The Honorable Gary Gensler
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

June 8, 2021

Response to Call for Public Input on Climate Change Disclosures from Commissioner Allison Herren Lee

Dear Chair Gensler:

The William and Flora Hewlett Foundation is a nonpartisan, private charitable foundation that advances ideas and supports institutions to promote a better world. The foundation was established in 1966 and today is one of the largest philanthropic institutions in the United States, managing roughly $11 billion in assets and awarding over $450 million in 2019 to firms across the globe for the well-being of people and the planet.

The Hewlett Foundation views climate change as the defining challenge of our time, one that touches on every aspect of our economy and financial system. To safeguard human health and the environment, we broadly support work to ensure global average temperature rise is kept below the 1.5°C threshold. Like many market participants who seek to avert real economy and financial market collapse induced by unabated climate change, we vitally require data and information to accurately understand climate risk and finance decarbonization.

As a large philanthropic investor, we interact with, perform deals with, and otherwise support thousands of retail and institutional asset owners, asset managers, banks, and other financial institutions, as well as climate solutions companies. It is with this lens that we submit our comments for the SEC's role in facilitating the disclosure of consistent, comparable, and reliable information on climate change.

Inclusion of All Investors and Other Market Participants

The SEC mandate includes ensuring that the market is fair, orderly, and efficient – which includes ensuring that companies are providing investors, their lenders and other business partners, their customers, and the public the information they need to make informed business decisions. The SEC should be protecting ***all*** investors, from retail to institutional. The underlying premise is that the average citizen, not only sophisticated investors with access to proprietary databases and costly analytics, should have fair access the information they need from a company's SEC filings and required disclosure reports in order to have an accurate picture of a company, its risks, and its prospects.

Currently, the SEC is doing a substantial disservice to all market participants, including retail and community focused investors, by not requiring disclosure of information on such a ubiquitous, systemic, and systematic risk as climate change. The physical risks of climate change include those associated with increasingly frequent and intense climate disasters like sea level rise, wildfires, drought, flooding and heatwaves that thwart businesses and assets from operating smoothly. The transition risks of climate change include those associated with the massive technological and business model shifts towards a zero emissions economy. The regulator of the world's largest and most liquid capital markets is therefore delinquent in its responsibility to 1) protect investors (from exposure to climate related financials risks); 2) ensure fair, orderly, and efficient markets (by leveling the playing field in accessing corporate climate data); and 3) facilitate capital formation (with an appropriate allocation of capital that may well reflect the financial advantages of companies and financial institutions that are actively reducing greenhouse gas emissions).

The SEC's disclosure regime is mission critical to enable investors of all kinds and sizes to achieve their investment goals. As stated in the Hewlett Foundation's Social Investment Policy, "The Foundation is cognizant of the fact that many of the managers selected by the Foundation see the greatest investment promise in companies with enlightened managements that recognize that sustainable practices and sound employment policies are in the best long-term interest of their companies and shareholders. The rising importance that investment managers and company managements each give to these policies is leading to a convergence between the portfolios of social investors and mainstream investors."[1]

Different market participants use SEC-mandated disclosures for different reasons. Lenders such as banks and bond purchasers often rely on companies' public filings to review their financial health and evaluate their credit risks. Their determinations may directly impact the companies' costs of capital over short and longer-terms. Suppliers also often review companies' public filings to assess their credit risks, but also the longer-term potential prospects. Workers and corporate executive candidates (and their representatives) often use disclosures when negotiating compensation and benefits arrangements. Those arrangements often, in turn, have significant impacts on who works for the company and the company's overall success. And of course, customers of a company may review companies' public disclosures. Increasingly, customers are choosing to use their resources and engage in business with companies that may share their approach to environmental, social and governance issues. These values-based decisions by customers — large and small — may have extremely material short and long-term impacts on companies.

And of course, there are investors. Different forms of investors rely on the SEC's disclosure rules for protection. Some investors make decisions based on short-term price movements or market capitalization without regard to companies' fundamentals. Others, however, invest based on deep analysis of companies' management, products or services, and prospects. Some are passive holders, while other investors actively engage with companies to reform or change their business strategies or practices.

Importantly, climate-conscious investors may fall into all of these buckets.

