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Department of Accounting, Taxation, & Legal Studies in Business

The Honorable Gary Gensler, Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

June 7, 2021

Re: ESG and Climate Change Disclosures – March 15, 2021 Request for Public Input

Dear Chair Gensler:

Thank you for the opportunity to provide comments in response to the March 15, 2021 "Request for Public Input on Environmental, Social and Governance ("ESG") and Climate Change Disclosures."

In general, I fully support and welcome the Securities and Exchange Commission (the "Commission") developing and issuing additional disclosure guidance with respect to the full range of sustainability/ESG topics that market participants, corporate regulatory agencies, and corporate stakeholders consider (or maybe should consider) when participating in securities markets.

My perspective is as an accounting professor with a pedagogical and research interest in sustainability/ESG reporting. In fact, presently, I am developing a course for my university on global issues in ESG reporting.

Additionally, I am an investor who considers the implications of sustainability-/ESG-related issues when making an investment decision.

Lastly, I am a U.S. citizen who believes that clear, concise, comparable, comprehensive, and credible information addressing corporate risks and opportunities are the life-blood of efficient capital markets. Currently, I believe that information about corporate ESG/sustainability risks (and opportunities, as applicable) is lacking. It is my hope that the Commission and other financial markets regulatory agencies, both within the U.S. and globally, will work together to improve corporate reporting of ESG-related information in applicable financial reports and regulatory filings, as appropriate.

Following these general comments are my comments on the specific questions posed in the Commission request for public comment and feedback.

Thank you for considering these important issues.

I welcome the opportunity to speak with Commission staff, as applicable. My contact information is included below.

Respectfully,

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[redacted]

Comments on specific questions posed in the *"Request for Public Input on Environmental, Social and Governance ("ESG") and climate change disclosures."*

Questions

1. 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? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

   <u>Response:</u> The Commission can best regulate, monitor, review and guide climate-related disclosures by issuing specific required disclosures, including related climate-related metrics, whether established by the Commission or by reviewing and approving such disclosures and metrics established and issued by other climate-related standard setters.

   I believe climate-related disclosures and related metrics should be reported in corporate reports submitted annually and quarterly to the Commission, e.g. the 10-K, 10-Q, 20-F, proxy reports to shareholders, etc.

2. What information related to climate risks can be quantified and measured? How are markets currently using quantified information? 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)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? 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? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associate with climate change?

   <u>Response:</u> None.

3. What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?

   <u>Response:</u> For purposes of disclosures in publicly issued reports, I do not support the continuation of standards developed by non-authoritative voluntary standard-setting

organization such as the Global Reporting Initiative ("GRI"), Sustainability Accounting Standards Board ("SASB"), Task Force for Climate-Related Financial Disclosures ("TCFD") and the Climate Disclosure Standards Board ("CDSB"), and the International Integrated Reporting Council ("IIRC"). For periodic reports to the Commission, I believe the specific information that should be reported should be developed by the Commission and its staff or developed by a separate standard-setting organization with the oversight of the Commission and its staff.

Certainly, in developing and establishing its reporting requirements, I believe the Commission or its designate can establish task forces and advisory groups that include representatives from those non-authoritative standard-setting organizations that the Commission identifies as offering valuable insight on the challenges of developing and establishing reporting frameworks, definitions, and metrics to communicate the risks associated with climate- and other ESG-related corporate activities. Over the years, I believe the various voluntary organizations listed above performed admirably in developing and promoting ESG-related reporting and disclosures, often called "Corporate Sustainability Reports" or "CSR" reporting. Additionally, over the last 5 or so years, those organizations have worked diligently to identify differences in their reporting frameworks, definitions, and reporting metrics and they have promoted consistency and convergence in those diverse reporting characteristics of their separate reporting guidance. So as the Commission develops specific disclosure requirements for corporate climate-related (and or other ESG-related) disclosure, I support involvement GRI, SASB, TCFD, CDSB, and the IIRC and other experienced sustainability standard-setting organizations, such as International Standardization Organization ("ISO"), UN Global Compact ("UNGC"), the World Business Council for Sustainable Development ("WBCSD"), and AccountAbility.

4. 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.? How should any such industry-focused standards be developed and implemented?

