



Via email to:

[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

June 9, 2021

Secretary Vanessa A. Countryman  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

*Response to Request for Comment on Climate Change Disclosure (March 15, 2021)*

Dear Ms. Countryman:

On behalf of Trillium Asset Management, I welcome the opportunity to provide this comment letter on the "Public Input Welcomed on Climate Change Disclosures" request for information issued March 15, 2021, and encourage the SEC to establish a **mandatory framework for disclosure of environmental, social and governance (ESG) criteria.**

## Background of Trillium Asset Management

Trillium was founded in 1982 by Joan Bavaria, the "mother of socially responsible investing". From our beginning, we have exclusively focused on sustainable and responsible investing and have been at the forefront of ESG thought leadership. Trillium combines a holistic, fully ESG-integrated fundamental investment process to uncover compelling long-term investment opportunities with active ownership. The firm delivers equity, fixed income, and alternative investments to institutions, intermediaries, high net worth individuals, and charitable and non-profit organizations with the goal of providing positive impact, long-term value, and 'social dividends'. In June of 2020, we were acquired by Australian financial services firm, Perpetual Ltd, and we remain a certified B Corp. With over \$4.3 billion in assets under management (as of 3/31/21), Trillium continues to offer investment strategies and services that advance humankind towards a global sustainable economy, a just society, and a better world.

## Importance of ESG Disclosure

Trillium has long believed in the importance of incorporating environmental, social, and governance (ESG) information into our investment decision-making framework. The information that comprises ESG disclosure gives us, as investors, insight into how management teams are assessing, approaching

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and managing a diverse set of risks and opportunities. On one hand, this information allows us to assess the quality of management teams and their skill at managing complexity. On the other hand, disclosing ESG information first requires that managements collect this information and review it, if not analyze it. Management teams that are not assessing their ESG exposures are vulnerable to risks that they may be unaware of. As investors, we need ESG information to assess how these extra-financial risks impact the companies we chose to invest in. Importantly, management's approach to handling these risks and opportunities is as important to us as the outcome, similar to the way that the notes in financial reports support the financial statements.

We strongly believe that mandating disclosure of ESG information will benefit investors, and we also believe it will benefit issuers. As noted above, management teams that are ignoring ESG risks are vulnerable to threats that competitors may have foreseen. A mandatory ESG disclosure framework will encourage companies to proactively assess, analyze and manage these risks. At the same time, investors globally are increasingly relying on ESG information in decision making, an investment approach Trillium has used for decades. As other governments require ESG disclosure, such as through the EU's Non-Financial Reporting Directive, U.S. companies that fail to provide this disclosure will be at a disadvantage in the global competition for investors' capital. While companies are free to voluntarily disclose ESG information, as many currently do, the lack of standardization and comparability leaves U.S. companies and investors at a relative disadvantage to global counterparts. Mandating disclosure will thus level the playing field for both investors and issuers.

We have found that many of the topics covered under the ESG umbrella are intersectional and cannot be separated. For example, how can we consider climate change in our investment decisions without considering the human rights of those most deeply affected? While some communities will be dealing with rising temperatures, others will be faced with rising sea levels or changing rain patterns. Other communities, and often the same ones, are bearing a disproportionate burden of pollution from industrial facilities' contributions to the changing climate. And all too often, many of these are communities of color, with environmental racism exacerbating the deep structural inequality in not only in the U.S., but also globally.

Accordingly, we believe that taking a view of materiality that is based on currently-perceived financial impact may cause or allow issuers to ignore nascent and intersectional ESG issues. We believe a broad and encompassing approach to ESG disclosure and management should include a variety of issues relating to companies' relationships with employees, stakeholders, and the environment; and should reflect the dynamism with which issues come to the forefront of investor concern. Our many years of experience using ESG information to inform our investment decisions on behalf of our clients leads us to the inescapable conclusion that ESG information is meaningful, beyond the strict lens of

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current financial materiality. For example, judging from existing disclosures, companies' lobbying and political spending is not often financially material, but, in the current political environment, can have a significant impact on corporate reputation. Investors are increasingly voting in favor of proposals asking for comprehensive reporting on lobbying and political spending, which speaks to the decision-useful nature of such information<sup>1</sup>.

