1. **Maintain the financial statement estimates and assumptions and expenditures.**
2. **Close the loophole on GHG reporting for unconsolidated entities.**
3. **Expand the definition of transition risk to include community-level impacts.**

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1. **Maintain the financial statement estimates and assumptions, and expenditures.**
    a. Of the three types of financial statements metrics, the estimates and assumptions are the most important to maintain in the final rule, followed by expenditures. These metrics together properly link climate-related risks, impacts and strategies with financial reporting.
    b. FASB and IASB have confirmed[1] that climate-related risks must be treated in accordance with the existing disclosure standards. These risks must be taken into account in developing assumptions, any material assumptions must be disclosed, and statements made elsewhere in the registrant's annual filings must be consistent with those assumptions.
        i. Examples of estimates and assumptions that may be affected by climate-related risks, impacts, and strategies: Long-term projection of cash flows, long-term asset impairment, estimated lives used to determine depreciation or amortization of long-lived-assets, amount of timing of asset retirement obligations, and recoverability of deferred tax assets.
    c. A recent report by Carbon Tracker found[2] that the effects of climate change and the transition on these estimates and assumptions are not being disclosed where likely material, and auditors are not discussing these issues in their audit reports.
    d. The final rule should emphasize that climate-impacted financial statement assumptions and estimates that are quantitatively or qualitatively material must already be disclosed under existing GAAP, and those assumptions should be consistent with statements made elsewhere in the registrant's annual filings. The Commission should also issue a Staff Accounting Bulletin or other authoritative guidance to reinforce this point.
    e. Registrants should also be required to disclose the expenditure metrics, as proposed, separately in one location. These metrics help investors judge the transition plans disclosed and the alignment between stated goals and actual investment in achieving those goals, as well as the risk of impairment for a registrant's long-lived assets.

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[1] Proposal at 21362; https://www.fasb.org/Page/ShowPdf?path=FASB_Staff_ESG_Educational_Paper_FINAL.pdf&title=FASB%20Staff%20Educational%20Paper-Intersection%20of%20Environmental; IFRS: Effects of climate-related matters on financial statements

[2] Carbon Tracker Initiative. 2021. *Flying Blind: The Glaring Absence of Climate Risks in Financial Reporting.* London: Carbon Tracker Initiative. https://carbontracker.org/reports/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/.

2. **Close the loophole on GHG reporting for unconsolidated entities.**
    a. GHG emissions should be disclosed separately for 1) the consolidated financial group and 2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group**.**
        i. While using a consistent organizational boundary for GHGs and the consolidated financial statements will facilitate comparisons and situate GHGs within the context of financial reporting, GHGs from associates, joint ventures, and unconsolidated subsidiaries and affiliates also represent transition risk. Registrants should thus disclose two sets of Scopes 1, 2, and 3 GHG emissions–for the consolidated and unconsolidated group, with the latter deploying the equity share approach, similar to the approach used in the IFRS/ISSB climate disclosure draft.[3]
    b. For many firms, off-balance-sheet risks can quickly become significant on-balance-sheet risks[4] and must be disclosed for investors to be fully aware of the financial condition of the firm, and able to protect themselves from risks.
        i. Major banks like HSBC have increasingly sought to shift certain investment activities off balance sheet, moves allowing them to increase leverage and bypass financial regulation and reporting.[5]
        ii. Consolidation practices for registered investment companies are complicated due to the many business structures used,[6] which may frustrate comparison of climate-related risks between firms.
    c. Publicly-traded private equity firms are especially exposed to hidden risks. They generally don't consolidate portfolio companies even when they have significant financial and operational control. PE firms are also highly invested in the energy sector, and have higher proportions of fossil fuel generation and associated GHG emissions than the U.S. average, representing significant transition risk harbored in unconsolidated entities.[7]
        i. The GHG emissions that come from portfolio company facilities and electricity suppliers are not merely Scope 3 "investment" emissions, but rather Scope 1 and 2 emissions that are mitigated via internal emissions

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[3] International Financial Reporting Standards (IFRS) Foundation. 2022. *Exposure Draft: Climate-Related Disclosures.* London: IFRS Foundation. Exposure Draft IFRS S2 Climate-related Disclosures.

[4] See E.g., T. Rowe Price To Compensate Clients For Dell Voting Error; State Street sells stock, takes $3.7 billion charge | Reuters;
Citigroup Saw No Red Flags Even as It Made Bolder Bets - The New York Times;
Citi to take $49 bln in SIVs onto balance sheet | Reuters
Lehman's Demise and Repo 105: No Accounting for Deception - Knowledge at Wharton;
Lehman Channeled Risks Through 'Alter Ego' Firm;
Peabody Energy Agrees to Fully Disclose Climate Risks from Coal - Scientific American
Control of Portfolio Investment Creates Potential Liability for Fund Under Labor Law

[5] HSBC runs process to shift private equity off balance sheet | Buyouts

[6] To Consolidate or Not to Consolidate, That Is the Question for Registered Investment Companies | FORVIS

[7] https://ourfinancialsecurity.org/wp-content/uploads/2022/07/Private-Equity-Hidden-Power-Plants-Threaten-Climate-5.16.22-official-2.pdf

reductions efforts and clean energy procurement, not through value chain decarbonization methods like supplier screening, customer engagement, product selection, and divestment of liquid securities (Scope 3).

