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Via Electronic Mail

June 3, 2021

Hon. Gary Gensler
Chair
Securities and Exchange Commission
100 F St, NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler:

Bloomberg L.P. appreciates the opportunity to provide comments to the Securities and Exchange Commission (the "Commission") regarding its recent public statement and request for input on climate change disclosure.

We share the Commission's recognition that investors, lenders, underwriters, and other market participants are increasingly demanding information needed to undertake a robust and consistent analysis of the financial impacts associated with a changing climate on business operations. Indeed, because Bloomberg L.P. is in the business of providing decision-relevant data to a wide variety of financial sector stakeholders, we feel we can speak with confidence about the need for climate-related disclosures in the market. Our view is unequivocal: there is a serious lack of decision-useful disclosure around climate-related risks and opportunities that, if provided, would improve the pricing and efficient allocation of capital in the market.

Others share our point of view. For example, Climate Action 100+ supports more than 570 investors managing $54 trillion in assets to engage companies on improving climate change governance and strengthen climate-related financial disclosures. The Transition Pathway Initiative (TPI) – which assesses companies' preparedness for the transition to a low carbon economy – is supported by over 100 investors. The Global Investors for Sustainable Development (GISD) Alliance – comprising 30 CEOs of major corporations and financial institutions – has called for mandatory sustainability reporting for financial and non-financial institutions. The list goes on. Notably, support for climate-related disclosure is not confined to just companies and institutions - even the American public is convinced of the need: in a recent survey, nearly three quarters of voters supported requiring public companies to disclose information related to climate risk.[1]

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[1] Morning Consult/EDF Poll, December 9-11, 2020 (https://www.edf.org/sites/default/files/u76/EDF_Climate_Risk_Memo.pdf).

Fortunately, the Commission can leverage the significant work, analysis, and development of climate-related financial disclosures that has occurred over the past decade and continues today. The disclosure framework and recommended disclosures developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) can provide a starting point and foundation for the Commission's work in this area.[2] In this regard, we support initiatives by the G20, the Financial Stability Board, and others to develop a baseline of global sustainability reporting standards that would build on the work of the TCFD.

The TCFD framework is based on the idea that providing investors, lenders, insurers, business leaders and other stakeholders with better, more complete information about climate risks and opportunities will enable more informed investment, credit, underwriting, and strategic business management decisions. It does this by ensuring that companies and organizations disclose information about the financial implications of climate-related risks and opportunities clearly and consistently, all organized within a framework of four pillars: governance, strategy, risk management, and metrics & targets. For more on the framework, please refer to our response to question #5, below.

Following are our views with regard to the Commission's questions #1, #2, #4, #5, #8, #9, #10, #12, and #13.

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

Disclosures should be incorporated into existing, mainstream filings.

We believe that the Commission can best regulate and monitor climate change disclosures, and provide greater clarity to registrants, by requiring at a minimum that this information – e.g., material risks and financial impacts of climate change – be part of existing, mainstream financial filings (such as annual reports).

RE: QUESTION 2: *What information related to climate risks can be quantified and measured? How are markets currently using quantified information? 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)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing*

[2] The TCFD is an industry-led task force created by the Financial Stability Board. Its members represent providers of capital, insurers, large non-financial companies, accounting and consulting firms, credit rating agencies, and others. The TCFD has developed recommendations for more effective climate-related disclosures to promote more informed investment, credit, and insurance underwriting decisions. It is chaired by Mike Bloomberg, founder of Bloomberg L.P. Bloomberg L.P. serves as the Secretariat of the TCFD. For further information on the TCFD, please see https://www.fsb-tcfd.org/.

externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? 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? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?

Disclosures should provide decision-useful metrics and information for investors on both current and forward-looking potential climate-related risks and opportunities faced by filing companies. This information, at a minimum, includes metrics on company GHG emissions, actual and projected financial impacts, and assessments of strategy resilience using scenario analysis.

For example, GHG emissions – particularly scope 1 and scope 2 emissions, and increasingly scope 3 emissions[3,4] – are critical components of any climate-related financial disclosure scheme. Because these emissions are the major drivers of temperature increases, understanding the emissions contributions of a company is an important factor for understanding how financially vulnerable they may be to shifts in regulation, technology, and markets as the world adjusts to a lower-carbon economy. Indeed, a company's level of emissions is an important factor in investors' and other market participants' assessments of potentially material climate-related transition risks and opportunities.