Some investors choose "best in class" public equities across all sectors; some have adopted a policy coherency investment strategy to align with the global climate framework of reaching carbon neutrality by 2050 at the latest and cutting U.S. carbon emissions 50% by 2030; others have a decarbonization approach, apply negative filters for

[1] Hewlett Foundation Social Investment Policy. October 2016. https://hewlett.org/wp-content/uploads/2016/10/Social-Investment-Policy.pdf

high carbon emitting firms and pursue a climate impact investment thesis. For example the GMO Climate Change fund (ticker: GCCLX) has focused on companies that benefit from mitigating or adapting to climate change. In 2020, the fund increased 42.7% versus 17.9% for the average world small/mid-cap stock fund, and 27.1% for the MSCI ACWI SMID index.[2]

One class of investors that rely on SEC disclosures is the "impact investor," and while definitions vary, the Global Impact Investing Network (GIIN) describes intentionality as a core tenet, meaning an investor's intention is to have a positive social or environmental impact through return-seeking investments. The GIIN estimates the current size of the global impact investing market to be $502 billion, with participating investors including private wealth management departments at large banks, small and mega asset managers, and investment service providers. Climate-focused impact investing is only set to grow, as the $30 trillion wealth transfer from baby boomers to U.S. millennials occurs. According to Bank of America Securities, nearly 90% of millennial investors set impact investing as a first investment criterion.[3]

The SEC should consider the disparate intergenerational impacts of climate change on investors and all other market participants. Future generations are especially at risk of bearing the brunt of climate-risky securities if the SEC does not require adequate disclosure of climate information and climate transition plans from financial and non-financial companies. Those investments that leverage the capital markets for the financial benefit of future generations, for example, those made via 529 plans, are especially in need of climate data. When choosing investments, climate change is a top issue for younger generations,[4] and SEC mandated climate disclosure will enable them to have fair access to information regarding climate risks and opportunities.

The SEC's public reporting regime is intended to ensure that all investors – retail or institutional – have access to the information they need to make informed investment decisions. In sharp contrast to the private markets, Regulation FD ensures that retail investors in the public markets cannot be left in the dark while large investors received additional information or access. Exemptions to the SEC's public reporting regime create an unlevel playing field that will consistently put retail investors at a tremendous disadvantage.

The SEC disclosure regime must level the playing field, ensure investor protection, and work for all of these investors for such an endogenous investment consideration as climate risk and opportunity.

Consistent, Comparable, and Reliable Information

Understanding environmental, social and governance (ESG) metrics is not only vital for investors, but is critical for the overall operation of fair, orderly and efficient markets. One in $3 dollars of total US assets under professional management use ESG strategies to create risk-adjusted returns and long-term value.[5] Climate change is not a single

[2] Barron's. April 2021. https://webreprints.djreprints.com/5071371257148.html
[3] Patti Domm. December 2019. https://www.cnbc.com/2019/12/31/climate-change-investing-catches-on-with-millennials.html
[4] Alicia Adamczyk. May 2021. https://www.cnbc.com/2021/05/28/how-climate-change-is-impacting-millennials-money-decisions html
[5] USSIF. https://www.ussif.org/files/Trends/2020_Trends_Onepager_Registered%20Investment%20Companies.pdf

ESG issue – it is an underlying risk that plays a role in every part of the economy and therefore investment opportunities. The impacts of climate change are disproportionate, exacerbating existing inequalities and increasing the severity of the economic and financial impacts of other systemic risks such as global health pandemics.

The investment community can learn many lessons from the COVID-19 pandemic. With the current economic cost exceeding $11 trillion, and with an estimated future loss of $10 trillion in earnings,[6] COVID-19 has shown that it is in the financial system's best interest to prevent systemic failures. After the markets precipitously fell in February 2020, they rebounded by April 2020 — only this time, in significant favor of ESG-forward, climate resilient businesses. S&P Global Market Intelligence analyzed 26 ESG exchange traded funds (ETFs) and mutual funds with more than $250 million in AUM and found that from March 5, 2020 — the month that the World Health Organization officially declared COVID-19 a pandemic — to March 5, 2021, 73% of those funds performed better than the S&P 500; while the S&P increased 27.1%, the ESG outperformers rose between 27.3% and 55%.[7]

According to Morningstar, record demand to invest in sustainable funds saw the sector's total assets rise to a new high of nearly $2 trillion in the first quarter of 2021. But these funds are somewhat flying blind due to the unavailability of consistent, comparable and reliable information for climate related financial disclosures. In order to ensure consistent, comparable and reliable information, **companies, including financial institutions, must report on absolute greenhouse gas emissions (Scopes 1, 2, and 3 as defined by the Greenhouse Gas Protocol).**

Over 90% of Fortune 500 companies are already responding to the CDP using the GHG Protocol directly or indirectly through a program based on GHG Protocol.[8] As financial and non-financial companies are already doing this reporting, the marginal cost of disclosure is low. Yet, this information is not broadly available. It is the SEC's role to level the playing field for all investors, including retail investors, by mandating this disclosure.

