

P I M C O

Via Electronic Submission

June 9, 2021

Ms. Allison Herren Lee
Commissioner
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Public Input Welcomed on Climate Change Disclosures

Dear Commissioner Lee,

Thank you for leading the work of the U.S. Securities and Exchange Commission ("SEC") on climate-related disclosures and for soliciting feedback from stakeholders on this important and timely topic. We write to you from the perspective of one of the largest active fixed income managers in the world, managing \$2.16 trillion as of March 31, 2021 across nearly all sectors of the fixed income market, on behalf of millions of individuals and thousands of institutions globally.¹ In all cases, we function in a fiduciary capacity, striving to maximize our clients' return objectives consistent with their investment guidelines, specific mandates, and risk tolerances.

Over the last decade, we have observed a dramatic increase in the focus on climate issues from our clients both in terms of their appetite for dedicated sustainability mandates and in terms of understanding how climate risks factor into our broader investment process. We wholeheartedly agree with Commissioner Lee's assertion that climate change is unique in the "potentially systemic nature of the risks it presents"² and believe climate issues must be evaluated by investors at both the idiosyncratic and systemic level.

With that said, our analysis is only as good as the quality of the disclosure of the entities that we analyze. Given that SEC-regulated entities have varying views on the materiality of climate risks and consequently have a wide-range of approaches to the disclosure of such risks, it is often difficult for investors to obtain reliable, timely, and comparable insights into companies' climate footprints. As such, we welcome efforts by the SEC that build upon its 2010 Guidance Regarding Disclosure Related to Climate Change³ to evaluate how best to provide credible, standardized, and timely information to the marketplace in a practical manner to enable investors to make better informed decisions regarding climate risks.

¹ <https://www.pimco.com/en-us/our-firm>.

² Allison Herren Lee, Acting Chair, SEC, *A Climate for Change: Meeting Investor Demand for Climate and ESG Information at the SEC*, Address at the Center for American Progress, 3 (Mar. 15, 2021), <https://www.sec.gov/news/speech/lee-climate-change>.

³ See *Commission Guidance Regarding Disclosure Related to Climate Change*, Securities Act Release No. 339106 (Feb. 8, 2010), <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

In the subsequent comments, we do not seek to answer all of the thoughtful questions posed by the SEC, but rather, we highlight what PIMCO views as the most important considerations from a large investor's perspective regarding the disclosure of climate risk. They include:

- 1) ***A baseline of disclosure for public companies should be mandatory.*** Consistent with our belief that climate-related risks are largely material risks in most cases, we believe the SEC should require a minimum baseline of quantifiable climate risks; as we discuss below, however, it may be appropriate for such disclosure to be tailored and safe harbors provided.
- 2) ***The SEC should pursue a principles-based approach and avoid recreating the wheel.*** In addition to requiring a minimum disclosure of core metrics, the SEC should leverage well-established, principles-based disclosure and standard-setting frameworks for climate risks rather than recreating the wheel.
- 3) ***The frequency and placement of disclosure are important.*** The "how" of disclosure is in some ways equally as important as the "what", and we believe that reporting on climate risks should be provided at least annually, ideally in an issuer's 10-K filing.
- 4) ***Private companies should also be subject to disclosure.*** While public company disclosure is paramount, private companies should also provide comparable disclosures at some point. This is important given the significant scale of private issuers in carbon intensive sectors that issue bonds in the public debt markets.
- 5) ***The sequencing of disclosure should also be considered.*** We support the SEC's current focus on disclosure of climate risks for SEC-regulated issuers in advance of any disclosure requirements at the investment fund, asset manager, or asset owner level.

We elaborate on each of these points below.

1) ***Disclosure of a minimum baseline of quantifiable climate risks for corporate issuers should be mandatory, not voluntary.***

Like many others, we believe climate risks often pose a material financial risk, and as such, can have a discernible impact on the cost of capital and the overall financial performance of a company and should be disclosed.⁴ To this end, we believe that the SEC should adopt a balanced disclosure approach that includes a core set of quantifiable climate risks in addition to a more principles-based methodology. We also believe that the nature of such disclosure should be routinely reassessed to ensure that the scope of the disclosure evolves as the industry matures and the capability of issuers to produce disclosures improves.

