



SUPPLEMENTAL COMMENTS OF C2ES REGARDING ALTERNATIVE REPORTING TABLE TO PROPOSED REGULATION S-X PROVISIONS

This document constitutes supplemental comments of the Center for Climate and Energy Solutions (C2ES) regarding an alternative to the proposed regulation S-X provisions in the proposed rule by the Securities and Exchange Commission (SEC) on climate-related financial disclosures, “The Enhancement and Standardization of Climate-Related Disclosures for Investors.” These comments represent a synthesis of information and feedback we received from members of the C2ES [Business Environmental Leadership Council](#) (BELC) as part of a [virtual] convening C2ES held in January 2023.

C2ES is an independent, nonprofit, nonpartisan organization whose mission is to secure a safe and stable climate by accelerating the global transition to net-zero greenhouse gas emissions and a thriving, just, and resilient economy. We have extensive experience engaging stakeholders on climate-related financial disclosures and submitted [comments](#) to the SEC on its proposed rule in June 2022. As we stated in those earlier comments, C2ES supports mandatory climate-related financial risk disclosure, and believes that the proposed rule can play a vital role in helping the broader investor community gain better insights into how all publicly traded companies are managing their climate-related financial risks. In our submitted comments, we highlighted where improvements are needed for the proposed rule to be operational and effective. We offer these supplemental comments in the continued spirit of making the proposed rule more effective in achieving its broader aim of greater transparency, consistency, and comparability of climate-related financial risks across publicly traded companies.

Where C2ES offers its views and recommendations, those belong to C2ES and do not necessarily reflect the views of BELC member companies.

Background:

In late 2022, a member of C2ES’s business council put forward an alternative to the proposed regulation S-X provisions, stating that:

“The SEC should require disclosure of actual discrete and separable climate-related expenditures, instead of ‘financial impacts’. Any required climate-related financial statement disclosures and metrics linked to Regulation S-K disclosures should provide actual financial information. In particular, require a financial statement footnote table that presents key categories of climate-related expenditures instead of the proposed S-X requirements. This table would present discrete and separable expenditures, both expensed and capitalized, in three distinct categories: (1) climate-related events; (2) transition activities for publicly disclosed climate-related targets and goals, such as those included in a company’s sustainability report; and (3) all other transition activities. Companies would add subcategories as appropriate based on company-specific businesses and goals. This table could also be accompanied by a description of how the amounts reported in the table are reflected in the financial statements.

“The table below summarizes expenses and capitalized costs related to discrete and separable climate-related initiatives:

Category	Note	Expenses			Owned and Leased Long-Lived Assets									
		Year Ended December 31,			December 31, 2020	Additions	Depreciation and Amortization	December 31, 2021	Additions	Depreciation and Amortization	December 31, 2022	Additions	Depreciation and Amortization	December 31, 2023
		2021	2022	2023										
Climate-Related Events	(1) (2)	-	-	-	-	-	-	-	-	-	-	-	-	-
Transition Activities for Publicly Disclosed Climate-Related Targets and Goals (6)														
Transportation	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Renewable Energy	(4)	-	-	-	-	-	-	-	-	-	-	-	-	-
Carbon Offsets	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Climate-Related Transition Activities (7)		-	-	-	-	-	-	-	-	-	-	-	-	-

- (1) Includes asset impairments and other costs related to warehouse damage from a tornado in Illinois in 2021.
- (2) Did not incur discrete and separable expenses or capitalized costs to mitigate risks of climate-related events for the periods presented.
- (3) Includes costs of electrifying delivery fleet, including charging stations, other green energy vehicles and equipment such as tracks and tractors, and sustainable fuels.
- (4) Includes spend under renewable energy purchase agreements, capitalized costs related to roof-top solar panels, and cost of unbundled (without related electricity) renewable energy certificates for the periods presented. Would include, for example, entering into multi-year agreements to purchase renewable energy that do not specify a fixed or minimum volume commitment and are accounted for as executory contracts by expensing the actual energy purchased each period. The future spend under these agreements would vary based on prevailing market prices and actual volume purchased.
- (5) Includes costs to purchase carbon offsets and related programs.
- (6) Other activities that have climate-related benefits, such as building and packaging efficiencies, that are not discrete and separable and are not included in the above table.
- (7) Other climate-related expenses and capitalized costs were not material for the periods presented.”

C2ES shared this alternative proposal with other members of its business council and received input from at least half of a dozen companies, with active engagement from over four dozen companies interested in exploring how such an alternative could help streamline reporting of financial metrics.

Synthesis of feedback and recommendations for improvement for the proposed table:

- Several companies shared that such a table could provide investors with decision-useful information that is comparable across sectors and welcomed the table as a more workable alternative to the SEC’s initial proposal. A tabular format that discloses climate-related expenditures is one option that can eliminate the need for the largely redundant financial impact metrics required under the proposal. To improve the climate-related financial disclosures, the SEC should first resolve several of the questions and issues noted below and then provide companies the option to present information that could be relevant to all sectors in a tabular format; for simplicity, metrics should reflect capital expenditures and operating expenses. Where some companies have relevant sector-specific metrics, such as “owned and leased long lived assets” in the example in the table above, they could include a description of the capital expenditures and operating expenses listed.
- Several companies echoed C2ES’s recommendation in our June 2022 comments that the definition of materiality throughout the SEC climate rule should be consistent with the existing concept of materiality currently used under Generally Accepted Accounting Principles and consistent with the definition under U.S. federal securities law. Under that definition, climate-related expenditures associated with the following items should require disclosure: (1) climate-related events (both in

response to expenditures related to physical impacts from climate change, as well as mitigation-related expenditures); and (2) climate-related transition activities tied to publicly stated climate goals. Both climate events and transition activities would need to be defined, as noted below. Some companies supported one recommendation that information in the proposed alternative table should be separated into separate line items to reflect (1) expenditures in response to a climate event (reactive); and (2) expenditures incurred to address a climate-related risk (proactive). To the extent possible, C2ES supports such an additional separation of expenditures to help investors better understand which companies are investing in strengthening their resilience to future climate impacts, and thereby reducing their risks.