It has become increasingly clear over the past several years that a variety of external risk are not being accounted for, or disclosed, by publicly traded companies. The SEC has already noted the importance of all investors having equal access to critical, material financial information. We believe that ESG information should similarly be required to be provided on an equitable, comparable, and reliable basis.

### Essential Requirements of ESG Disclosure

As described above, Trillium has, since our founding, believed that ESG information is key to our investment decision process, just as financial data is. However, the voluntary disclosures we currently rely on are not adequate, as this information is not regularly available in a consistent form we can use. Therefore, we believe that a mandatory ESG disclosure framework is imperative. Such a framework should have the following basic characteristics<sup>2</sup>:

- **Mandatory:** ESG disclosure must be mandatory for all reporting issuers in the U.S. We acknowledge that smaller companies currently lag behind larger ones in terms of sophistication of ESG data collection and disclosure, and therefore may have a challenge meeting timely reporting requirements. For these companies, a size-based phase in approach similar to the JOBS Act may be appropriate.
- **Comparable:** The reported ESG data must meet investor needs for comparability. Disclosures should allow for comparisons among organizations within sectors, regions, industries or portfolios. Therefore the disclosure framework must standardize reported issues, metrics and units.
- **Consistent:** The ESG metrics reported by issuers must stay constant, or issuers must provide three years of trailing data when using new metrics. Investors need consistent time series data in order to make comparisons and judge progress. While it is reasonable to assume that

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<sup>1</sup> <https://corpgov.law.harvard.edu/2021/02/03/corporate-political-contributions/>

<sup>2</sup> We thank our colleagues at US SIF, CERES and ICCR for discussion and inspiration of the following sections; all ideas presented here represent Trillium Asset Management's recommendation.

metrics may evolve over time, investors need to be provided with enough historic data to draw conclusions and make decisions.

- **Comprehensive:** ESG disclosure must have enough information to allow investors to gain a holistic understanding of company practices. Disclosure requirements should not be defined strictly by materiality to company financials, but instead should provide an overview of company impacts inclusive of issues where corporate reputation is at risk. Investors need information comprised of both universally applicable and industry-specific components to form a view of the quality of management, as described above. In addition, reporting must clearly include entire organizations, not specific business or geographic units, or otherwise clearly explain the limitations of scope. In particular, issuers should include direct and indirect data, including impacts within their supply chain.
- **Reliable:** ESG disclosures should be subject to auditing and assurance measures like those for financial disclosures. The SEC should work with the Public Company Accounting Oversight Board (PCAOB) to fully incorporate ESG information into its audit and regulatory functions, over which the SEC has statutory oversight responsibility. Investors need to know that the ESG information they rely on is accurate.
- **Timely:** ESG information should be disclosed annually, if not more frequently. While quantitative metrics may be easier to provide on a more frequent basis, management should provide a full discussion of ESG approach annually, similar to annual financial reporting.
- **Qualitative and quantitative:** ESG disclosure must include a *qualitative* discussion of ESG management approach, including policies, practices, and programs. The results of this management approach should be reported using *quantitative* ESG data and metrics where possible and fact-based information where quantification is difficult.
- **Internationally aware:** - We encourage the SEC to adopt the best attributes of international standards and harmonize, where possible, with existing international standards to prevent comparability mismatches that leave the information generated less useful for investors.
- **Able to evolve:** Any disclosure framework should be designed to evolve in a timely manner as new issues emerge.

## Particular importance of climate disclosures

The fact that the changing climate is a systemic risk to the financial system is no longer in question. As the U.S. Commodity Futures Trading Commission noted in their September 2020 report *Managing Climate Risks in the U.S. Financial System*, "Climate change is already impacting or is anticipated to impact nearly every facet of the economy, including infrastructure, agriculture, residential and



commercial property, as well as human health and labor productivity.”<sup>3</sup> Climate change risks drive economic instability, and can combine in unexpected ways, with serious, disruptive impacts on asset valuations and global financial markets.

