Environmental Bankers Association

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Via Regular US Mail:

SEC Complaint Center
100 F Street NE
Washington, D.C. 20549-0213

Re: Comments on SEC's Climate Disclosure Requirements

Dear Sir or Madam:

The Environmental Bankers Association (EBA) represents a unique position to respond to the Securities and Exchange Commission (SEC) on the issue of Climate Change Disclosures.

The Swiss Re Institute recently (April 2021) published an article on the economics of climate change. The article notes that, "*Regulators and industry should jointly develop climate risk modelling that can be flexible across jurisdictions, while aligning with a common set of assumptions, scenarios and guidelines. Climate-related financial regulation should be risk and principles-based, and internationally harmonised.*"

The EBA supports the overall inclusion of climate-change disclosure in already established Annual Reports, ESG reports, etc. Our industry approaches Climate as a risk that must be assessed, calculated, evaluated, and managed/mitigated, as needed. Successful risk management strategies have several attributes in common:

- Conduct research into existing studies and frameworks. Please consider, among others:
  - Task Force on Climate Change related Financial Disclosures (TCFD)
  - ASTM International's E2718-16 "Standard Guide for Financial Disclosures Attributed to Climate Change,"
  - The Climate Disclosure Project
  - The Pathway to Paris
  - UN Environment Programme Finance Initiative ("UNEP FI")
  - Private company publications
  - Existing Insurance and Federally funded/guided models
- Seek input from diverse stakeholders.
- Develop standards with consensus among key stakeholders/industry leaders.
- Deliver consistent messages to the user community via cohesive documents with documentation references.
- Provide opportunity for predictable, periodic standard review and revision.

About the EBA: The EBA is a non-profit trade association representing the financial services industry. Established in 1994, EBA's members include lending institutions, property & casualty and life insurers, attorneys, and the environmental consulting and appraisal communities. EBA's membership is organizational based, and we currently have 123 organizational members, of which, 74 are affiliate organizations and 49 are banking firms. Of the 123 organizational members, we have 992 individual members collectively from these organizations. In response to heightened sensitivity to environmental risk issues, the need for environmental risk management, sustainable development, due diligence policies and procedures in financial institutions, the EBA engages with its members to invest in their success.

> **EBA Mission:** To promote best practices that protect and preserve net income and assets of banks, other financial institutions, and allied industries from environmental risk and liability resulting from lending and asset management activities.
>
> **EBA Vision:** Enhance visibility and awareness of environmental risk management's global role in promoting environmentally sound lending and fiduciary activities, sustainable development, and new concepts of social responsibility for the financial services industry

Please consider the attached comments to the questions presented by Acting SEC Chair Allison Herren Lee dated March 15, 2021. We would welcome the opportunity to meet directly with SEC staff on this important issue going forward.

The EBA requests that the SEC include these comments in any official rule making and we reserve the opportunity to provide further comments as the process develops.

Environmental Bankers Association

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w/Attachment

	SEC Questions for Consideration	EBA Responses
1.	a. 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?	No comments at this time.
	b. Where and how should such disclosures be provided?	No comments at this time.
	c. Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?	We advocate for a consistent location. A natural option is the annual report. If another periodic filing already exists, then include a statement in the annual report pointing to the other periodic filing. There is industry caution that existing documents should be honored and the title of such document(s) defined for the public to locate.
2	a. What information related to climate risks can be quantified and measured?	Climate change impacts economies through physical and transitional risks. Physical risks include property damage, disruption to supply chains due to severe weather, floods, and drought, and lost productivity. In addition to physical risks, climate change also gives rise to transitional risks evidenced by shifts in asset values and higher cost of doing business as the world moves to a low-carbon economy, including the "stranding" of certain assets and businesses. As a result of the inherent uncertainty, currently it is very difficult to accurately quantify physical climate risk and determine the materiality of the resulting damage potential. Global General Circulation Models (GCM) are often used to project future climate conditions; however, a great deal of uncertainty is introduced when downscaling or bias-correcting these models. GCMs model earth processes in coarse grid-cells and dynamical and statistical downscaling are the most frequently used techniques to downscale GCMs to a resolution where they can be used for climate impact studies. Since no GCM is a perfect representation of the true climate, bias-correction is used to correct or condition those attributes in the climate model output that are known or hypothesized to be important for impacts modeling. Bias-correction focuses on using different types of statistical techniques to make climate model outputs more realistic, and, in many cases (i.e., when observations are available at high spatial resolution), also of greater spatial resolution and Representative Concentrations Pathways (RCPs) are used to stress test the projected climate conditions.