d. The language and certain provisions of the proposal opens up a serious danger that publicly-traded PE firms would inappropriately classify on-site portfolio company emissions as Scope 3 investment emissions, and then make aggressive non-materiality determinations to avoid disclosing them. The Proposal asks a number of questions that get at this issue, our responses to which outline how to effectively close this loophole.[8] Relevant questions:
    i. Question 116–*Should we require a registrant to determine its organizational boundaries using the same scope of entities, operations, assets, and other holdings within its business organization as that used in its consolidated financial statements, as proposed?* and Question 119–*Alternatively, should we require registrants to use the organizational boundary approaches recommended by the GHG Protocol (e.g., financial control, operational control, or equity share)?*
        1. We suggest using 1) the proposal's organizational boundary approach for the GHG emissions for the consolidated accounting group, and 2) the GHG Protocol equity share approach or a substantially similar method defined by SEC for the unconsolidated accounting group, which would enhance comparability.
    ii. Further the Proposal states that it is "modeled in part on the TCFD's recommendations," which also "form[s] the framework for the Prototype that the IFRS Foundation provided to the ISSB as a potential starting point for its standard setting initiative." The resultant ISSB framework is referenced by the Proposal and it asks:
        1. Question 189: "*An International Sustainability Standards Board (ISSB) has recently been created, which is expected to issue global sustainability standards, including climate-related disclosure standards. If we adopt an alternative reporting provision, should that provision be structured to encompass reports made pursuant to criteria developed by a global sustainability standards body, such as the ISSB?"*
    iii. We do not recommend the SEC adopt ISSB as an alternative acceptable reporting regime because of concerns with delegating authority. However, if the Commission did do so, and if the ISSB prototype was finalized in its current draft form, it would require disclosure of Scope 1 and Scope 2 separately for "the consolidated accounting group (the parent and its

[8] https://www.sec.gov/comments/s7-10-22/s71022-20131579-301946.pdf

subsidiaries); [and] the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and the approach it used…(for example, the equity share or operational control method in the GHG Protocol Corporate Standard)."[9]

1. We suggest requiring mandatory Scopes 1, 2, and 3 emissions reporting separately for the consolidated and unconsolidated accounting groups. However, if the Commission decides not to require mandatory Scope 3 emissions, it should require at least Scope 1 and 2 reporting separately for the two groups (i.e., consolidated and unconsolidated), with operational boundaries set according the recent guidance[10] from Initiative Climat International, ERM, UN Principles of Responsible Investment, CDP, and Ceres, which recommends that private equity firms include most Scope 1 and Scope 2 emissions from portfolio companies within their own Scope 1 and 2 emissions, respectively, using the equity share approach, when the registrant has some level of financial or operational control.

3. **Expand the definitions of physical and transition risks from the Proposal to include community-level impacts.**
    a. An environmental justice and community impacts letter submitted to the comment file on behalf of 123 organizations argues for the value of additional climate-related disclosures and provides case studies that demonstrate the reputational, legal, political, and operational risks to investors posed by lack of disclosure on these community impacts.[11]
    b. According to a nonpartisan retail investor survey, submitted to the comment file, by Americans for Financial Reform Education Fund and Public Citizen: [12]
        i. Seventy percent of investors surveyed support the SEC requiring all public corporations to disclose standardized information about their financial risks due to climate change, and trust in disclosures increases with SEC filing and reasonable assurance.

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[9] Exposure Draft IFRS S2 Climate-related Disclosures

[10] Initiative Climat International (ICI) and Environmental Resources Management (ERM). *Greenhouse Gas Accounting and Reporting For the Private Equity Sector.* ICI and ERM. Greenhouse Gas Accounting and Reporting.

[11] Aarthi Ananthanarayanan (Ocean Conservancy) and Chanelle Yang (Action Center on Race and the Economy) on behalf of 123 environmental, Indigenous rights, and racial justice organizations. Submitted Comments - Comments for The Enhancement and Standardization of Climate-Related Disclosures for Investors. https://www.sec.gov/comments/s7-10-22/s71022-20131574-301940.pdf

[12] Americans for Financial Reform Education Fund and Public Citizen. Results of a nationwide survey: *Retail investors' support for the SEC mandating climate-related financial disclosures from public companies*. Embold Research. Published April 2022. https://www.sec.gov/comments/s7-10-22/s71022-20131578-301945.pdf

ii. Sixty-three percent of investors would directly factor in *at least one* climate or environmental factor in their investment decision making.

iii. **Critically, of factors polled "corporations' records on environmental justice, Indigenous rights, and impacts on communities" had the most support among retail investors (48%) when asked if they would "factor in" that data to their investment decisions, above different Scopes of GHGs (which ranged from 37% for financed emissions to 41% for Scopes 1 and 2 emissions and 42% for product and supplier emissions).**

c. Recommendation: Expand the definition of transition risk to explicitly include "*community consequences*" and other "*adverse social conditions such as increasing inequality, land and human rights violations, or shifts in community perceptions of a registrant's contribution to or detraction from the transition to a lower-carbon economy.*"