⁴ Sustainability Accounting Standards Board, *Supporting the Work of the TCFD*, 1 (June 29, 2017), <https://www.sasb.org/blog/supporting-work-tcfid/>.

As a practical starting point, we would support the disclosure of Scope 1 and 2 Greenhouse Gas (“GhG”) emissions for public companies;⁵ we also believe that an accompanying qualitative explanation and discussion about the company’s GhG reduction objectives would be helpful for investors to understand how a company evaluates and manages climate risk. The Task Force on Climate-related Financial Disclosure (“TCFD”), for instance, has a helpful framework for how entities can discuss the “actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.”⁶ The majority of public companies already calculate their Scope 1 and 2 emissions using standardized emissions frameworks, so in our view, such a requirement should not be particularly onerous or resource-intensive.

As greater consistency and broader acceptance develops around a methodology to evaluate Scope 3 emissions, it may also make sense to require Scope 3 emissions as such emissions disclosures can arguably provide a more complete picture of a company’s carbon footprint. However, given the difficulty in ascertaining information required to quantify Scope 3 emissions accurately and the lack of a universal methodology for determining Scope 3 emissions, we believe it is premature to require such disclosures at this point.

We believe that smaller issuers should be able to comply with Scope 1 and 2 disclosure requirements, but if they cannot or do not believe that such risks are financially material, they should be able to explain why they cannot comply; in other words, we support a “comply or explain” approach for climate disclosures for smaller issuers.

By and large, we worry that if a baseline disclosure of quantifiable metrics is *not* mandatory and is rather just recommended, the marketplace will not evolve. As you know, there are already multiple standards globally, but since disclosure remains voluntary in the U.S., we observe that companies that may score poorly oftentimes simply choose to not disclose. Without a mandatory disclosure requirement, we expect to see a continuation of the current hodge-podge of disclosures in which issuers oftentimes cherry-pick which disclosures to adhere to or in some cases, simply choose to avoid disclosure altogether. What is not yet clear is whether the inconsistent nature of disclosure is driven by the lack of desire to disclose or a lack of a framework upon which companies can build their disclosures.

2) *The SEC should leverage existing disclosure frameworks and work to adopt such a global standard for issuers.*

Over the past decade, there has been significant work done regarding the establishment of global standards for climate risk disclosure. Instead of recreating the wheel and establishing its own sustainability standards, we believe the SEC should leverage the existing standards developed by well-respected organizations, such as the TCFD, the Carbon Disclosure Project (“CDP”), the Climate Disclosure Standards Board (“CDSB”), the Sustainability Accounting Standards Board (“SASB”), and the Global Reporting Initiative (“GRI”).

⁵ EPA, Center for Corporate Climate Leadership, *Scope 1 and Scope 2 Inventory Guidance*, (last updated Dec. 14, 2020), <https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance>.

⁶ Task Force on Climate-Related Financial Disclosures, Final Report to Financial Stability Board, pg. v (June 15, 2017), <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>.

The benefits of leveraging these existing standards, include: 1) The relevance of these standards, given the extensive and iterative work that has gone into determining which data is most important for investors; 2) The global nature of these standards, which recognizes the global quality of climate change and allows for more “apples-to-apples” comparability across investments globally; 3) The rapidity by which these standards can be updated, which is reflective of the dynamic nature of sustainable finance; and 4) A principles-based approach, which these standards rely on, rather than the more prescriptive approach that some other regulatory bodies have pursued.