Further, the SEC must recognize that many exposures arise from securities and financial instruments that do not currently provide any disclosures of climate-related information. For example, most corporate debt is currently offered pursuant to Rule 144A. It will be extremely difficult for a bank to have an accurate understanding of its climate exposures if it does not first obtain that information from the seller of the securities. If an oil and gas company were to sell $1 billion in debt due in 2038, what is the risk of that debt? Would it matter what the debt was used for or secured by (i.e., fossil fuel assets versus renewable energy project development)? The SEC must mandate climate disclosures from large private companies and offerings so that financial firms are better able to identify and address their own risks.

The financial industry, including those institutions that purchase and sell securities on behalf of their clients, is beginning to harmonize around specific metrics to comprehensively measure and disclose carbon emissions. Over 120 financial institutions representing close to $40 trillion, from Blackrock to Clearwater Credit Union, have committed to measure and disclose the greenhouse gas emissions associated with their portfolio of loans and investments using the global standard from the Partnership for Carbon Accounting Financials (PCAF). Measuring

[6] World Health Organization. 2020. https://apps.who.int/gpmb/assets/annual_report/GPMB_AR_2020_EN.pdf
[7] S&P Global Market Intelligence. 2021. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-beat-out-s-p-500-in-1st-year-of-covid-19-how-1-fund-shot-to-the-top-63224550
[8] GHG Protocol. https://ghgprotocol.org/companies-and-organizations

financed emissions allows financial institutions to make transparent climate disclosures on their GHG emissions exposure, identify climate-related transition risks and opportunities, and provide greater transparency and assurance around target setting in alignment with the Paris Agreement and Nationally Determined Contributions (NDCs).[9] The PCAF Standard provides guidance on data quality scoring per asset class; data quality ranges from estimated data with score 5 (for example, economic-based sectoral emissions factors) to audited GHG emissions data at the client level with the highest quality score 1. The SEC should require the best data possible and use a scoring system where it is not feasible to provide the highest quality data. The SEC should require disclosure of the total carbon emissions (in tCO_2e) for financial and non-financial companies to set a baseline for risk management and decarbonization performance, and to facilitate comparability across firms.

The Glasgow Financial Alliance for Net Zero (GFANZ) represents over 160 firms with over $70 trillion in AUM that have agreed to finance the net zero emission economy by 2050 at the latest. As signatories, these banks, asset managers, asset owners, and insurers must use science-based guidelines to reach net zero emissions, cover all emission scopes, include 2030 interim target setting, and commit to transparent reporting and accounting.

The SEC can greatly facilitate this process and ensure that all investors have fair access to the same basic information by mandating that financial and non-financial companies measure and disclose Scope 1, 2 and 3 emissions on an annual basis.

Leveling the Playing Field for Capital Formation

Today, the vast majority of capital raised is outside of the SEC's mandatory disclosure regime. Companies are now relying on a myriad of exemptions such as Rule 506, Rule 144A, and Reg A+ to avoid having to make any mandatory disclosures about their governance, finances, operations, or risks. To the extent that information is provided, it may be selectively provided to just "favored" investors, and it need not be auditable, consistent, or comparable.

This creates a fundamentally unlevel playing field for retail investors, who cannot afford non-public data sources and are unlikely to have the financial position or relationships to receive preferential treatment.

At the same time, it is no secret that cleantech and climate solutions companies have experienced challenges in accessing capital to grow their products and services. Whereas software and other capital light innovations have a 3-5 year initial investment horizon, low upfront costs, face little regulation, and are almost infinitely scalable, hardware and other capital heavy climate solutions have a 7-10 year plus initial investment horizons, higher upfront costs, compete in a regulated environment, and tend to be concentrated in specific physical assets. This has led to a number of so-called 'valley of deaths' whereby the solutions needed for a 100% zero emissions future struggle to obtain the capital needed. The capital markets have historically undermined the formation of capital for this segment of companies; this is a serious mistake as climate solutions simultaneously become imperative to every sector of the real economy and provide risk-adjusted returns to investors.

[9] Partnership for Carbon Accounting Financials. 2021. https://carbonaccountingfinancials.com/

The SEC should mandate climate data and information disclosure and ensure other robust investor protections. This disclosure helps illustrate the value of acquiring climate solutions companies to existing listed companies and provides investors with the data they need to create climate-focused funds and attract investors.