		Because global model downscaling and corrections introduce uncertainty, relative accuracy must be considered when trying to quantify hypothetical future climate impacts. Climate change analysis focuses on the expected averages of greenhouse gas (GHG) concentration and projected temperature changes, but the resulting distribution around these estimates is very wide. Besides negative feedback loops and other effects, the models tend not to account for low frequency high-impact weather events, such as drought and severe winds or precipitation, which can significantly increase the degree of uncertainty. Climate risk scores or metrics are used by numerous service providers to provide an assessment of the exposure to severe weather events. Although effective as a pure hazard indicator, the scores often do not quantify the economic impact of those events. The link between GHG emissions and natural catastrophe occurrence is not well quantified, but there is mounting evidence that due to climate change, the increasing frequency and severity of extreme weather events has contributed to increasing losses over recent decades. Also, the rising loss tallies from severe weather events are in part due to more people moving to peril-prone regions such as coastal areas. Insurance is an important tool by which businesses can strengthen resilience to better manage physical climate risks and should be considered. At the macroeconomic level, uninsured losses from physical risks may affect resource availability and economic productivity across sectors with cascading impacts on supply chain. Thus, quantifying future physical climate risk can be challenging and replete with uncertainty. Climate models are being used to identify potential risks, but more detailed on the ground assessment is needed to evaluate vulnerabilities and allow for engineering estimates of potential damage at the asset level. Although these techniques are available for assessing risk posed by current climate conditions, they are just now being developed and deployed to account for future climate change. As discussed below, GHG and sustainability metrics are currently being reported by many public companies and the EBA supports such disclosures.
	b. How are markets currently using quantified information?	Measuring GHG emissions from business operations is generally achievable. Thus, disclosures on firms' progress to achieving net zero GHG emissions is possible and should be considered for disclosure. Many public companies are already reporting various GHG and sustainability metrics; however, these disclosures are not standardized across industries and are thus often difficult to compare. The Task Force on Climate-related Financial Disclosures (TCFD) recommends the following disclosures: "a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

		b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets." Among metrics for inclusion with respect to climate-related risks are climate risk exposure based on geographic market and business operations, reliance on fossil fuels, renewable energy adoption, resiliency measures, carbon management practices and policies, and climate reporting. Examples of specific metrics include use of electric vehicles, energy & GHG intensity, refrigerant losses, and renewable energy usage. Benchmarks are emerging for these reports, from organizations such as TCFD, CDP, and Climate Disclosure Standards Board (CDSB). As examples, the TCFD Good Practice Handbook provides insights into how companies can enhance transparency with respect to the impact of climate-related risk on company finances and investors, and CDP maintains an annual A List of cities that have prioritized climate-related responsiveness and action. Metrics related to climate-risk disclosure have varying degrees of ease of calculation. For example, measuring Scope 1 and 2 GHG emissions is generally achievable, whereas calculation of Scope 3 GHG emissions is more complex, but necessary to provide a comprehensive picture of total carbon impact. Disclosures on firms' progress to achieving net zero GHG emissions is possible and should be considered. The emergence of these metrics and frameworks has brought forward the awareness of climate-related risk, but large-scale integration of these metrics in business and operational decisions has not permeated most markets. As data gathering and governance become more widespread and reporting standards are streamlined, we can expect markets to more significantly use quantified information.
	c. 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)?	The Paris Climate Agreement drives to a net zero carbon economy by 2050 in order to avoid the worst impacts of climate change. As part of corporate reporting, institutions should disclose their roadmaps on how they intend to reach the Paris and 2050 net-zero targets. Scope 1 and 2 GHG emissions reporting is generally achievable; however, some firms will need more time in order to report on Scope 3 GHG emissions.

