertainty; depending on the circumstances, the practitioner might decide to state this fact in their attest report. The measurement of emissions usually includes many estimates, assumptions and extrapolations of data, and the available sources of emission factors are updated only periodically. Estimations are especially prevalent for Scope 3 emissions, which are outside the company's direct activities and generally rely on assumptions about third parties.

Therefore, we are concerned that the use of 'reasonable estimates' in only two situations may be misleading about the precision of the GHG emissions disclosures themselves. Instead of seeking to constrain the use of reasonable estimates in preparing GHG emissions disclosures, we believe the disclosures in proposed §229.1504(e)(1) – methodology, significant inputs and significant assumptions – would be especially important in conveying the nature of the data.

For the same reason, we recommend reframing the Q4 accommodation as catering to situations in which it is not practicable to determine a reasonable estimate.

Further, not least for purposes of transparency, we believe investors would benefit from a hierarchy of data quality similar to the fair value measurement hierarchy in ASC 820, *Fair Value Measurement*. This would help to promote a common understanding of estimation uncertainty and the type of data used in calculating emissions. The following is a potential example that leverages the Scope 3 calculation guidance issued by the GHG-P (but broadened to all scopes for this purpose).<sup>13</sup> The level would be disclosed for each category or sub-category of emissions.

- Level 1: All actual data (actual consumption + actual emissions factor)
- Level 2: Hybrid data (estimated consumption + actual emissions factor or estimated emissions factor + actual consumption)
- Level 3: All estimated data (estimated consumption + estimated emissions factor)

Similar to application of the fair value hierarchy, categorization could be based on the significance of estimates to the overall measurement.

### **3.4 Methodology disclosures**

*Corresponding questions: 120, 121*

In addition to disclosing its organizational boundaries (see [section 3.2](#)), we agree that a registrant should disclose the following as proposed in §229.1504(e)(1), which are consistent with the disclosures required under the GHG-P:

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<sup>13</sup> [Technical Guidance for Calculating Scope 3 Emissions](#), Figure [1.1] Different data types used for different calculation methods. Greenhouse Gas Protocol, April 2013, [https://ghgprotocol.org/sites/default/files/standards/Scope3\\_Calculation\\_Guidance\\_0.pdf](https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf). Retrieved June 14, 2022.



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- operational boundaries, including any approach to categorization of emissions and emissions sources;
- calculation approach (including any emission factors used and the source of the emission factors); and
- any calculation tools used to calculate the GHG emissions.

### **3.5 Carbon offsets**

*Corresponding questions: 24, 101*

We agree with the exclusion of purchased or generated (carbon) offsets in calculating GHG emissions in accordance with proposed §229.1504(a)(2). However, we recommend aligning the definition in proposed §229.1500(a) with the definition in the GHG-P to escape the unintended consequence of avoiding exclusion because the underlying offset was not ‘calculated and traced for the purpose of’ offset. We would define a carbon offset as simply, ‘GHG reductions used to compensate for GHG emissions elsewhere’ but we also recommend liaising with the ISSB to achieve a common definition.

### **3.6 Accounting for changes**

*Corresponding question: 127*

In accounting for GHG emissions, the following types of changes are relevant.

- *Structural changes* are changes in the reporting organization that have a significant impact on the registrant’s base year emissions. Such a change might arise from a business combination or the disposal of an operation, or an outsourcing arrangement that reclassifies emissions from Scope 1 to Scope 3 when the registrant’s emission reduction targets exclude Scope 3.
- *Changes in estimates* typically arise from a change in calculation methodology, or improvements in the accuracy of emission factors or activity data.
- *Error corrections* might arise from mathematical misstatement or an incorrect classification, for example.

Under the GHG-P, these types of changes (if significant) are accounted for by updating the base year calculations and comparative periods, together with appropriate disclosures.<sup>14</sup> This approach is appropriate for emissions because the base year is the point from which targets and goals are measured. Consistent with this principle, the GHG-P contains additional guidance related to structural changes so that historical emissions are not adjusted for periods when the source of the

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<sup>14</sup> [A Corporate Accounting and Reporting Standard](https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf), chp 5, chp 9. Greenhouse Gas Protocol, March 2004, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>. Retrieved June 14, 2022.



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emissions did not exist; for example, if a factory came online in 2020 and was acquired in a business combination in 2022, the acquirer would recast emissions, but not earlier than 2020.

We recommend that the Commission require changes to be accounted for using the framework in the GHG-P, which is consistent with the objective of comparing emissions against a base year. Accordingly, we do not recommend the framework in ASC 250, *Accounting Changes and Error Corrections*.

### **3.7 Intensity metrics**

*Corresponding questions: 109, 110, 111, 112, 113*

Regarding the disclosure of intensity metrics in proposed §229.1504(d)(1) and (2), we agree that revenue and units of production are relevant measures of intensity and therefore carbon efficiency. We also agree that Scope 3 emissions should be separated from the total of Scopes 1 and 2.