We also believe it is important that corporate disclosures include information on how climate-related risks and opportunities may affect companies' income statements, cash flow statements, and/or balance sheets. This information is critical for investors, lenders, and underwriters in assessing a company's risk profile, estimating its risk-adjusted returns, and completing other relevant financial analyses. Examples of potential climate-related financial impacts include: changes in operating costs due to climate-related commodity price changes, disruptions to supply chains and business operations, operational restructurings, or other factors; changes in asset values as a result of obsolete inventories, asset impairments, or a change in the expected useful life of assets; a higher frequency and magnitude of insured events (e.g., property damage, weather-driven business interruptions, etc.) that affect the measurement and reporting of insurance contract liabilities; and more.[5]

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[3] According to *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)* published by the World Resources Institute and World Business Council for Sustainable Development (March 2004): scope 1 refers to all direct GHG emissions from sources that are owned or controlled by an organization; scope 2 refers to energy consumption-related indirect GHG emissions such as from the purchased electricity consumption of the organization; and scope 3 refers to emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

[4] Of note, for financial firms, scope 3 emissions includes financed emissions; disclosing such information is important for understanding a financial firm's climate-related risks and opportunities

[5] For a list of example climate-related impacts on financial statements, see the IFRS's *Effects of climate-related matters on financial statements* (November 2020).

Further, scenario analysis is an important tool for assessing the resiliency of a company's strategy under a range of plausible climate-related scenarios. It allows companies to test their business strategy against a spectrum of "what-if" future climate change risks and develop a more informed and anchored view of implications for their enterprise value and value chains. Disclosure of scenarios used by a company can also inform investors about the reliability, reasonableness, and resiliency of a company's plans to address climate-related risks and opportunities. To the extent that the markets and regulators can develop a set of common reference scenarios, scenario-related information will be more comparable and useful across companies. Additionally, common reference scenarios would be most effective if they are adopted on a global scale. This would allow for comparability across borders and limit the confusion and complexity that comes with comparing otherwise similar firms that use different scenario methodologies.

Finally, in considering what metrics to incorporate into a system of climate-related disclosure, the Commission would benefit from reviewing the work of five leading organizations in this space - SASB, CDSB, CDP, GRI, and IIRC – which formed an alliance to work toward a prototype climate-related financial disclosure standard and a comprehensive corporate system to inform and assist the work of IOSCO and IFRS on this topic. Their report from December 2020, *Reporting on enterprise value – illustrated with a prototype climate-related financial disclosure standard,* provides a strong foundation on which the Commission can develop climate-related disclosure metrics.

RE: QUESTION 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?*

We endorse the TCFD's framework as a foundation on which the Commission can build a robust system of climate-related disclosures, including one that incorporates industry-specific standards.

The TCFD framework would provide a common, cross-industry foundation for creating disclosures and ensure that a common set of topics will be disclosed (e.g., descriptions of a company's climate-related governance, risk management, strategy, and metrics and targets). There are also a number of common climate-related metrics (e.g., GHG emissions) that should be applied on a cross-industry basis. But the TCFD framework is just that – a framework, not a set of industry-specific reporting standards; the TCFD has recognized that beyond a common, industry-agnostic framework, there are areas of disclosure that require industry-specific standards to address the various unique industry risks and opportunities presented by climate change. In recognition of this, in its implementing guidance for the TCFD framework, the Task Force has provided industry specific guidance for Banks, Insurers, Asset Owners, and Asset Managers. It also provided guidance for non-financial industries more likely to be impacted by climate change due to exposure to transition and physical risks around GHG emissions, energy, or water dependencies associated with their operations and products; these non-financial industries include: Energy, Transportation, Materials and Buildings, and Agriculture, Food and Forest Products. Further, we point the Commission to the work of the Sustainability Accounting

Standards Board (SASB) which has created industry-specific standards. SASB's approach includes a set of metrics that are both qualitative and quantitative and are feasible to report on. In determining the merits of an industry-specific approach and the ways in which to classify different industries, the Commission would benefit from a review of SASB's extensive existing materials.[6]

RE: QUESTION 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)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?*

The framework of the Task Force on Climate-related Financial Disclosures (TCFD) is the right framework to anchor new disclosure rules.

As the Commission recognizes in its request for public comment, much work has been done by a robust ecosystem of industry stakeholders, researchers, advocates, and policymakers to create a starting place for regulators to move forward on climate disclosure. The TCFD in particular offers a high level, globally-accepted, flexible framework on which to structure and base future disclosure standards and reporting requirements.[7] The framework calls for disclosures related to four areas: Governance (i.e., board and management roles in assessing and managing climate-related risks), Strategy (i.e., climate risks and opportunities that affect a company's business strategy and operations, and how resilient a company's strategy may be to such risks and opportunities in the future), Risk Management (i.e., how climate-related risk is incorporated into a company's overall approach to risk management), and Metrics & Targets (i.e., what metrics and targets a company uses to assess climate-related risks and opportunities, and what its GHG emissions are).