	d. What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision?	For investments that are labeled as "green" or "sustainable", a standard disclosure should be established so that investors can compare and review the extent to which the investment is "green" or "sustainable". For general commercial real estate investment products, additional research and assessment on behalf of the commercial real estate finance community is needed in order to identify the key data points most important to disclose on climate risk or responsibility. It is also important that any new data points added to the general commercial real estate finance disclosure process be aligned with existing disclosures so as to minimize disruption to the flow of capital.
	e. Should disclosures be tiered or scaled based on the size and/or type of registrant? If so, how?	Disclosures should be tiered or scaled with the most restrictive disclosures focused on anyone seeking to label an investment as "green" or "sustainable".
	f. Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change?	A phase-in period for smaller publicly traded companies should be considered. Currently, disclosure of material physical climate change risk is not routinely reported (for smaller publicly traded companies), and should be phased in based on progress made in the development of standard protocols and practices for quantifying future physical climate risk. Furthermore, regulatory mandates would be expected to drive technological advancements towards a scalable infrastructure. The absence of such existing infrastructure supports a defined phase-in approach to implementation with consideration to a tiered approach for smaller entities below a defined threshold (i.e. revenue for example). In the interim, qualitative disclosures similar to those already included in SEC financial filings should be considered while quantitative measures are being adopted under defined timelines also to be reported.
	g. Do climate change related impacts affect the cost of capital, and if so, how and in what ways?	The investor and banking communities have begun to acknowledge that climate change related risks have the potential for material financial impact. However, this risk is not being uniformly considered in determining cost of capital given inconsistent and insufficient disclosure of such risks. Initiatives that support standardized evaluation, quantification, and disclosure of such potential risks will help inform better lending practices. Property insurance costs are rising, and availability is becoming more limited, as a result of increasing severity and frequency and severity of natural hazards, including those influenced by climate change. Commercial real estate lending covenants often include requirements for carrying a certain amount of insurance with certain deductibles. Compliance with these requirements may represent a challenge in some areas of the US.

	h. How have registrants or investors analyzed risks and costs associated with climate change?	Investors may use climate risk models to evaluate the natural hazards that may affect commercial real estate assets. These models may then be applied to property specific information to determine a "value at risk" or potential costs associated with making the building or property more resilient. Similarly, investors may review a property's compliance with local energy or GHG benchmarking laws. Properties which are not prepared for pending benchmarking laws may face additional costs to reach compliance. For example, research by Nancy Wallace at the Fisher Center at UC Berkeley indicated a correlation between wildfire risk and mortgage default https://info.trepp.com/hubfs/Fire_risk_paper_v2.pdf
	i. 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?	For commercial real estate assets, a variety of commercially-available climate change risk models are available to financial institutions and commercial real estate property investors. A few of these entities are evaluating climate change risk on commercial real estate assets at the portfolio level as well as on an individual level. This information can be used as a risk management tool as well as used as an opportunity to balance a portfolio against too much concentration with any one type of natural hazard risk. It is possible that future disclosures could include some measure of the overall risk in a pool of property loans, as well as the percentage of properties within the pool subject to the significant climate hazards. However, it should be noted that no standardized process for reporting on this risk has yet been established as an industry standard in the commercial real estate finance space.
	j. How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?	No additional comments at this time.
3	a. What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them?	The EBA recommends that the SEC allow registrants, banking institutions and other industry participants input into the Standard development. For example, the EBA's past experience in using the ASTM Standard E-1527 "Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process" is why we recommend that banking institutions and industry are key to this SEC process. This industry ASTM standard was a voluntary effort developed by the ASTM International Committee on Environmental Assessment, Risk Management and Corrective Action. Currently this ASTM standard practice is used to define what is "good and customary" practice for conducting environmental site assessments by lending institutions, companies and the government. It has been determined by the Environmental Protection Agency (EPA) as equivalent to EPA's "All Appropriate Inquiry" Standard. See 42 United States Code (USC) Section 9601 (35) (B) (i)and 40 CFR 312.11.