- Some companies recommended that “Other Transition Activities” in the proposed table be eliminated or clarified such that it only includes climate expenditures for individually material climate projects. However, C2ES recommends retaining this line item for material expenditures, as some investments may not fall neatly into the other two categories. In particular, if “Climate-Related Events” are interpreted as actual events that have already happened (for which the reporting company made expenditures), and “Transition Activities for Publicly-Disclosed Climate-Related Targets and Goals” comprise activities aimed at reducing greenhouse gas emissions in line with voluntary targets, “Other Transition Activities” could represent an important category of proactive expenditures designed to build resilience to potential climate-related events (e.g., rising sea levels, changing drought patterns, and extreme weather events), as well as proactive expenditures to address potential transition risk from future regulatory policies.
- Most companies expressed that registrants should not be required to report individually immaterial expenditures. C2ES agrees, recognizing the importance of monitoring materiality in the aggregate over time to determine if an expenditure in fact does become material to the company. C2ES recommends that the SEC require reporting only individually material expenses and work with stakeholders to establish best practices for monitoring or tracking materiality in the aggregate. Additional guidance for monitoring and tracking would be needed, since once the materiality threshold is breached in the aggregate, operational difficulties would exist in reverting to the beginning of the reporting period to determine the precise financial amounts of all the underlying expenses in order to report accurately.
- Questions arose across industry sectors on what constituted climate-related expenditures versus recurring significant capital or operating expenses. For example, in the case of utilities, what if the entire utility fleet would be converted, or had been converted, to carbon-free energy? For utilities with climate targets that include their generation and operations, questions arose as to what kinds of expenses would be considered transition expenses versus capital expenditures related to the maintenance of existing clean-energy assets. Ideas for potential solutions that were discussed included that the SEC could issue sector-specific guidance for industries where most of their balance sheets might reflect expenditures relating to clean energy, decarbonization, and/or resilience. For example, could companies with a high percentage of clean-energy assets disclose the percentage of said assets by referencing the expenditures in their financial report, and would the proposed table capture those specific material capital or other remaining expenditures related to the transition to a low-carbon future?

To enable any financial reporting on climate-related expenditures as proposed in this alternative reporting table, many companies expressed that the SEC would need to clarify the following definitions:

- **The SEC should define “climate-related expenditure,”** especially for sectors where a significant amount, or all, capital expenditures could conceivably be considered climate-related. Where companies’ expenditures are tied to material assets, the concept of “separable and discrete” may be less applicable, and in sectors where the investments in reducing emissions are more clearly defined, “separate and discrete” expenditures make more sense. Several companies sought some flexibility in how climate-related expenditures are defined, while also narrowing the scope for what would be considered a climate-related expenditure.
- **The SEC should define a “climate-related event.”** As C2ES noted in its comments to the SEC in June 2022:

“Risks are inherently forward looking. As such, it is recommended to limit the financial statement data to include actual climate-related events/incidents/impacts which have been realized and have had an impact. Additionally, it may be challenging for registrants to track chronic climate-related damages and may not be separately identified from other hazards. Chronic impacts such as sea level rise and gradual increase in temperature eventuate over time, in contrast to acute incidents such as flooding and extreme weather events whose impacts may be easier to track and for which financial impacts may be more straightforward to identify and therefore disclose. Finally, it is also impractical to require companies to analyze all weather events and natural conditions. C2ES recommends that the commission should define what is considered a severe weather event and provide guidance on what is considered climate events and climate-change related events. Such efforts should be connected to accounting principles for assessing the financial impacts of climate-related risks.”
- **The SEC should define “transition activities.”** In discussions with companies, C2ES noted the question of when climate-related expenditures cease to be ‘transitioning’ and become common practice (e.g., for new expenses and/or ongoing operations and maintenance). The SEC should develop guidelines for what constitutes an expense related to the transition to a low-carbon/clean-energy future, and what external, industry-wide metrics and internal, company-specific metrics would indicate that the transition has occurred and therefore is no longer to be reported in the future. For example, does a company cease reporting expenditures for renewable energy once it achieves its goal of purchasing renewable energy for 100 percent of its energy needs or does a company have an ongoing obligation to report such expenditures?
- **The SEC should define “discrete and separable,”** given the challenges in calculating and disaggregating the specific impact of climate-related activities and events.

Broader feedback and C2ES recommendations:

- **The SEC should work with the Financial Accounting Standards Board (FASB) to support the development of accounting guidance.** FASB should develop authoritative accounting guidance for climate-related expenditures, with engagement from the SEC and climate experts.

- **The SEC should also support the development of auditing standards.** For companies to meet compliance, they would need to build out data collection processes and procedures that track climate-related expenditures. To that end, they would also need to adopt and test enhancements to internal controls and audit processes over financial reporting at a granular level. Standards and guidance for external audits are needed.