Investors need to understand how companies are assessing these risks, and related opportunities, in order to make informed investment decisions. Companies must assess these climate-related dynamics on three dimensions:

- Their own corporate emissions’ contributions to climate change, including upstream supply chain impacts and downstream indirect contributions of products and services during their use;
- How their business strategy, including products and services offered, may change as regulatory and legal frameworks evolve, customer preference and demand shift, and the physical environment transforms as a result of combat climate change or effort to combat it; and
- Potential risks, or benefits, to corporate assets and supply chains due changing physical climate conditions.

Climate risk disclosure would bring significant benefits to investors and companies. Investors need consistent, comparable and reliable information at scale that will support comprehensive risk exposure assessments necessary to navigate the path to a net zero future. The current state of climate disclosure does not meet investor needs for comprehensive, science-based, decision-useful data from all enterprises facing material short, medium, and long-term climate change risks. And while not all companies currently face financially material exposures to climate risks, a company’s actions may still contribute to the systemic risks of climate change, exposing all actors in the economy to the long-term systemic risks of climate change. Therefore, all companies across all industries should provide transparent disclosure on how they assess these three dimensions.

Ignoring climate-related risks will be costlier than climate disclosure compliance, although the costs of ignoring these risks may be felt in different time periods. For instance, some of those impacts, such as those from floods, fires, droughts and hurricanes, are already being incurred in the short term; while assets made obsolete due to regulatory pressure or client preference may become stranded

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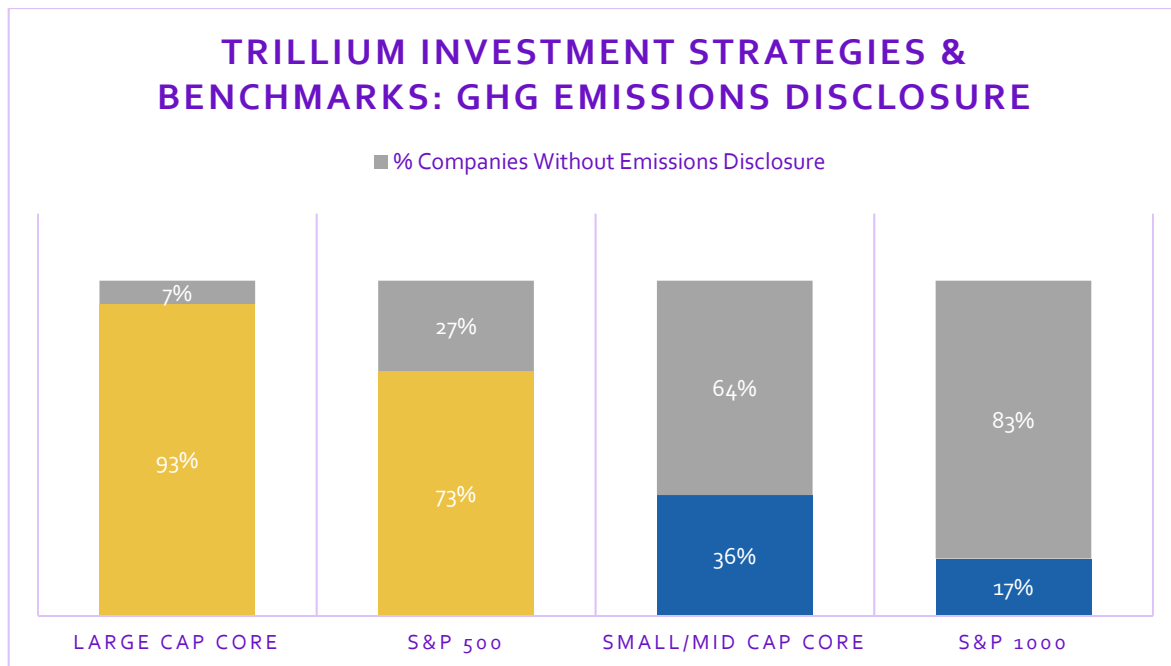
<sup>3</sup> <https://www.cftc.gov/sites/default/files/2020-09/g-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf>

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over a longer time period. Without comprehensive climate disclosure, investors are far too often left to estimate what corporate climate costs will be.

