Dear Chair Gensler:

On behalf of Parametric Portfolio Associates LLC (“Parametric”), I am pleased to submit this letter in response to the March 15, 2021 request for public comments on whether the current disclosure rules and regulations of the U.S. Securities and Exchange Commission (the “Commission” or “SEC”) appropriately address climate change. We commend the Commission’s efforts to comprehensively address climate change disclosures.

Parametric invests more than $358 billion on behalf of individual and institutional clients in largely rules-based strategies that invest in thousands of companies with headquarters and operations around the world. We recognize the growing importance of environmental and social issues generally, and climate in particular, to corporate financial performance. Given the systemic nature of climate risk and the fact that such risk varies substantially among industries and companies, climate risk is both an important systematic and non-systematic risk for client portfolios. Investors are therefore increasingly considering climate, and ESG issues more broadly in their investment decisions, whether it be to reflect their principles or because they aim to hold a portfolio of companies they believe can out-perform over time. We are supporters of the Task Force on Climate-related Financial Disclosures (“TCFD”) and members of the Sustainability Accounting Standards Board (“SASB”) Alliance.

We respectfully submit five comments below:

1. Regulatory climate disclosure is lacking despite 2010 SEC guidance

We have observed that corporate reporting on climate has been virtually nonexistent in regulatory filings despite the systemic nature of climate. SASB’s recently updated Climate Risk Technical Bulletin indicates that the typical company in 68 of 77 industries is exposed to material
climate risks and opportunities that cover 89% of the market capitalization of the S&P Global 1200. Despite this highly informed view (see #3 below), a 2018 General Accounting Office report on US corporate regulatory filings on climate since the SEC’s 2010 climate guidance, demonstrated that even companies directly and substantially impacted by climate risks seldom made any mention of climate in their regulatory filings. Companies may be willing to voluntarily report on their material climate exposures in annual reports, standalone reports, sustainability reports or other locations, but they have not demonstrated a willingness to do so in regulatory filings. We commend the SEC for revisiting this issue.

2. The markets could benefit from mandatory reporting standards

We wholeheartedly agree with the SEC Asset Management Advisory Committee Potential Recommendations of ESG Subcommittee December 1, 2020 Discussion Draft – “we propose that mandatory, rather than voluntary, standards be established, as the current, unguided approach has not resulted in consistent, comparable, complete and meaningful disclosure.” Despite the coalescence of investors behind the importance of reporting their climate exposures using the TCFD framework (supporters with more than $150T assets) and SASB standards (supporters with more than $72T assets), the quality of such corporate reporting substantially lags the consistent, comparable and robust reporting necessary for investors to make informed decisions. The TCFD 2020 Status Report indicates that only about 30% of companies globally disclose metrics and targets aligned with TCFD recommended disclosures. A substantial portion of the more than 1,000 companies reporting using SASB standards merely provide links to their other company reports (e.g. sustainability report, annual report, company fact sheet) rather than disclosing the specific metrics prescribed by SASB standards for their industry. Voluntary reporting of corporate climate exposure has been tried, and has failed to result in decision-useful information for investors. It is time for mandatory reporting with clear and specific reporting standards.

3. TCFD framework and SASB standards are complementary, and materiality focused

TCFD’s framework for climate-related disclosures recommends that companies report on their governance, strategy, risk management and metrics and targets associated with their physical, transition and regulatory risks and opportunities. TCFD sets forth a framework for companies to demonstrate that they are governing climate risks and opportunities at the highest levels, and disclosing how they are incorporating climate into their strategy and risk management. TCFD has not developed their own metrics and targets, therefore, incorporating TCFD into SEC reporting would require identifying metrics and targets which can quantify corporate performance on material climate issues. This is where SASB comes in.

SASB standards were developed over six years, during which time there were three public comment periods for each industry standard, and nearly 3,000 interactions with companies, investors and subject matter experts regarding the standards. The SASB standards development process was in fact modeled after that of the Financial Accounting Standards Board (“FASB”), including an independent standards-setting board and a separate SASB Foundation Board, whose
members have included two former SEC Chairs and a former FASB Chair. SASB standards were fit for purpose to be included in required regulatory filings.

4. **Adopt TCFD and SASB beyond climate**

Though the TCFD framework was developed for corporate climate disclosure, it is also directly applicable to disclosures regarding all other material non-financial issues. Companies could report their governance, strategy and risk management of material exposures to supply chain labor issues, data security, food safety and other material industry-specific issues using TCFD. They could also reference metrics in the 77 SASB industry standards to report how they perform on material issues. We are supportive of the SEC requiring broader ESG disclosures related to other environmental, social and governance matters that can be supported by TCFD and SASB’s materiality focused approaches.

5. **Global standards**

Climate change is a global problem that would be best addressed with international collaboration. The International Organization of Securities Commissions (“IOSCO”) strongly supports the creation by the International Financial Reporting Standards (“IFRS”) Foundation of a Sustainability Standards Board, which would develop a set of climate related standards that companies outside of the US would use for their regulatory filings. IFRS is considering the TCFD framework and SASB standards as a basis for such standards. We strongly recommend that the Commission, as members of IOSCO, work with the IFRS to align on a single set of global standards that incorporate TCFD and SASB. Global climate and sustainability standards would substantially benefit all investors and companies.

Parametric thanks the Commission for the opportunity to provide these thoughts and respectfully requests that the Commission take our recommendations into account while contemplating climate change disclosures, and possibly broader disclosure regarding other material non-financial issues. Thank you for your consideration.

Regards,

Gwen Le Berre,
Director of Responsible Investing,
Parametric Portfolio Associates, LLC