However, we believe the proposal to disclose a *single* metric per unit of production relevant to the registrant's *industry* is impracticable. Because many registrants operate in multiple industries or sectors, for which different intensity metrics are relevant, we recommend that registrants have the ability to use their judgment about whether the disclosure would be more meaningful at the level of reporting segments. Further flexibility may be required for registrants whose production centers are producing multiple different products at the same facility; in that case it is difficult to allocate emissions at the product level.

### **3.8 'Suitable criteria' in providing assurance**

*Corresponding questions: 158, 159*

The guidance of the GHG-P is generally accepted as the basis for 'suitable criteria' in providing assurance under attestation standards. Therefore, another benefit of allowing registrants to continue using the GHG-P while collaboration on updates occurs (see [section 3.1](#)) is that it provides a framework against which to provide assurance that is familiar to investors.

## **4. Obtaining information**

*Corresponding questions: 55, 56, 180*

For financial statement metrics, the proposal includes a possible exception if a metric for the comparative period is not 'reasonably available'; in that case, the registrant may be able to rely on the accommodation in Rule 409 or Rule 12b-21. For GHG emissions, a similar 'reasonably available' exception is proposed. The example in the proposal refers to a metric not being available without unreasonable effort or expense. However, based on the precedent the staff has set in applying these Rules, we believe the potential relief may not be sufficient for the practical scenarios that are likely to arise.



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In considering appropriate relief, we recommend that the Commission consider the following practical challenges that may arise in connection with acquisitions, including acquisitions of equity method investees.

- For GHG emissions for which the base year will be adjusted (see [section 3.6](#)), in some cases the registrant will be able to obtain the data necessary to update its calculations at the acquisition date. However, in other cases more time may be needed and the Q4 accommodation for ‘reasonable estimates’ (see [section 3.3](#)) might not be sufficient. Similar to challenges experienced currently related to obtaining Rule 3-05 financial statements, requirements to provide such information (e.g. for private companies acquired), may cause delays for transactions or needs for waiver requests.
- For other disclosures, similar to the issues that will likely arise from adoption of the rule (see [section 9](#)), time may be needed for the registrant to incorporate the necessary DCP and ICFR. In such cases, an explicit transition (e.g. a date not later than 12 months after the date of acquisition) may be appropriate to allow time for a registrant to gather the information needed for the disclosures in its consolidated reporting.

## **5. Attestation of GHG emissions**

### **5.1 Attestation requirement**

*Corresponding question: 135*

We support the attestation of Scopes 1 and 2 emissions under consistently applied principles-based attestation standards because it enhances the quality and reliability of the disclosures for the benefit of investors; for this reason we agree that reasonable assurance should be the ultimate goal. Many registrants already seek attestation over their voluntarily prepared GHG emissions information.<sup>15</sup>

### **5.2 Acceptable attestation standards**

*Corresponding questions: 152, 154, 155*

We believe that investor understanding and the quality of disclosures would be enhanced if the Commission permits only a limited number of attestation standards. Principles-based standards such as those of the PCAOB, AICPA and IAASB are familiar to investors and have relevant application guidance and processes to establish additional guidance. Further, if the Commission were to limit the requirements to these three sets of attestation standards, other proposed rule elements could be removed. For example, there would be no need to describe minimum expectations for an attestation standard within the final rule or list the minimum criteria for an attestation report.

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<sup>15</sup> [S&P 500 and ESG Reporting](https://www.thecaq.org/sp-500-and-esg-reporting/). Center for Audit Quality, Aug 9, 2021, <https://www.thecaq.org/sp-500-and-esg-reporting/>. Retrieved June 14, 2022.



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When attestation standards are applied consistently, they improve the quality of the disclosure. The missions and objectives of the PCAOB, AICPA and IAASB include investor protection and furthering public interest by supporting high quality standards applied by licensed, experienced practitioners, and enhancing the quality and consistency of practice. Enabling numerous other attestation standards to be used could create confusion without a mechanism to support consistent execution and provide guidance to practitioners (see [section 5.4](#)).

If additional attestation standards are accepted under the final rule, the Commission could protect the public interest by establishing a process to consider whether these standards are sufficient, as well as provide transparency on the differences compared to the widely understood standards.

### **5.3 Definitions of limited and reasonable assurance**

*Corresponding question: 141*

The utility of attestation is increased by a consistent understanding of limited and reasonable assurance. As proposed, the Commission does not provide definitions of limited and reasonable assurance. These definitions are covered by the professional standards of the PCAOB, AICPA and IAASB (see [section 5.2](#)), but if the Commission permits other standards beyond these then we recommend that definitions be included in the final rule.

