

Southwest Airlines Co.

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Submitted via email: rule-comments@sec.gov

Ms. Vanessa Countryman
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Re: Comments on SEC Proposed Rule Regarding “The Enhancement and Standardization of Climate-Related Disclosures for Investors” (File Number S7-10-22)

Dear Ms. Countryman:

Southwest Airlines Co. (“Southwest” or the “Company”) submits these comments in response to the Securities and Exchange Commission’s (“SEC”) proposed rule on *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (File Number S7-10-22). Southwest appreciates the importance of climate action and the SEC’s efforts to standardize climate-related disclosures. Southwest files these comments to emphasize several points of particular importance to the Company.

Since 2009, Southwest has actively communicated the status of its environmental sustainability efforts through its annual corporate citizenship report, the One Report, which includes Global Reporting Initiative (GRI) standards that have been used to guide the Company’s disclosures. We have voluntarily reported our Scope 1 and 2 greenhouse gas emissions and a portion of our scope 3 emissions through CDP (formerly the Carbon Disclosure Project) for the past 9 years. Furthermore, in order to provide transparency to our stakeholders, we began aligning our reporting to Sustainability Accounting Standards Board (SASB) standards and the United Nations Sustainable Development Goals (UNSDGs) starting in 2020. We aim to further elevate our voluntary reporting by incorporating aspects of the Task Force on Climate-Related Financial Disclosures (TCFD) into our 2023 annual sustainability reporting for the period ending December 31, 2022.

Reliable and comparable climate-related reporting is important to Southwest and the Company is proud of the investment it has made, and continues to make, in these areas. As such, Southwest shares the SEC’s goal to provide investors with “consistent, comparable, and reliable - and therefore decision-useful - information to investors to enable them to make informed judgments about the impact of climate-related risks on current and potential investments.”¹ We are supportive of the SEC’s objectives and would like to suggest several modifications to the proposed rule to provide for smoother implementation and reporting that is technologically feasible, is not unduly burdensome, provides useful information to investors, and does not subject companies to unnecessary and costly litigation

¹ 87 Fed. Reg. 21334, 21335 (Apr. 11, 2022).

risk. We respectfully encourage the SEC to incorporate these reasonable and pragmatic recommendations into its final rule.

I. Due to the Complex and Subjective Nature of Climate-Related Impacts, Climate-Related Risk Disclosures Should be Subject to the Reporting Requirements of Regulation S-K Reporting (“S-K”) Rather than Regulation S-X Reporting (“S-X”).

The extensive climate-related information that the SEC proposes companies should disclose is subject to significant estimates and assumptions on the part of preparers. In many instances, companies will be required to use considerable judgment to determine the types of events that are subject to the proposed reporting, how to report certain incidents, and cost impacts. Accordingly, these disclosures are more appropriate for reporting under Regulation S-K, which is the main source for other mandatory non-financial disclosures, many of which are qualitative and principles-based.

Climate-related events and impacts are interpreted differently across companies, even within the same industry, making the information extremely difficult to consistently produce and compare. For example, in the airline industry, the impacts of climate-related events and the dollar amounts associated with them cannot be objectively and accurately quantified. This is because, in part, it is not always possible to differentiate climate-related events from other events that may happen simultaneously or in conjunction with certain weather events. To illustrate, airlines have experienced schedule impacts from severe storms, coupled with Air Traffic Control (“ATC”) slow-downs, coupled with military exercises in the relevant air space. Airlines can estimate the climate-related portion of the impacts but such estimations will be inherently subjective and will necessarily require making broad assumptions rendering such disclosures of little or no value for investors. Comparability among airlines cannot be achieved unless objective definitions are provided as to what type of events qualify for such reporting. Given the inherent lack of uniformity among companies and industries, climate-related reporting should remain qualitative and reported solely under Regulation S-K. This approach is consistent with the SEC’s goal of providing decision-useful information to investors.

In addition, attempting to integrate climate-related events and transition activities under Regulation S-X is not feasible or practical. Financial information disclosed in accordance with S-X must be audited by an independent, registered public accounting firm, and falls within the scope of a company’s Internal Control over Financial Reporting (ICFR) and related Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certifications. Requiring climate-risk disclosures under Regulation S-X would necessitate the development and implementation of objective rules, tools, policies, procedures, and processes in order to capture, define, evaluate, quantify and assess the internal controls surrounding these events. This effort would be both lengthy and costly to registrants, given the breadth of this topic, which reaches across many departments within registrants’ organizations that may not have historically been involved in such activities.

II. The Definition of Materiality for Climate-Related Risk Disclosures Should be Consistent with Longstanding Legal Precedent and SEC Past Practices.

Any new climate-related disclosure obligations should incorporate and be subject to the SEC's already determined and traditional materiality definition, which requires companies to determine materiality and corresponding disclosures based on relative facts and circumstances. This approach allows disclosures to be tailored across industries and provides management the opportunity to ensure the information communicated to investors rises to a level of relevance.