	b. Should those standards satisfy minimum disclosure requirements established by the Commission?	Yes. There is a point at which the cost of information obtained or the time required to gather the information outweighs the usefulness of the information.
	c. How should such a system work?	No comments at this time.
	d. What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards?	No additional comments at this time.
	e. What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?	The SEC should first develop the proposed Climate Change Disclosure requirements and then determine what SIC granularity makes the most sense.
4	a. 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.?	Reporting standards by industry sector is a commonly accepted approach. The advantages of developing different climate change reporting standards for different industries is that the standards can be crafted with the nature of the business in mind. For instance, SASB has developed 77 industry-specific sustainability accounting standards.
	b. How should any such industry-focused standards be developed and implemented?	No comments at this time.
5	a. 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)?	No comments at this time.
	b. Are there any specific frameworks that the Commission should consider?	No comments at this time.
	c. If so, which frameworks and why?	No comments at this time.
6	a. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time?	While the shape and content of any guidance is still being determined, a process that includes periodic updates and reissuance on a predicable regular basis would be appropriate. Therefore, as more information becomes available or the degree of precision of climate change impacts are

		known, the materiality of any climate change impacts will be updated, improved, augmented and disclosures will reflect that information.
	b. Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so?	See discussion of the ASTM standards in Question 3a
	c. If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter?	See discussion of the ASTM standards in Question 3a
	d. If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter?	No comments at this time.
	e. If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?	No comments at this time.
7	a. What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated?	EBA does not believe that a new regulation or standard related entirely to climate risks, opportunities and impacts is required. The securities laws and SEC regulations require public companies to provide disclosures in such forms as audited financial statements, quarterly and annual statements on forms 10-Q and 10-K, and individual sections within reports, such as the Management Discussion and Analysis. As former SEC Chairman, Jay Clayton, stated in 2017, "Disclosure and materiality have been at the heart of the SEC's regulatory approach for over eighty years." Though it serves as a "cornerstone" of the federal securities disclosure rules, materiality is not the only disclosure standard found in the rules. For example, certain SEC rules prescribe quantitative thresholds to identify when disclosure is required (such as certain amounts equal or greater than $100,000), while other rules require disclosure in all cases, regardless of materiality considerations. EBA believes that materiality should remain as the cornerstone of any climate change disclosures for publicly traded companies and should remain within the Regulation S-K and Regulation S-X framework. At the current stage of climate change science and the ability to accurately or with some degree of statistical confidence predict outcomes, it is difficult to predict short term or future climate change

		impacts. The decree of precision is already incorporated into the concept of materiality or immateriality and the reasonable judgment of what is material is limited as the attainable degree of precision decreases. EBA notes that assessments of materiality should occur not only at year-end, but also during the preparation of each quarterly or interim financial statement. Therefore, as more information becomes available or the degree of precision of climate change impacts are known, the materiality of any climate change impacts and disclosures will reflect that information.
	b. Should any such disclosures be filed with or furnished to the Commission?	Yes, in the usual filing as part of the SEC's required 10K or 10Q.
8	a. 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?	No comment at this time.
9	a. 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?	A single set of global standards would benefit global companies in order to achieve standardized reporting; however, it could be a disadvantage to smaller entities without the resources to track, manage, and report on the data sets maintained by a global institution. In addition, global standards, by attempting to cover all scenarios, may become unnecessarily complex. In general, businesses favor certainty over uncertainty, so to the extent that global standards could be adopted, they should be flexible enough for regional differences and not overly burdensome to small businesses.
	b. If there were to be a single standard setter and set of standards, which one should it be?	There remains uncertainty with respect to general accounting reporting standards, and further inquiry and assessment of the implications of adopting a particular standard would be required in order to make a recommendation. With respect to assessing, tracking and reporting on property-specific characteristics, the standard most commonly used in the risk management functions of lending institutions is the ASTM International set of standards, such as the standards related to Phase I Environmental Site Assessment, Property Condition Assessment, etc.
	c. What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual	No comments at this time.

	jurisdictions could build on versus a comprehensive set of standards?	
	d. If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability?	No comments at this time.
	e. What should be the interaction between any global standard and Commission requirements?	No comments at this time.
	f. If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?	No comments at this time.
10	a. 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?	For investments that are labeled as “green” or “sustainable”, the advantage of a disclosure standard is that the investments will be trusted and can be compared from one to another.
	b. If there is an audit or assurance process or requirement, what organization(s) should perform such tasks?	No comments at this time.
	c. What relationship should the Commission or other existing bodies have to such tasks?	No comments at this time.
	d. What assurance framework should the Commission consider requiring or permitting?	No comments at this time.
11	a. Should the Commission consider other measures to ensure the reliability of climate-related disclosures?	See earlier comments.
	b. Should the Commission, for example, consider whether management’s annual report on internal control over financial reporting and related requirements should be updated to	No comments at this time.