TCFD offers a principles-based framework by which companies can organize and structure their climate-related disclosures in the context of reporting standards and protocols from other bodies. Other organizations such as those mentioned in the Commission's question text (i.e., the Sustainability Accounting Standards Board and the Climate Disclosure Standards Board) have issued climate and sustainability-related materials that, while complementary to and supportive of the TCFD framework, go a step beyond it by offering detailed reporting standards. We strongly urge the Commission to adopt the TCFD framework as the foundational organizing framework for any future climate-related disclosure requirements, while looking to standard-setters such as SASB, CDSB, and the IFRS Foundation (which is creating an International Sustainability Standards Board that would sit alongside IASB) for considerations regarding specific reporting standards.

There are several reasons for using the TCFD framework as a foundation for disclosure requirements. First, the TCFD framework has garnered widespread support: 12 national governments and over 110 regulators and government entities (including dozens of central

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[6] For additional information on SASB's recent research and approach to climate-specific standards, see its 2021 *Climate Risk Technical Bulletin*, found here: https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/ .

[7] See more on TCFD's framework on its website: https://www.fsb-tcfd.org

banks) support the framework, making it the predominant global framework for climate-related financial disclosure. Second, the TCFD framework has the support of over 2,100 organizations and companies representing a collective market capitalization of over $23 trillion and financial institutions responsible for assets of over $185 trillion. Indeed, an increasing number of global companies are already issuing TCFD-aligned disclosures. In its 2020 Status Report, the TCFD found that, on average, 42% of companies with a market capitalization of greater than $10 billion disclosed information in the previous year that aligned with TCFD recommendations. While this proportion was lower for smaller companies, the report found that overall TCFD-aligned disclosure is increasing year-over-year.[8] Third, relevant global organizations representing regulatory authorities across the world – including the International Organization of Securities Commissions (IOSCO) and the Network for Greening the Financial System (NGFS) – have endorsed the TCFD framework.

Additionally, and as mentioned, much progress has been made in the sustainable standard setting community to align and integrate available standards. We would especially point the Commission to the work of five leading organizations in this space who issued a joint letter in September 2020, *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*.[9] In considering any future standards, the Commission would benefit from reviewing these organizations' standards and their jointly-authored documents to jumpstart the creation of disclosures for the United States. In particular, the Commission should review their recently-published prototype for climate disclosure, titled *Reporting on enterprise value – illustrated with a prototype climate-related financial disclosure standard*.

RE: QUESTION 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?*

The TCFD framework and recommendations call for disclosure of an organization's governance around climate-related risks and opportunities. This includes disclosure of a board's oversight of these risks and opportunities as well as management's role in assessing and managing these risks and opportunities.

Governance disclosure creates accountability that, if not present, would make it difficult to discover if a company adequately understands the climate-related risks and opportunities it faces and whether they might significantly affect enterprise value. Irrespective of the materiality of a company's climate-related risks and opportunities, disclosure in this area should at minimum describe a board's oversight of climate issues (e.g., committees involved, frequency of engagement, board involvement in goal-setting, etc.) and management's role in assessing and managing climate issues (e.g., who in management is responsible for climate-related work, the

[8] Analysis of TCFD-aligned disclosure based on AI sampling methodology; for more information see *Task Force on Climate-related Financial Disclosures – 2020 Status Report.*

[9] SASB, CDSB, CDP, GRI, and IIRC have formed an alliance to work toward a prototype climate-related financial disclosure standard and a comprehensive corporate system to inform and assist the work of IOSCO and IFRS on this topic. In its report, the Alliance states that the TCFD framework is an integral basis of their proposal.

process by which management monitors climate issues, whether and how material climate-related performance metrics are incorporated into remuneration policies, etc.).

RE: QUESTION 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 would benefit from working closely with other national regulators - through the International Organization of Securities Commissions (IOSCO), the International Financial Reporting Standards (IFRS) Foundation, and other forums - to develop global standards for disclosure of climate-related risks and opportunities. A clear starting point supported by IOSCO, the G20's Financial Stability Board (FSB), and many national regulators is the TCFD framework.

