June 2, 2021

Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Submitted via https://www.sec.gov/cgi-bin/ruling-comments

Dear Chair Gensler,

The Washington State Investment Board (WSIB), representing $170 billion in invested assets on behalf of more than 538,000 retirement plan beneficiaries and other public trust stakeholders, welcomes the opportunity to respond to the Securities and Exchange Commission’s (SEC’s) request for public input on climate-related financial disclosures issued by then Acting Chair Allison Herren Lee on March 15, 2021.

For the WSIB and other large institutional investors with long time horizons, climate change is a systemic risk that cannot be fully addressed through diversification. Therefore, we must work to measure and manage the climate-related risks and opportunities of our investments as part of the effort of maximizing return at a prudent level of risk for our beneficiaries. To do so effectively, we must have comparable, consistent, and decision-useful climate-related information relevant to our investments. The SEC’s involvement in the regulation of climate-related financial disclosures would be an important step toward improving investor access to this type of information.

The SEC’s authority to provide investor protection, maintain fair and orderly markets, and facilitate capital formation makes it the ideal body to regulate climate-related financial disclosures. If properly implemented, the SEC’s leadership in this effort could reduce the voluntary reporting burden of companies, large and small, public and private, on environmental, social, and governance (ESG) issues.

While this letter will not answer all 15 of the questions posed in your initial request for comment, we will touch on key considerations that are critical to fair and well-functioning markets as the world transitions to a lower carbon economy.

Use of existing sustainability standards and frameworks

The proliferation of various sustainability frameworks and standards that exist today confuses investors and creates an undue reporting burden on companies. Fortunately, these reporting organizations have recognized this impediment and are working together to consolidate their approaches and better explain the roles of the various organizations where differences remain. This is evidenced by the September 2020
Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, a summary of alignment discussions among leading sustainability reporting organizations that included CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), and International Integrated Reporting Council (IIRC). That statement was closely followed by an announcement of the Value Reporting Foundation, a pending merger between SASB and IIRC. While we welcome these developments, we believe that further consolidation is necessary.

Rather than increase the existing sustainability reporting burden on companies, the SEC should support disclosures that are consistent with existing voluntary frameworks and standards, such as TCFD and SASB. We highlight these particular organizations due to TCFD’s framework that focuses on financially material climate-related risks, and SASB’s focus on financially material, industry specific sustainability reporting standards. These groups represent orderly, best-of-breed approaches to the issue of evaluating ESG factors in an investment context.

Focus on climate

At the WSIB, we believe climate change is a critical systemic risk that long-term institutional investors must address as part of their fiduciary duty. Likewise, governments must face up to a similar responsibility in their policymaking duties. Therefore, we applaud the SEC’s focus on climate-related disclosures as an initial focal point and encourage close collaboration with TCFD as the SEC determines what should be reported on. In addition, we would encourage the SEC to consider the current rulemaking process in the context of how it might impact an array of other financially material ESG issues in the future.

Mandatory greenhouse gas emissions reporting

Across the globe, an exponentially increasing number of governments, asset owners, investment managers, and companies are making fresh commitments to net zero greenhouse gas emissions. As a result, greenhouse gas emissions are more likely to impact company profitability and stock prices going forward.

While greenhouse gas emissions may not be directly or dramatically material to the financial health of every public company, this issue has become critical for investors who are serious about assessing the climate-related risks and opportunities across their portfolios. Reliable data on emissions should be a required part of the disclosures provided in regulated financial statements. A good starting point would be the reporting of greenhouse gas emissions in line with the TCFD, which requires disclosure of scope 1, 2, and (if appropriate) scope 3 greenhouse gas emissions. The SEC should consider using an existing measurement protocol in its disclosure guidance, since these are already well established and utilized by many companies globally.

With nearly half of our pension assets invested in private markets, the WSIB is aware of the burden that increased required reporting can have on smaller companies, both public and private, and we urge the SEC to consider this into its decision making and analysis. We are encouraged that some of our general partners are starting to ask their private companies to report scope 1 and 2 emissions; it is becoming more accepted as standard business practice and therefore is likely less of a burden than critics suggest. Standardized disclosure has the potential to reduce the voluntary reporting burden on private companies. Limited partners who seek emissions data from general partners would be able to point to the SEC disclosure rules as a standard for what they request.
Concluding remarks

In conclusion, the WSIB believes that the SEC has a critical role to play in evolving the state of sustainability disclosure. If executed properly, a clear set of mandated climate-related disclosures would increase investor access to financially material, comparable climate-related information that would aid in investment decision making. The initial climate-related disclosure requirements could be the foundation for financially material ESG considerations more broadly in the future. This also will help expedite the needed consolidation of various existing sustainability reporting standards and frameworks, as they would almost certainly coalesce around the SEC’s guidance.

Thank you for this opportunity to provide our views on this important topic. I hope this is helpful.

Sincerely,

Theresa Whitmarsh
Executive Director

cc: WSIB Board