Public funds managed for federal, state, county and municipal governments, including public employee pension plans, incorporated ESG criteria across $3.4 trillion in assets at the start of 2020.[10] The number of registered investment companies, such as mutual funds, variable annuities, ETFs and closed end funds, that incorporate ESG investing criteria increased 15% to 836, and assets under management increased 19% to $3.10 trillion from 2018 to early 2020.[11] In 2020 clean energy ETFs such as iShares Global Clean Energy, Invesco WilderHill Clean Energy and First Trust NASDAQ Clean Edge Index, all experienced greater than 100 percent year-on-year returns.[12] All these registered investment companies, as well as retail investors and other market participants, need consistent, comparable, and reliable information not only to decide how to allocate capital, but also to decide how to vote as shareholders on important corporate governance matters. Again that information should be provided by both public and large private companies.

There are different types of real economy companies that rely on the SEC's disclosure rules to create a fair market. By ensuring that Scope 1, 2 and 3 emissions are reported for all large companies (and all public ones), financial and non-financial, based on the GHG Protocol methodology, companies will be better able to access and form capital that is critical for creating new jobs, decarbonizing sectors such as transportation, buildings, agriculture and electricity, and bringing new innovations to the marketplace. Without mandatory climate disclosure, the misallocation of capital will continue to stunt the growth of these important companies and sectors of the future.

<u>Additional Points in Response to Questions 1-15</u>

- The SEC has the authority and an obligation to require financial and non-financial public companies to disclose climate-related risks in order to protect all investors; ensure fair, orderly and efficient capital markets in the face of potential systemic impacts from climate risk; and facilitate capital formation that aligns with the goals of investors and the global imperative to achieve 1.5-degree net zero emissions or less by 2050. While no finding of materiality is necessary for the SEC to require specific climate-related disclosures, such as the disclosure of Scopes 1, 2 and 3 GHG emissions, metrics of climate risk and impact are material when considering the ***full suite of varied investors*** that rely on SEC disclosures.

- Essential minimum disclosures include the following:
    a. Total annual emissions of greenhouse gases (denoted in metric tons of carbon dioxide equivalent – tCO2e), disaggregated by location (country and zip code):
        i. Scope 1 - direct emissions from the issuer
        ii. Scope 2 - emissions from energy, heat, and steam purchased by the issuer
        iii. Scope 3 - emissions within the issuer's value chain, including and disaggregated:

[10] USSIF. https://www.ussif.org/files/Trends/2020%20_Trends_OnePager_Public%20Funds.pdf
[11] USSIF. https://charts.ussif.org/mfpc/
[12] Priscila Barrera. January 2021. https://investingnews.com/daily/tech-investing/cleantech-investing/cleantech-outlook/

1. From combustion emissions from point sources
2. From combustion emissions from nonpoint sources
3. From land-use change
4. From activities the issuer has provided financing for; and
5. From activities the issuer has insured
6. From activities the issuer has facilitated

b. A description of any plans to reduce GHG emissions in alignment with science-based targets, including target setting, internal metrics, details of the climate scenarios and long-term assumptions considered, expected actual emissions reductions, and expected reliance on carbon offsets or carbon removal (or other technologies to avoid or remove emissions) to reach emissions reduction targets.
c. Identification and evaluation of potential financial impact and risk-management strategies related to all climate-related physical risks and transition risks; short, medium and long-term.
d. A description of any established corporate governance processes and structures to identify, assess, and manage climate and other ESG risks, including impacts to disadvantaged communities.
e. Related to d.) Demographic data for the total workforce and for the Board of Directors, broken down by race (at least for the U.S. workforce), gender, and age. This data is important for climate disclosures because diversity helps drive better results for investors and the underlying infrastructure of the economy, notably the environment. Women and people of color are acutely concerned and engaged in climate-related financial risks and impacts, disproportionately affected by and thus uniquely positioned to make wise investment decisions in solving climate change, and are key sources for driving innovation.[13]
f. A description of the firm's participation in public policy development, its public policy positions, itemized lobbying expenditures, and any key differences between its lobbying position, the lobbying position of trade groups it participates in, and any stated policies, goals, or other public positions the organization has taken.

Respectfully submitted,

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[13] Marilyn Waite. April 2021. https://www.greenbiz.com/article/when-it-comes-climate-investment-funds-diverse-management-imperative