Instead, the SEC proposal would revise the concept of materiality and require the disclosure of granular climate-related information by imposing a 1% threshold at the line-item level across the financial statements. Such a requirement would result in companies reporting copious immaterial, subjectively determined financial information that is likely of little use to investors. Not only would this be counterproductive and misleading for investors, but it would also be excessively costly and unworkable for reporting companies. Requiring such granular reporting in only one area will lead to skewed results that will overstate the importance of immaterial climate-related risk and events, thereby providing less comparative information to investors. The SEC proposed rule should adopt the position that climate-related impacts must be disclosed in situations where the registrant determines they are material, consistent with existing definitions and SEC guidance on materiality.

If the SEC proceeds with quantitative disclosure requirements, which we believe it should not, the rules should clarify that such disclosures are only required where the relevant impacts can be reasonably determined to be primarily or entirely driven by physical or transition risks and/or activities, are material to the business, and are reasonably estimable.

III. In Light of the Complexity and Precedent-Setting Nature the Proposed Climate-Related Disclosure Reporting Rule, the SEC Should Extend All Aspects of the Timeline for Compliance.

The SEC proposal is both sweeping and precedent setting. Reporting, even as part of Regulation S-K and subject to traditional materiality requirements, will require thousands of employee hours at large companies to stand-up the necessary infrastructure; will necessarily rely on yet-to-be developed programs, protocols, and technology; and finally will touch departments throughout each organization, many of which have not traditionally been involved in environmental disclosure reporting. It is therefore critical that companies have sufficient time to set up systems internally, secure needed consulting resources, and establish best practices for compliance.

The current timeframe the SEC proposes could compromise the quality of the reporting. With the exception of reporting that should remain voluntary as discussed in Section IV below, Southwest recommends that the SEC follow an approach similar to that

utilized by accounting regulators in association with major accounting standard changes, which typically involve a lead time of at least 3 to 5 years to fully prepare for and implement the changes. Providing regulated parties with additional time to comply, and/or phasing in reporting requirements to a greater extent, will increase the quality of the reporting and reduce the burden on companies.

IV. Due to Challenges with Accuracy, Timing, and Reliability, Scope 3 Emissions Reporting Should Continue to be Reported on a Voluntary Basis.

Many airlines, including Southwest, voluntarily report on Scope 3 emissions today, and are continually investing in more robust reporting capabilities in this area. Since 2013, Southwest has publicly reported a portion of its Scope 3 emissions in CDP filings and in our annual citizenship report, the One Report. Additionally, as Southwest represents business travel Scope 3 emissions for other organizations, we have invested in our reporting mechanisms to enable accurate and effective information sharing to entities requesting such data, providing annual emissions reports based on actual fuel consumption and externally verified emissions data.

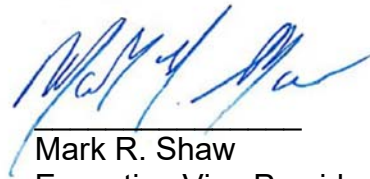
Despite the investment companies are making in reporting Scope 3 emissions, any requirement imposing mandatory reporting or the inclusion of this information in company's 10-K financial filings could lead to greater investor confusion and would be unduly burdensome. This is due, in part, to the fact that elements of Scope 3 emissions are extremely difficult to measure in a precise manner because companies must rely on third parties for data, make numerous assumptions, and choose from still evolving and competing methodologies to calculate the emissions. These challenges compromise the accuracy, reliability, timely availability, comparability, and usefulness of Scope 3 emissions (as broadly defined under the proposed rule). Given these constraints, it would be unduly burdensome to require companies to collect, analyze, vet, and publish comprehensive Scope 3 emissions based on primary data within financial filings. Such reporting requirements would likely compromise the accuracy and usefulness of Scope 3 emissions reporting, yielding results largely reflective of less accurate secondary data.

As noted above, Southwest goes to great lengths to provide corporate customers with highly accurate primary emissions data for their corporate travel with us, leveraging our actual fuel burn and number of passengers onboard each flight, allocating the emissions proportionally between all passengers and Cargo.. However, there are numerous other methodologies to approach this calculation, which do not accurately reflect our airline specific fuel efficiency or emissions performance. Using one of these alternative methodologies could provide risks of over- or underestimating emissions, the reporting of which would be misleading and ineffective for informed decision making. With companies under pressure to obtain relevant Scope 3 data from their suppliers while simultaneously working to provide such data to their own customers all in time for the 10-K reporting cycle, accuracy will likely be compromised. Instead, the SEC should allow companies to continue to disclose Scope 3 emissions voluntarily as each company determines is appropriate.

Currently most companies that report on their Scope 3 emissions do so in their CDP and annual sustainability reports. Such venues are better suited for providing this emissions data as they allow for a longer timeline to thoroughly engage suppliers, and to collect, analyze, verify, and publish the data in a manner that is more accurate and meaningful to investors and customers.

Southwest appreciates the opportunity to provide comments on the SEC's climate-related disclosure proposal. We encourage the SEC to adopt the constructive modifications outlined above. Together, these changes will ensure the final rule achieves the SEC's goals of providing investors with accurate, consistent, and decision-useful information on potential climate-related risks contained in current and potential investments.

Sincerely,



Mark R. Shaw
Executive Vice President &
Chief Legal & Regulatory Officer