For example, within the portfolios we manage for our clients, some companies currently report greenhouse gas (GHG) emissions, while some do not. Below, we present two of our investment strategies: one that invests in larger U.S. companies (“Large Cap Core”) compared to its benchmark, the S&P 500; and one that invests in smaller U.S. companies (“Small/Mid Cap Core”) compared to its benchmark, the S&P 1000. The chart shows that for the larger company portfolio, 93% of companies report their GHG emissions, while only 36% of companies in the smaller company portfolio do so<sup>4</sup>. For the companies within our portfolios that do not report their emissions, we rely on estimates based on business model and geography, which cannot represent management skill or intentionality of carbon risk management. We use information about carbon emissions, targets and progress in our investment decision making process, similar to the way we use financial data, yet for the climate data we frequently must rely on estimates. We therefore do not know the true carbon footprint or impact of our portfolio, which makes our managing of the impact of our investments less reliable.



<sup>4</sup> Data from ISS, portfolio holdings as of 3/31/2021

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On the other end of the spectrum, we are also left to estimate potential benefits. The disclosure requirements and incentives for both issuers and investors arising from the E.U. regulatory framework, including the Taxonomy, Sustainable Finance Disclosure Regulation (SFDR) and Non-Financial Reporting Directive (NFRD), will eventually result in investors in European companies knowing, with more certainty, not only their portfolio's emissions contributions, but also their investments in and revenue from products and services which are set to benefit from adaptation to climate change. Investors in U.S. companies, and therefore domestic companies themselves, will therefore be disadvantaged compared to European peers.

### Climate-specific disclosure recommendations

As a result of the aforementioned dynamics, we believe that mandatory climate disclosure is crucial. Our feedback below is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which has been endorsed by hundreds of companies and investors, as well as governments, globally. The TCFD covers disclosure guidance on governance, strategy, risk management, and metrics and targets. The SEC's framework should align with the TCFD and contain the following elements:

- **Governance and Strategy:** Disclosure rules should be designed to provide investors with insights into companies' climate risk exposure, strategies and scenario planning. The SEC currently requires that companies disclose how their board administers its risk oversight function and the effect this has on the board's leadership structure. It is within the board's oversight responsibility to help mitigate the risks imposed by climate change on the corporation. The Board should therefore regard climate change as they would any other significant risk to the business and ensure that a company's assets and long-term business strategy are resilient to the impacts of climate change.
- **Targets and Progress:** The SEC should require disclosure of progress on announced science-based targets and other corporate climate commitments, in the form of clear, periodic updates on the status of and progress towards meeting those commitments. While many companies disclose progress on commitments in voluntary reporting, it can be unclear what measures the company is using, whether the methodology to track the metric is consistent from period to period, and how presented results are impacted by divestitures and acquisitions, leaving investors with an incomplete picture of corporate activity and response.
- **GHG Emissions:** The SEC should require audited, tabular disclosure of a company's Scope 1, 2 and 3 greenhouse gas (GHG) emissions based on the GHG Protocol's well-accepted framework for measuring and reporting emissions, which covers direct and indirect emissions

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of carbon dioxide, methane and other gases. Providing both absolute and intensity-based emissions allows investors to monitor both specific investment decisions and portfolio-wide, systemic climate change risks. While Scope 1 and 2 emission disclosure should be required by all registrants immediately, there could be a phase in period for Scope 3. Currently, many companies do not report Scope 3 emissions because tracking said emissions is cumbersome and complicated. Tracking and reducing Scope 3 emissions is essential in any attempt to meet the 2 degree Celsius target, particularly for industries such as banking and oil and gas exploration and production, where such downstream effects will contain the majority of climate impacts.