   <u>Response:</u> *None.*

5. 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)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

   <u>*Response:*</u> *I believe the Commission should "draw on" existing frameworks, standards, definitions, and disclosures as deemed appropriate after appropriate vetting by the Commission and its staff to determine whether such frameworks, standards, etc. are consistent with the goals and objectives of the Commission. Additionally, I believe the Commission should coordinate their work with that of other global financial market*

regulatory organizations and reporting standard-setting organizations, such as IOSCO (of course), the EU, and the International Sustainability Standards Board currently being established by the IASB Foundation.

6. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? 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? 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?

   Response: *None.*

7. 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? Should any such disclosures be filed with or furnished to the Commission?

   Response: *I believe the disclosures should be incorporated into existing rules under Regulation S-K, mainly Items 301, 302, 303, and 305, and Regulation S-X, specifically with respect to improving financial statement disclosures to incorporate the implications for financial reporting of the risks associated with climate-related risks and uncertainties.*

8. 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?

   Response: *None.*

9. 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? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

   Response: *While I support global efforts to establish a global International Sustainability Standards Board by the IASB Foundation, and I believe the Commission or its designate should monitor and engage with those activities, as appropriate, as* *well as the Commission should be an integral participant in the activities of IOSCO and its task forces and advisory groups on sustainability reporting and disclosure, I support the recommendations of the SEC Investor Advisory Group, dated May 21, 2020, including their final observation that:*

> *"The US Should Take the Lead on Disclosure of Material ESG Disclosure:*
> *The US capital markets are the largest and deepest in the world. [footnote deleted] Therefore, the SEC should take the lead on this issue by establishing a principles-based framework that will provide the Issuer-specific material, decision-useful, information that investors (both institutional and retail) require to make investment and voting decisions. This disclosure should be based upon the same information that companies use to make their own business decisions. If the SEC does not take the lead, it is highly likely that other jurisdictions will impose standards in the next few years that US Issuers will be bound to follow, either directly or indirectly, due to the global nature of the flow of investment into the US markets."*

10. 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? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?

    Response: None.

11. Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

    Response: If the Commission issues guidance requiring enhanced ESG disclosures in periodic reports to the Commission, I believe the certification of the CEO, CFO, or other corporate officer, such as the Chief Sustainability Officer (CSO), as appropriate. Additionally, if the Commission identifies a role for independent assurance of the required disclosures, they should direct the Public Company Accounting Oversight Board to issue guidance to public company assurance providers on how they might incorporate climate-related and other ESG-related disclosures in their assurance engagements and reports.

12. 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? How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?

    Response: None.

13. How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? 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?

    Response: *None.*

14. 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?

    Response: *None.*

15. 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. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?

    > *Response:* *I believe the Commission should promote climate-related disclosure requirements as a component of a broader sustainability/ESG disclosure framework. In developing that framework, I recommend that the Commission engage representative advisory groups and task forces incorporating representatives from investment, reporting, assurance, regulatory, concerned community organizations, and academe with ESG/sustainability expertise and knowledge.*
    >
    > *Additionally, as I mentioned above, in response to the Commission's question #9, I support the recommendations of the SEC Investment Advisory Committee ("IAC"), issued May 21, 2020, including their following observation:*
    >
    > > *Issuers Should Directly Provide Material Information to the Market Relating to ESG Issues Used by Investors to Make Investment and Voting Decisions:*
    > >
    > > *Issuers are not always the primary source of the ESG data that investors are using to make investment and voting decisions. Currently, there is a patchwork of information in the mix and third party data sources are filling the void. Varying degrees of data upon which third party sources are based is coming from Issuers themselves, rendering the information in the market inconsistent and unreliable. We note that ratings agencies and proxy advisory firms, both of which are heavily relied upon by investors in making their investment and voting decisions, as relevant, are basing their ratings and recommendations on primary information provided by the Issuers themselves in their public disclosure filings. We think it is entirely consistent therefore that both investors and third-party data providers have accurate, comparable and material Issuer primary-source information upon which to base their analysis, and that there are consistent standards and oversight governing the disclosure of this data.*

Clearly, the IAC promotes corporate disclosure of a broad range ESG-related information rather than disclosure of one or two components, such as climate-related risks.