RS Metrics, LLC

Public Input Welcomed on Climate Change Disclosures

Submitted by:
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Dear Chair Gensler,

As the market-leading company for satellite imagery and geospatial ESG analytics on an asset level, RS Metrics has been closely following the evolving climate change disclosures domain. We welcome this opportunity to provide feedback and input to the SEC on Climate Change Disclosures, drawing upon our years of experience in the environmental geospatial-based intelligence sphere and our partnerships with global industry-leading AI / Fin-Tech investors, hedge funds, asset managers, utilities, corporates, rating agencies, and index providers. Please see below our answers to some of the questions in the original letter divided by general topics.

Existing challenges in the ESG data sector

Consistent, comparable, and reliable information is key for generating actionable insights needed by investors in the decision-making process. The standardization of the framework and disclosure process will help the commission monitor and review climate change disclosures while also seeking public comments on changes. It is therefore essential that the commission provides proactive metrics, guidance, and standards to allow for the formation of the deep and liquid market and industry.

Below are some of the challenges within the current ESG data landscape which also apply to climate-related datasets and disclosures as well.

Challenges in the ESG sector. Source: RS Metrics, 2021.

Based on our interaction across the multiple customer segments listed below who have a broad range of investment use cases, the need for consistent and transparent climate datasets is paramount. The common theme across all customer segments is the need for data that can be used in baselining a company's environmental footprint while also giving them the ability to benchmark against a peer group. In order to achieve these objectives, investors are looking for third-party data providers such as RS Metrics to provide high-frequency, standardized environmental metrics in addition to corporate disclosures, regulatory filings, company reports, and news sources.

Main Customer Segments

The main customer segments who are involved in climate change disclosures are corporates, index providers, rating agencies, asset owners, ESG Ratings & Score providers, and asset managers.

Main ESG customer segments. Source: RS Metrics, 2021.

Significant advancements in remote sensing have made it possible for corporates to track, measure, and continuously monitor their environmental impact with greater granularity, higher frequency, and at a lower cost.

Key quantifiable metrics

Key environmental impact metrics covered through remote sensing are emissions, water stress, land usage, and proximity to biodiversity hotspots. The remote sensing landscape is rapidly evolving with specialized sensors onboard satellites for tracking GHG emissions especially methane (CH4) and carbon dioxide (CO2) to the asset level. In addition, the frequency and resolution of optical sensors have advanced significantly which assists attributing emissions to specific assets even in industrial areas with multiple emission sources. These advances in satellite-based monitoring are pushing the costs lower for companies to assess their environmental impacts in near real-time as opposed to relying on installing

ground sensors at each of the individual facilities, which increases their costs to monitor or relying on estimates based on their operations which can lead to inaccurate measurements.

The below-listed climate-related risks can be quantified and are material to investment and voting decisions.

Scope 1 & 2 GHG emissions are measured and reported in CO2 equivalent

- Carbon Monoxide (CO)
- Nitrogen Dioxide (NO2)
- Sulfur Dioxide (SO2)
- Methane (CH4)
- Aerosols

Land usage and proximity measured in square meters

- Land usage
- Land cover type classification
- Asset proximity to IUCN areas 2021
- Asset proximity to biodiversity hotspots
- Asset Proximity to key biodiversity areas
- Percentage of assets owned by the company close to biodiversity hotspots

Water stress

- Percentage of assets owned by the company in high water stress basins

Climate Change Trends

Irrespective of the absence or presence of robust carbon markets, firms are increasingly putting emissions targets on their supply chain, meaning emissions-intensive suppliers will be increasingly disadvantaged and at higher risk, and will therefore potentially have a higher cost of capital. In addition, the rise of ESG-linked commodities means that purchasers of commodities will increasingly prefer commodities with good ESG scores, which again will potentially raise risk and therefore the cost of capital for emissions-intensive commodity producers. Mandating disclosure would allow investors to properly assess these risks and allocate capital accordingly.

According to a recent study based on data from Thomson Reuters for both cost of equity and cost of

debt for the MSCI World Index, the average cost of capital of the highest ESG-scored quintile was 6.16%, compared to 6.55% for the lowest ESG-scored quintile. Companies with high ESG scores, on average, had lower costs of capital as opposed to companies with poor ESG scores in both developed and emerging markets. Numerous large multinational financial institutions have also launched discounted “green” sustainability linked notes that offer discounts to compliant borrowers.

Investors utilize a range of data and information to make investment decisions. In addition to traditional financial metrics, there is an increasing consensus that integrating environmental, social and governance (ESG) factors in analyses provides investors with a more holistic view and leads to better-informed investments.

Private companies disclosures

The risks associated with climate change affect private companies no less than they do public companies, and disclosure is critical for investors and other stakeholders in private companies. Sustainability should be a key focus for both public and private enterprises and disclosure plays an important role to help investors and regulators uncover greenwashing and other abuse of standards or misrepresentation of ESG data.

In addition, fund managers and investment advisers should be encouraged to disclose sustainable finance investments both at the company level and product level, so that their investors/clients can make fully informed decisions about how to allocate their capital. This can be done through:

- Encouraging financial market participants to disclose information on policies implemented and actions taken regarding the integration and consideration of sustainability risks and adverse impacts into their investment decisions making
- Implementing a comply or explain basis at entity and product level

Respectfully,

Maneesh Sagar
Chairman & CEO of RS Metrics
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