- **Physical Risks:** Companies' own assets, as well as supply chains, are subject to the physical risk of climate change in specific geographies, including but not limited to flood, drought, extreme temperatures, hurricane, and fire. Companies therefore can and should quantify the physical risk climate change poses to their operations and, at a minimum, the risk it poses to Tier 1 suppliers.
- **Scenario Analysis:** The SEC should require disclosure of a net-zero scenario analysis that standardizes disclosure related to the parameters, assumptions, analytical choices and impacts used in the analysis. The SEC should draw from the TCFD's resource of "Key Considerations: Parameters, Assumptions, Analytical Choices, and Impacts" in its scenario analysis guidance.

We recognize that material climate risks manifest in ways that vary by industry, and investors will require some specific industry-based information to make informed investment decisions. Therefore SEC rulemaking should include **industry specific metrics** as appropriate, similar to currently required industry-specific financial disclosures:

- **Transition plan disclosure:** Some business models will be particularly impacted by physical or regulatory aspects related to climate change. Disclosure rules should provide clear insights into companies' climate transition plans, including short, medium, and long term targets. Disclosure on transition plans should address risk management, governance and strategies, and scenario planning for a net zero future.
- **Capex:** The SEC should require companies to disclose a breakdown of current period and planned capital expenditures, to show the portion of investments attributable to addressing (a) transition risks and opportunities, and (b) adaptation to physical risks associated with climate change. This disclosure is necessary to demonstrate companies' ongoing investments in net-zero and other climate mitigation strategies. It is also necessary for capital markets





actors to be able to discern investment opportunities that can efficiently steer capital toward the most promising solutions to the climate crisis, and steer away from those that are directing capital at risk of future stranding due to regulatory or market pressures.

- **Internal GHG emissions pricing:** The SEC should require companies to disclose whether and how they use internal GHG emissions pricing, including the price they use. The TCFD identifies internal emissions pricing as a fundamental strategy for assessing climate-related risks and opportunities. An internal carbon price can assist companies in allocating capital expenditures towards projects with reduced emissions, including research and design. An internal carbon price can also be an effective tool to create incentives to reduce GHG emissions, by charging projects and groups within a company for their emissions (i.e., internal fees). In this way, internal pricing helps companies take long- run, climate-related risks into account when decisions that otherwise might naturally focus on short-term returns.

As noted above, the intersectionality of all ESG issues means that attempts to limit or adapt to climate change will necessarily impact communities, and the lens of a Just Transition for impacted communities and employees is thus required in climate change management and disclosure. Disclosure about Just Transition strategies could discuss the quantitative and the qualitative implications of companies' strategies to ensure that all jobs in the new economy are decent, contributing to thriving and resilient communities.

## Human Capital Management

While many of the SEC's questions for consideration specifically reference climate or broader ESG disclosure, we note the particular importance of a broad set of topics jointly referred to as human capital management. We believe that investors need more informative data about companies' management of human capital, community impacts and license to operate.

For example, companies have long reported data describing the composition of their work force to the Equal Opportunity Employment Commission, called EEO-1 data. Beginning in 1995, Trillium and other investors asked companies to publicly disclose their already collected EEO-1 data, recognizing that diversity, inclusive of gender and race, is an essential component of sound governance and a critical attribute of a well-functioning organization. Shareholder proposals we filed requesting EEO-1 disclosure at that time frequently received votes in the range of 10%. The current landscape is dramatically different, with the link between management of diversity, equity, and inclusion and financial performance broadly recognized. Proposals requesting disclosure of diversity metrics have achieved record support in 2021, with EEO-1 disclosure requests filed with DuPont and Union Pacific

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receiving over 80% of votes in favor, and a request for a report on board diversity filed by Trillium at First Solar receiving 91.23% support.

Similarly, employee pay gap ratios are required to be reported in other countries, such as the U.K. Investors in U.S. companies need gender and racial pay gap ratio information as well to be able to assess a corporation's skill at managing a diverse workforce, and progress around commitments.

In addition, we believe that information regarding employee turnover and use of contract employees will allow us to assess the attractiveness of a particular employer.

In summary, we strongly urge to the SEC to move forward to create a comprehensive, mandatory ESG disclosure framework. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Matt Patsky". The signature is written in a cursive, flowing style.

Matt Patsky  
CEO, Trillium Asset Management

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