In general, more harmonized disclosure rules across the world will lead to more comparable and useful information across filing companies. Therefore, we believe the United States should endeavor to have the same basic climate-related financial disclosure framework as other countries, even if the application of that framework may differ in some of its particulars to address US-specific circumstances. Such a move will ensure that, despite any differences in framework application (e.g., through the setting of new standards or detailed disclosure requirements), there will still be a common baseline and structure allowing for a level of comparability. Given the universality and flexibility of the TCFD framework and its current level of endorsement by countries, regulators, and companies around the world, we believe US adoption of the TCFD framework would be the right foundation on which to continue making progress.

RE: QUESTION 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?*

Companies should use the same diligence in producing climate-related disclosure as they do for existing financial disclosure.

All such disclosure should be verifiable as high quality and subject to internal governance processes similar to those used for current financial reporting. Indeed, we are encouraged by recent indications that some companies are already receiving assurance from a public company auditing firm for some of their ESG information.[10] We would additionally point the Commission to review how other jurisdictions are approaching assurance, including the likely move toward a "reasonable assurance" standard for sustainability-related disclosure.

RE: QUESTION 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?*

Compliance should be compulsory for climate-related disclosures.

The goals of climate-related disclosures include improving the pricing and efficient allocation of capital in the market. However, if some companies choose *not* to participate in this scheme, they undermine the comparability and consistency of this information across the market. This comparability and consistency are crucial for investors and other market participants to make maximally-informed decisions about where to allocate capital. Further, regulators and policymakers also require a comprehensive understanding of this information to assess the concentrations of carbon-related assets in the financial sector and the financial system's exposure to climate-related risks. Therefore, we believe that just as the Commission requires disclosure of many other types of material information, it should also require climate-related disclosures in a way that is consistent with the TCFD framework.

RE: QUESTION 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?*

Any climate-related disclosure system should incorporate both qualitative discussion and quantitative metrics.

Regardless of the specific form any climate-related disclosure rules take, the inclusion of both qualitative discussion and, especially, quantitative metrics, is crucial for disclosures that allow investors and market participants to make informed capital allocation decisions. While some metrics may only apply to certain industries, others – particularly GHG emissions levels – should be reported by all filing companies regardless of industry. Of course, metrics, particularly risk and forward-looking metrics, also require context that can only be communicated effectively in a narrative manner. We therefore encourage the Commission to contemplate both quantitative metrics and qualitative discussion in whatever rules it adopts.

Finally, it is also important to note that any future disclosure guidance or rule-making should seek to address investor-identified problems with the level and nature of climate-related disclosure today, in particular: incomplete and inconsistent information that varies widely across jurisdictions, company size, and sector, especially when it comes to quantitative data; multiple

[10] For example, see https://www.thecaq.org/sp-100-and-esg-reporting/

reports published by the same firm to satisfy multiple frameworks; a lack of connectedness between financial impacts and sustainability information, and a time lag in the publishing of ESG-related data; a lack of consistency in the location and appropriate identification of ESG-related information; and sustainability reports that are often branding communications rather than investor-relevant disclosure.

CONCLUSION

We fully endorse the Commission's commitment to requiring the disclosure of material information by filing companies to enhance efficient capital allocation and the functioning of our markets. Requiring climate-related disclosures is a welcome step in that pursuit – and is both clearly within the Commission's mandate and responsive to market demands.

As every risk professional knows, the nature of risks faced by organizations evolve over time. The fact is that climate change and the expected transition to a lower-carbon economy is as ubiquitous as it is significant. One estimate projects that climate change could result in a 7.2% cut in worldwide GDP per capita – and an over 10% cut to US GDP per capita – by 2100 in a 'business as usual' temperature increase scenario.[11] Despite the magnitude of climate-related financial risks, there is still an inadequate amount of information disclosed by companies about their exposures and vulnerabilities to climate change, the potential impacts on enterprise value, and how they are positioned to manage climate-related risks and seize opportunities. For these reasons and others, we are grateful that the Commission has decided to address this persistent gap in information in company filings and we look forward to the progress to come.

Sincerely,

Gregory Babyak
Global Head of Regulatory Affairs, Bloomberg L.P.

CC: Hon. Hester M. Peirce, Commissioner
Hon. Elad L. Roisman, Commissioner
Hon. Allison Herren Lee, Commissioner
Hon. Caroline A. Crenshaw, Commissioner

[11]National Bureau of Economic Research, "*Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis" (2019);* reported on by The Washington Post, "*Climate change could cost the US up to 10.5 percent of its GDP by 2100, study finds" (August 19, 2019).*