The SEC is arguably best-positioned to determine how these standards are incorporated into its disclosure framework— whether it requires issuers to disclose items consistent with a varied set of industry standards or whether the SEC develops a relationship with a specific standard-setting body (e.g., SASB) as it has with the Financial Accounting Standards Board (“FASB”). Regardless, the SEC is uniquely positioned to reinforce the significant constructive work that has already been done as it relates to global climate disclosure standards. We also believe the SEC can provide invaluable leadership in the effort underway to help harmonize these various standards.⁷

3) *The frequency and placement of disclosures are important.*

As we believe climate risks are largely material, we would assert that the disclosure of climate risks belong in the mainstream financial filings of companies, specifically in a company’s 10-K filing. We view reporting in a 10-K as broadly superior to reporting in a separate sustainability document as sustainability reports are often unaudited and are published with long lags (e.g., in June for the prior year-end period), making them less informative to the marketplace. We also consider integrated reporting of climate risks to be superior to a standalone report on climate risks.

Notably, many companies *already* cite climate change as a risk factor in their annual 10-K filings. According to Bloomberg, in 2020, more than 220 companies discussed climate change under their risk factors; this compares to only 60 companies citing such risks in 2019, indicating the growing acknowledgement of the materiality of climate risks. Broadly, the number of companies mentioning climate change generally in their annual report skyrocketed to more than 340 companies in 2020 from only 100 companies in 2009.⁸ While companies are reporting these risks more – a welcome development – ensuring that they are using a more standardized approach is nevertheless essential and consistent with the SEC’s focus.

In terms of a practical timeframe for compliance of disclosure requirements, given the well-established climate reporting frameworks, we believe that larger issuers should be required to disclose as rapidly as practicable after the SEC finalizes a relevant rulemaking, whereas for smaller issuers, we could see a phased-in timeframe for disclosure.

⁷ See International Organization of Securities Commissions, *IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation*, (Feb. 24, 2021), <https://www.iosco.org/news/pdf/IOSCONEWS594.pdf>.

⁸ Andrew Ramonas and Jacob Rund, *Climate Change Risks Surge in Companies’ Annual Reports to SEC*, Bloomberg Law, 1 (Mar. 25, 2021), <https://news.bloomberglaw.com/environment-and-energy/climate-change-risks-surge-in-companies-annual-reports-to-sec>.

4) *Private companies should also be subject to disclosure.*

PIMCO believes that both public and private issuers have an important role to play in addressing climate change. Consequently, we believe that issuers of 144A/Regulation S securities and other private debt belong in the scope of climate disclosures given their sizable representation in the economy and the presence of many issuers in carbon sensitive industries. Where carbon emissions are material to a private issuer's business, disclosure of the same key metrics required of public counterparts should be mandatory. Such transparency avoids creating an incentive to remain private for issuers in carbon sensitive sectors and furthers transparency on issues critical to investment decisions and risk management. To the extent that regulation of private issuers extends beyond the remit of the SEC, we support a coordinated Federal approach to bring needed transparency.

5) *Sequencing of disclosure is important to avoid incoherence and confusion.*

While not asked directly in the SEC's request for public input, we believe it is important that as the SEC contemplates increased mandatory disclosure, it sequences climate disclosure requirements to reflect the realities of where the existing standards stand today. Across many facets, the standards and methodologies for issuer disclosure are more advanced than they are for asset managers, investment funds, and asset owners. In certain jurisdictions, the roll-out of disclosure requirements of information that is not yet available or that is mandated for all stakeholders simultaneously (e.g., issuers, asset managers, funds) has led to confusion and uncertainty; to the extent possible, this should be avoided in the U.S. In other words, asset manager, asset owner, and fund disclosure should be phased-in only after issuer disclosure has been well-established and transition-related issues have been addressed.

Concluding remarks

Given the importance of climate risks, we welcome the SEC's request for input on questions around disclosure and look forward to an ongoing dialog with the SEC on disclosure and other important related issues. One idea to formalize stakeholder engagement with the SEC is to contemplate the formation of a stakeholder advisory council, which would provide a forum for interested, varied parties to express their views on these ever-changing, multi-layered set of issues as well as offer an opportunity for stakeholders to arrive at a broad-based consensus on these important topics. Regardless, we appreciate the SEC's focus on these critical issues and look forward to continuous engagement with the SEC going forward.

Sincerely,



Scott Mather

Managing Director

Chief Investment Officer, Core Strategies and Head of Integrated ESG Investing
PIMCO