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VIA EMAIL: rule-comments@sec.gov

June 10, 2021

ATTN: Mr. Gensler, Chair

Dear Mr. Gensler, Chair:

**RE: INPUT ON CLIMATE CHANGE DISCLOSURES**

British Columbia Investment Management Corporation (BCI) is an investment manager with over CAD \$170 billion in assets under management, and one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 500,000 people in our Canadian province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will deliver strong and stable financial returns.

BCI welcomes the opportunity to provide feedback to the Securities and Exchange Commission (SEC), building on our submission on related matters when changes to Regulation S-K were proposed in 2019. Our comments from October 2019 can be found here <https://www.bci.ca/wp-content/uploads/2018/02/BCI-SEC-Reg-S-K-Letter-2019-10-22.pdf>. We offer comments on almost all questions posed by the SEC below and we hope you find them useful and instructive in your deliberations.

**Question 1:**

While the SEC issued Climate Change Guidance in 2010 that was welcome at the time, investor expectations and the materiality of climate risk have changed dramatically since that time. The growing body of investors that are committed to integrating ESG into their investment decisions, is reflected in the 4,000 signatories to the Principles for Responsible Investment managing USD100 trillion in assets under management.

Within the equity markets specifically, capital continues to flow into ESG themed funds and other ESG financial products. According to Morningstar data, monthly global flows to ESG funds has more than doubled since 2020 to over \$50 billion as of May 2021, up from \$20 billion. This level of growth is significantly greater than the broader market and indicates the growing demand from retail and institutional investors.

By regulating ESG disclosure, the SEC would bring additional credibility and integrity to this growing market as there is currently no consistent way for companies to report their ESG performance. The most straightforward approach for the SEC would be to adopt existing standards and/or frameworks that have broad support from the capital markets that would serve as a baseline for disclosure.

On climate specifically, the Taskforce on Climate-Related Financial Disclosure (TCFD) serves as a credible, global framework that was developed by market participants to serve the needs of the

investment community. However, climate disclosure will not satisfy the needs of investors more broadly as this will not capture all material issues for companies listed in the US market. For this reason, we would suggest a comprehensive approach that incorporates both TCFD and the Sustainability Accounting Standards Board (SASB) industry-based standards.

In terms of where and how these disclosures appear, BCI is open to a gradual approach recognizing that firms might need time to adopt appropriate internal controls before including disclosure in regulatory filings. Ideally, ESG disclosure makes its way into annual reports but realistically such disclosure is still useful to investors if housed in a distinct report provided there is board oversight.

### **Question 2:**

Despite the data gaps that do exist, investors are making great strides to incorporate what data we do have into our decisions at all levels of the organization. Within the US market, BCI actually sees high levels of current disclosure amongst the largest companies within the S&P500 index. According to one of our data providers, Refinitiv, 66% of these companies already disclose Scope 1 emissions and 65% disclose Scope 2. Slightly fewer disclose Scope 3 emissions at 44%. This illustrates that there is already significant disclosure on a voluntary basis.

For those companies that don't disclose emissions data, BCI must rely on proxy data to estimate emissions in order to report in line with the TCFD ourselves. This is not ideal as it is likely not a true reflection of actual operations and we would prefer to get data directly from companies that we invest in.

Investors use ESG data for a number of purposes including security selection in fundamental and quantitative strategies; engaging with management teams; asset allocation; scenario analysis; and, proxy voting related to director elections, compensation and shareholder proposals. Given the data gaps that exist, this is not functioning as efficiently as it could be.

BCI suggests that disclosure of material ESG issues, should be based on materiality and not on size of the firm. If it is material to an investment decision, it should be disclosed regardless of company size. Flexibility could be built into the disclosure regime, however, to allow for company judgement and differences in business models. All aspects of TCFD or SASB specific standards may not apply and companies often explain their choice of disclosed metrics when communicating with investors.

On the question of cost of capital, we would point out a study carried out by MSCI in 2020 looking at the correlation of this to ESG scores. Over a four year period, MSCI found that companies with the lowest ESG scores experienced a higher cost of capital and the strongest relationship was in the US. See <https://www.msci.com/www/blog-posts/esg-and-the-cost-of-capital/01726513589>.

### **Question 3:**

There is no need for the SEC to reinvent the wheel on ESG disclosure standards. Based on our conversations with global companies, they feel overwhelmed by the landscape of ESG standards and frameworks and many would like to see convergence. BCI would suggest that TCFD is becoming the de facto climate reporting standard while SASB has broad support from the investor community specifically as evidenced by the SASB Investor Advisory Group that manages \$48 trillion in assets under management.

There are examples of both the SEC as well as other global regulatory bodies leveraging third-party standards. This would provide independence, distinct governance and the credibility required while

also being an expedient and efficient way to respond quickly to the growing demand for ESG disclosure.

BCI would stress the need for an industry-specific approach when it comes to ESG disclosure as this is the only way to truly address financially material issues that are important for investment decision-making. Broad ESG disclosure frameworks that are generic and applicable to all industries are simply not as useful to investors. SASB and TCFD allow for such an industry-specific approach while also allowing for some flexibility for issuers to adapt the standards to their particular business models if some metrics are not material to them.

**Question 4:**

Climate change will ultimately impact all industries in some way, however, these impacts will be felt more acutely by some companies. Carbon pricing under various regulatory scenarios is likely to be material to high emitting companies that cannot easily pass on these costs, whereas technology companies are more likely to be impacted by the cost and availability of energy in jurisdictions where they operate.

