Public Input Welcomed on Climate Change Disclosures

Catavento comments

1. **How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?**

The Commission could make compliance with the TCFD guidelines mandatory for US-listed companies, considering a transition period of up to 5 years for those who still have to adjust.

   a. **Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?**

Metrics and disclosure regarding the management, oversight and mitigation of climate-related risks and opportunities should be provided in financial disclosures, such as annual reports, although the company can have more detailed information on specific climate reports and keep its website updated.

2. **What information related to climate risks can be quantified and measured?**

Information related to the impact of different carbon prices for a given company are quantifiable and measurable, including considering different levels. Company should also quantify their scopes 1, 2 and 3 GHG emissions, the amount invested and spent in low carbon initiatives as a total of CAPEX and OPEX, % of operated areas subject to water stress, and to physical climate risks. Disclosure regarding R&D expenses dedicated to low carbon could also be useful.

   a. **How are markets currently using quantified information?**

Currently, asset owners try to quantify business performance compared to peers and benchmarks as well as their own portfolio risk exposure. ESG index providers also quantify the carbon intensity of their holdings compared to a benchmark (eg.: MSCI ESG ETFs) and have set targets to reach carbon neutrality across their portfolios.

   b. **Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)?**

All companies should have mandatory reporting of scope 1 and 2 emissions. Scope 3 should be mandatory for larger companies and for those in which scope 3 emissions account for more than 40% of total emissions.

   c. **What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision?**

Scopes 1, 2 and 3 GHG emissions, the amount invested and spent in low carbon initiatives as a total of CAPEX and OPEX, % of operated areas subject to water stress, and to physical climate risks.

   d. **Should disclosures be tiered or scaled based on the size and/or type of registrant? If so, how?**
Yes, larger companies should have to disclose more metrics, while smaller companies should have a transition period and should disclose only material data.

e. **Should disclosures be phased in over time? If so, how?**

Yes, mandatory disclosure of TCFD alignment consider a 5-year transition period.

f. **How are markets evaluating and pricing externalities of contributions to climate change?**

Considering a shadow price on companies’ GHG emissions, evaluating carbon intensity compared to peers and evaluating portfolio (eg.: exposure to coal, tar sands).

g. **Do climate change related impacts affect the cost of capital, and if so, how and in what ways?**

Climate-related transition risks already seem to be affecting the cost of capital, since the risk of reduced demand for fossil fuels such as coal and oil is already being considered and leading to higher cost of capital for coal and high-emitting O&G projects (see graph – source: IEA 2019).

At the same time, climate-related opportunities such as increased demand for renewables and low carbon investment is being perceived through the emission of green or sustainability-linked bonds that experience reduced rates compared to benchmarks.

h. **How have registrants or investors analyzed risks and costs associated with climate change?**

What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions?

Some companies run scenarios and stress tests according to different climate scenarios, based on information disclosed by the International Energy Agency, for instance. The resilience of the companies’ portfolio to different carbon prices could be disclosed.

i. **How does the absence or presence of robust carbon markets impact firms’ analysis of the risks and costs associated with climate change?**

The absence of robust carbon markets can diminish the financial incentives companies have to accelerate their emissions reductions.

3. **What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a
system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?

Having disclosure standards previously discussed among all the stakeholders involved tend to have more positive outcomes than the ones imposed, as they might be readily implemented and feasible.

4. What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?

A sectoral approach should help to demand disclosure for the most relevant issues for each industry. For example, for the financial sector, the most relevant aspect is how to align the portfolio to a net zero economy. At the same time, for oil and gas, portfolio exposure to climate scenarios, peak demand and diversification, and internal carbon pricing are some of the most relevant issues.

5. What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?[7] Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

These rules would not create an additional burden for companies, since TCFD and SASB are already globally recognized as benchmarks and would provide a sound basis for reporting material ESG and climate-related information.

6. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?

The Commission should rely on existing standards (TCFD, SASB…) but it should conduct the analysis of whether the companies are aligned on its own.

7. What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?

N/A

8. How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning
the connection between executive or employee compensation and climate change risks and impacts?

This is extremely relevant since climate governance and executive remuneration are essential tools to provide alignment and drive robust climate action, including climate-related risks oversight and mitigation. TCFD recommendations provide a good ground to start off, including the governance bodies responsible for oversight and the % of executive compensation linked to climate targets.

9. What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission’s rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

The Commission should set a new standard, but mandate that companies comply with the TCFD, SASB standards.

10. How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?

An independent audit on the climate reporting would be welcome but should not be mandatory in the first years since this could overburden smaller companies.

11. Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management’s annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

In line with response to question 10, companies need a time to adapt to new disclosure standards and certification or internal controls should not be mandatory for the first years of reporting.

12. What are the advantages and disadvantages of a “comply or explain” framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should “comply or explain” apply to all climate change disclosures or just select ones, and why?

Given the urgency of the theme, disclosures should be mandatory with a transition period. In this transition period the “comply or explain” could be adopted so that the company can explain its process for full compliance.
13. How should the Commission craft rules that elicit meaningful discussion of the registrant’s views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management’s Discussion and Analysis of Financial Condition and Results of Operations?

N/A

14. What climate-related information is available with respect to private companies, and how should the Commission’s rules address private companies’ climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?

N/A

15. In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?

Climate-related disclosures, given the urgency and relevance of the theme, should have a robust set of separate criteria, but should be aligned to a broader ESG disclosure.