Dear Chairman Clayton,

The Principles for Responsible Investment (PRI) is the world’s leading initiative on responsible investment. Launched in New York in 2006, the PRI has grown to over 2,000 signatories, investing $80 trillion and it is still growing. The U.S. is the PRI’s largest market.

Integrating Environmental, Social and Governance (ESG) factors has become a necessary part of investment. In the context of market volatility, climate change and regulatory intervention, ESG factors offer an expanded set of tools to address unmet investment industry needs in accordance with fiduciary duties.

The PRI welcomes the opportunity to comment on the U.S. Securities and Exchange Commission’s (SEC) Draft Strategic Plan for 2018 – 2022. The PRI strongly recommends the SEC facilitate enhanced financially relevant ESG disclosures, in particular on climate change, as an additional initiative under Section 1.

The disclosure of ESG information is directly relevant to the stated goals of U.S. securities laws: providing investors with the information needed to understand a registrant’s business and financial condition and make informed investment and voting decisions. The PRI considers this relevant to Sections 1.4 and 2.2 of the draft Strategic Plan. The recommendation follows the SEC’s 2016 consultation on Regulations S-K and the 2010 interpretative guidance regarding disclosure related to climate change.

There are three primary reasons for our recommendation:

- U.S. investors are increasingly acknowledging that fiduciary duties require the consideration of economically-relevant ESG factors, including climate change, into their investment decision-making processes.¹

The PRI welcomed guidance from the Department of Labor (DOL) in October 2015, and again in 2018, which stated that economically-relevant ESG factors were part of a prudent investment decision. There are multiple studies demonstrating the economic relevance of ESG factors to investment portfolios (for example, the PRI’s financial performance of ESG integration in U.S. investing²).

Although the DOL bulletins are directed at ERISA fiduciaries, we note that a significant proportion of U.S. investors are influenced by or subject to fiduciary standards mapped out in

¹ [www.fiduciaryduty21.org](http://www.fiduciaryduty21.org)
ERISA and applicable guidance. Credible, decision-relevant and comparable ESG information about investee companies is therefore necessary for investors to operate within the requirements of their fiduciary duties.

- **Current corporate reporting practice is failing to meet investors’ ability to fulfil their fiduciary duties.**

  The PRI finds increased demand for ESG information, with investors supplementing information from Commission filings with data obtained from third party data providers. Investor demand for ESG information is also indicated by the increase in voluntary reporting of ESG factors and other sustainability related disclosures by corporations. This creates inefficiencies for companies, with companies responding to multiple voluntary reporting initiatives, some of which are written for a broader stakeholder audience and unconnected with the core operations of the business.

- **Companies and financial institutions need better information to guide them through the energy transition.**

  Greater transparency will support an efficient market response to climate-related risk, rather than concentrating it in a single climate “Minsky moment”. The Financial Stability Board’s Taskforce for Climate-related Financial Disclosures (TCFD), in consultation with investors, lenders, insurers and other stakeholders from across the globe has developed voluntary recommendations for standardizing of climate change disclosure thereby increasing the availability and use of comparable climate-related, financial and risk management information.

  A recent PRI – Baker McKenzie review examined how TCFD could be integrated into existing U.S. material risk disclosure regulation. It recommended the consideration and implementation of a framework that is consistent with the TCFD, which will help U.S. companies understand the ideal shape of their disclosure and incorporate climate-risk awareness in their businesses and financial filings.

**The PRI recommends that corporate disclosures:**

- Include ESG factors in the annual report, with clear links between ESG factors and the company's business model.
- Assure ESG factors, consistent with financial data. We suggest a phased introduction.
- Report using common metrics, such as those articulated by the FSB TCFD³, to allow for comparability, in particular, comparability by industry, portfolio and across time-series. For example, the Commission could codify industry and sector specific KPIs for ESG factors within Regulation S-K.
- Disclose additional company-specific ESG risks and opportunities.

We appreciate the opportunity to share our views on the draft Strategic Plan.

Yours sincerely,

³ https://www.fsb-tcfd.org/
Fiona Reynolds
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