	ensure sufficient analysis of controls around climate reporting?	
	c. Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?	No comments at this time.
12	a. 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?	No comments at this time.
	b. How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?	No comments at this time.
13	a. How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities?	No comments at this time.
	b. 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?	MD&A is critical to supporting financial data and should be extended to climate change metrics regardless of the framework used in order to provide context on the factors considered, scope of the analysis, metrics used to develop quantitative data, assumptions required, timeframes analyzed, etc. MD&A related to climate change metrics will especially be critical as such disclosures are initially adopted and various stakeholders become informed on the related risks and metrics being disclosed.
14	a. What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?	EBA-member financial institutions (all publicly traded entities) frequently engage in lending transactions with borrowers who are not publicly-traded and ultimately will not be subject to the same type of climate risk tracking and disclosure requirements. In order for EBA member financial institutions to adequately track and attempt to quantify the climate risk inherent in their consumer and commercial portfolios, it will be incumbent on the prudential regulators (e.g., Federal Reserve, Office of the Comptroller of the Currency (OCC), Federal

		Deposit Insurance Corporation (FDIC)) to establish a regulatory framework which can be applied consistently across the industry. For example, EBA member banks are already accustomed to standard due diligence practices and regulations applicable to real estate due diligence such as appraisal, environmental risk assessment, construction monitoring and flood insurance. In many instances, such internal bank programs are based upon standards and frameworks that have been developed over time as a "best practice" for the industry (e.g., ASTM standards, Appraisal Standards Board, etc.). As the collection of climate-related information on a transactional basis becomes standard practice (with the associated reliance on appropriate and qualified data providers and consultants as noted above), a financial institution would be able to better define its real estate-related climate risk on both a transactional and later a portfolio basis. In addition to real estate risk, EBA member financial institutions enter into may borrowing relationships with private companies that are not secured by real estate assets. Although such entities may not be subject to same rigor as publicly-traded companies with regard to the measurement and disclosure of climate risk, these borrowers can nevertheless represent transition risk to lenders based upon their industry. Similar to the commentary above, it will be incumbent upon the prudential regulators to promulgate a regulatory framework for banks to follow in the measurement of transition risk within its portfolio that can thereafter be incorporated into the bank's SEC filings.
15.	a. In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters.	No comments at this time.
	b. Should climate-related requirements be one component of a broader ESG disclosure framework?	Potential climate-related disclosures could be looked at holistically within the broader umbrella of ESG disclosure framework. For example, energy and water efficiency disclosures are important to reduce the impact of commercial real estate properties on the climate, in addition to making those assets more resilient to climate impacts such as heat and water stress. However, it is important that any ESG disclosure requirements be developed alongside the commercial real estate finance community so that the ESG data points can be incorporated into existing due diligence and disclosure protocols rather than creating additional hurdles and reporting channels that will result in a reduction in access to capital for borrowers. In addition, it is important that any requirements consider the potential implications of reduced capital flows to areas that may be faced with higher climate risk in addition to historical lack of access to capital for socio-economic reasons.
	c. How should the Commission craft climate-related disclosure requirements that would	Any climate-related disclosure requirements should be consistent with broader ESG disclosures so as not to create confusion and undue administrative burdens. Any additional administrative burden

	complement a broader ESG disclosure standard?	in reporting should be justified by materiality of the information being tracked and reported. These disclosure requirements should be developed in collaboration with the commercial real estate finance and general lending industry.
	d. How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?	Energy efficiency is related to GHG emissions so is therefore climate related, and energy efficiency also indicates good governance in the management of building operating expense. Energy and water efficiency reduce the impact of a building on the climate, while also making the building more resilient to climate impacts such as heat and water stress. Physical climate risk to buildings is important to consider; however, if that is not balanced with social impacts, the potential exists that restrictions in lending to areas with elevated physical risk from climate change could result in restrictions to areas that are already under-served from an economic or social perspective.