### **5.4 Due process and guidance**

#### **5.4.1 Ongoing interpretive guidance**

*Corresponding questions: 154, 155*

We support the Commission's proposal that the attestation standards be freely available and subject to due process. These required elements provide necessary transparency and opportunity for input from all stakeholders.

Inevitably, matters related to application will continue to arise as the GHG emissions measurement and disclosure continues to evolve through innovation in the methodologies used for those purposes; other practical matters include, for example, group attestation and restatements. Attestation challenges or questions of interpretation may arise as a result. Standard-setters like the PCAOB, AICPA and IAASB (see [section 5.2](#)) have processes to develop and publish additional clarifying application guidance to support consistent execution by practitioners using those standards.

In addition to encouraging the Commission to collaborate with the PCAOB, we encourage the Commission to actively dialogue with the AICPA relative to application guidance on attestation standards, including interpretation of the proposed rule and information that registrants voluntarily file or furnish. We note that the PCAOB recently announced a short-term project related to its attestation



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standards.<sup>16</sup> We also recommend interaction with the IAASB, and with other regulators globally. Similar to sustainability disclosures themselves, registrants and practitioners would benefit from collaboration and maximum interoperability in this area.

#### 5.4.2 Other information

*Corresponding question: 157*

An auditor's responsibilities extend beyond the financial statements to require consideration of financial or nonfinancial 'other information' included in the SEC filing that includes, or incorporates by reference, the audited financial statements. In applying auditing standards, a CPA's responsibility is to read such information and identify any material inconsistencies between the other information and the audited financial statements or the knowledge the CPA obtained in the audit, or material misstatements of fact. Similar requirements are followed by practitioners applying AT-C 205, *Assertion Based Examination Engagements*, or AT-C 210 *Review Engagements*.

To the extent that the final rule allows other attest standards (see [section 5.2](#)), in establishing the requirements for attest practitioners, we encourage the Commission to clarify whether all practitioners should be required to consider 'other information' in the same way as CPAs.

#### 5.4.3 Voluntary assurance

*Corresponding questions: 135, 164*

We believe it is in the interests of investors that voluntary assurance obtained follows the same attestation requirements of proposed §229.1505(b)-(d). This would protect investors from any attestation reports provided under standards that did not meet a minimum set of criteria established by the Commission. However, if summarizing the report in accordance with proposed §229.1505(e) in effect means that the report is filed, then we believe that furnishing the report is a more appropriate alternative.

### 6. Other disclosures

*Corresponding questions: 12, 13, 18, 33*

We are broadly supportive of the remaining proposed disclosures, which we note are substantially aligned with the recommendations of the TCFD. However, we have comments on two specific aspects of the proposals.

Proposed §229.1500(k) defines location as "a ZIP code or, in a jurisdiction that does not use ZIP codes, a similar subnational postal zone or geographic location." Disclosure of location would then

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<sup>16</sup> News release, [PCAOB Updates Standard-Setting and Research Agendas](https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-updates-standard-setting-and-research-agendas). PCAOB, May 4, 2022, <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-updates-standard-setting-and-research-agendas>. Retrieved June 14, 2022.



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be required by proposed §229.1502(a) and §229.1506(d). We believe that location disclosures by zip code are too granular, and instead we recommend that the Commission consider disclosure more generally by geographical areas. We support the broader disclosure of significant concentrations of risk, such as geographical areas (discussed here), facilities or types of assets, inputs, outputs or distribution channels. Such disclosure is proposed by the ISSB.<sup>17</sup>

However, similar to our perspective on financial statement disclosures (see [section 2.3.5](#)), we believe that opportunities with a direct connection to a related risk could be disclosed without triggering the need to disclose all opportunities. Such disclosure may provide a more balanced view of a registrant's response to risks.

## 7. Foreign private issuers

*Corresponding question: 92*

Although it appears that the disclosures in proposed §210.14-02 would apply to financial statements prepared in accordance with IFRS as issued by the IASB, we recommend that this be made clear if intended. In the proposal, it is necessary to trace the logic as follows.

- Form 20-F would be updated to include the disclosures in proposed subpart 1500 – i.e. the disclosures outside of the financial statements.
- Proposed §210.14-01(a) would require the financial statement disclosures to be included in a note to the financial statements in any filing that includes the proposed subpart 1500 disclosures.

Proposed §210.14-02 would not change the recognition and measurement of items recognized in the financial statements, and IFRS Standards generally do not preclude additional (voluntary) disclosures from being included in a note to the financial statements. Nonetheless, we encourage collaboration with the International Accounting Standards Board regarding the practical impacts of the proposed disclosures as the Commission works toward a final rule.

## 8. Alternative reporting provision

*Corresponding questions: 183, 189*

We believe the Commission should consider accepting registrants' reporting made pursuant to IFRS Sustainability Disclosure Standards. Although no determination can be made until the standards are final, the ISSB's exposed standards would result in more extensive disclosures than proposed subpart 1500.

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<sup>17</sup> ED IFRS S2 (see [footnote 9](#)), para 12(b).



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- There is no equivalent of exposure draft IFRS S1, *General Sustainability-related Disclosures*, in the Commission's proposal.<sup>18</sup>
- Exposure draft IFRS S2, *Climate-related Disclosures*, is substantially similar to the Commission's proposal and in some areas more extensive; for example, proposed IFRS S2 would require industry-based disclosures and the disclosure of opportunities in addition to risks.<sup>19</sup>

The Commission could limit itself to considering recognizing [final] IFRS S2 as acceptable for registrants' reporting. However, this may become a moot point if a global baseline is achieved (see cover letter, [Global baseline disclosures](#)). Further, we think the Commission could consider acceptability for domestic registrants in addition to foreign private issuers.

## 9. Safe harbor and transition

Throughout this response we detail interpretive issues that we believe should be resolved to achieve consistent and comparable disclosures, and we encourage active liaison with the FASB and others. When a new accounting standard is introduced, typically two or three years is provided before the first wave of companies is required to adopt; this was the case with ASC 606, *Revenue from Contracts with Customers*, and ASC 842, *Leases*, for example – both of which required amendments before transition was complete.

The Commission's proposal represents a new phase in corporate reporting for most registrants.

- For the GHG emissions data and other disclosures provided outside of the financial statements, it will take time for registrants to institute robust DCP; and even then, the available data may not be of the same quality as the information used in preparing the financial statements (see [section 3.3](#)).
- The financial statements metrics will be in the scope of a registrant's ICFR, which again will take time to develop and implement.

We think these factors lead to two logical conclusions: the safe harbor provisions should be commensurate with the characteristics of the data, and the period to adoption should be commensurate with the size of the undertaking. Providing an exact recommendation on the legal mechanics of safe harbor is outside our area of expertise, but below we outline our thoughts on transition.

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<sup>18</sup> See [footnote 9](#).

<sup>19</sup> ED IFRS S2 (see [footnote 9](#)), para 3(b), App B.



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## **9.1 Compliance dates and transition**

*Corresponding questions: 139, 140, 197, 201*

The compliance dates outlined in the proposal (commentary section M) provide the example of the final rule becoming effective in December 2022, such that a large accelerated filer with a December year-end would report for fiscal 2023 (except for Scope 3 GHG emissions). The example does not envisage time to prepare for robust and timely disclosures.

One potential approach is for the Commission to simply allow a longer period before initial application of the disclosures, such as two to three years. However, the Commission could also explore a more phased approach to transition that acknowledges that a longer period is required (1) to develop a framework that results in more consistent and comparable disclosures that are framed around a global baseline, and (2) for registrants to prepare from a DCP and ICFR perspective.

Such an approach could be phased based on the type of registrant (e.g. large accelerated filer, accelerated filer or non-accelerated filer) and/or by the type of disclosure (e.g. financial statement vs other disclosures); it could also allow the disclosures to be furnished for a period before filing. The initial phases of transition could leverage existing practices to the extent they are established (e.g. continue using the GHG-P to measure and report GHG emissions), or could otherwise allow flexibility (e.g. adopt the GHG-P). Depending on the approach, the final rule could allow for prospective application and not require comparative information in the year of adoption.

In deciding upon an appropriate transition, we encourage the Commission to thoroughly consider responses from registrants regarding the time they need to prepare for the final rule.

## **9.2 Different types of filings and filers**

*Corresponding questions: 197, 200*

If the Commission proceeds with a transition approach similar to that in the proposal, we agree with having different compliance dates for large accelerated filers, accelerated filers, non-accelerated filers and SRCs. This additional phasing based on type of filer would also be appropriate under our alternative possible approach (see [section 9.1](#)).

We note that an SRC might also be an accelerated filer. In such cases we believe the compliance dates and disclosure requirements for SRCs would take precedence (based on the registrant's size and resources), but we encourage the Commission to include further clarification in the final rule.

Similarly, for initial public offerings of securities, we recommend the Commission permit newly public companies on an ongoing basis to provide the proposed information only for the most recent fiscal year for which audited financial statements are included in the initial registration statement. Such registrants would not be required to include the proposed information for any periods prior to the latest period presented in the initial registration statement. This would reduce the barriers to market compared to the proposal.



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Prospective application and not requiring comparative information, both in the year of adoption and for newly registered companies, would also reduce practical burdens such as those outlined in [section 4](#) relating to obtaining information of previous acquisitions where information may no longer be available. This would avoid the need for a registrant to rely on Rule 409 or Rule 12b-21 in these circumstances.