Any regulatory response to climate disclosure must recognize these differences and seek to find solutions that are appropriate and relevant. The TCFD framework also recognizes this and has developed supplemental guidance for all sectors that reference other reporting frameworks that are already widely adopted. There is no need for the SEC to develop a unique set of standards in this case as they do exist but require wider, more consistent adoption to increase their utility to investors.

Implementation could be done on a comply or explain basis in light of these differences and to provide additional flexibility to issuers with unique business models. This type of comply or explain approach would be similar to how the United Kingdom is addressing mandatory climate disclosure.

**Question 5:**

BCI's response would be the same as that provided in previous questions. Using existing frameworks like TCFD and SASB would be complimentary to one another and the most efficient and effective way to get the consistent and comparable data that investors require.

**Question 6:**

Standards do need to evolve over time and keep pace with market developments. Similar to other questions, BCI would see other organizations as having the credibility and expertise to maintain and continue to augment the standards that are ultimately adopted in an independent fashion. As already mentioned, there is precedent for the SEC doing this in the area of financial reporting standards. We would encourage a similar model where the SEC leverages a public-private structure to move forward quickly.

**Question 7:**

Working within existing regulation appears to be the most efficient way to approach this as it would be integrated with mainstream reporting and more closely linked to operations and strategy. During the consultation regarding modernization of Regulation S-K, BCI also recommended included SASB

and TCFD disclosures. However, requiring this gradually to allow companies time to adjust is reasonable.

**Question 8:**

Governance is one of the pillars of TCFD and is crucial to understanding how companies oversee climate risk at the board level and how management mitigates this risk. BCI often speaks with board directors about their oversight role in this regard which includes compensation practices tied to their ESG strategy. The SEC does not need to be prescriptive on this topic as TCFD provides the guidance required but boards should have the flexibility to link climate risk to compensation as they see fit. This is not going to be material to all companies and BCI would therefore, prefer a principles-based approach on governance. Whether or not specific metrics are tied to compensation will be a function of many factors including strategic priorities and compensation structure.

**Question 9:**

BCI is a global investor and we find the current landscape challenging due to the fragmentation of standards in multiple jurisdictions. A global standard is ideal and for this reason, BCI has supported the efforts of the IFRS Foundation to form a Sustainability Standards Board (SSB) tasked with doing just that. Regardless of the end result of the SSB, we see TCFD and SASB as foundational to a global standard. They both meet the needs of the broad investor community and can be built upon in other jurisdictions that want to go beyond financial materiality. See our response to the IFRS Foundation at <https://www.bci.ca/wp-content/uploads/2021/03/BCIs-Comments-on-the-IFRS-Foundations-Consultation-Paper-on-Sustainability-Reporting.pdf>.

**Question 10:**

As this would be a new requirement for companies, BCI would not expect external assurance immediately but view this as something to work towards over three to five years. Assurance efforts have been growing over the years and in a recent KPMG survey of almost 4,000 global companies who report sustainability information, the rate of assurance was over 50% in 2020 (see [https://assets.kpmg/content/dam/kpmg/be/pdf/2020/12/The\\_Time\\_Has\\_Come\\_KPMG\\_Survey\\_of\\_Sustainability\\_Reporting\\_2020.pdf](https://assets.kpmg/content/dam/kpmg/be/pdf/2020/12/The_Time_Has_Come_KPMG_Survey_of_Sustainability_Reporting_2020.pdf)).

Companies are accustomed to working with both internal and external auditors and ESG disclosure is slowing coming under the purview of internal controls. However, an adjustment period is likely necessary for companies to establish processes and prepare for this exercise.

**Question 11:**

BCI supports a comply or explain approach based on materiality as it provides flexibility where certain issues are not as material for some companies and accommodates different business models. It is an effective way of improving disclosure to investors while not being too prescriptive. On climate change specifically, we would see the TCFD pillar on scenario analysis as not being applicable to all companies depending on materiality. As an example to illustrate effectiveness, comply or explain has been instrumental in advancing gender diversity disclosure in the Canadian context.

**Question 12:**

Useful ESG disclosure is a mix of quantitative and qualitative information. Investors require data to assess performance, but the narrative to explain that performance and trends over time is important context. One of the biggest challenges we face on the quantitative side, is that companies often report different metrics or utilize similar metrics but measured differently. The SASB industry standards solve for this problem to ensure that all companies in a particular industry report on the same basis which provides investors with comparability.

If disclosure is strictly narrative, investors often get boilerplate responses that do not elicit meaningful information. For this reason, BCI would seek a balance of quantitative and qualitative disclosure that would be provided for with TCFD and SASB.

**Question 14:**

BCI reiterates our preference for a boarder ESG disclosure framework and not one solely focused on climate. We appreciate that climate change is a systemic risk and this has been one of our organizational priorities for several years now. However, in the absence of broader ESG disclosure, investors will be left with large gaps on issues that are material such as those relating to human capital.

Investors have clearly established the demand for boarder ESG disclosure. According to RBC, 59% of S&P500 companies discussed ESG on their quarterly calls in the first quarter of 2021 with climate and human capital coming up most frequently. From our perspective, TCFD and SASB provide a complimentary set of disclosure that will serve the majority of investors.

**Conclusion**

BCI welcomes the opportunity to provide its views to the SEC and is encouraged by the work of the Commission to date. The landscape of ESG disclosure is moving rapidly and as an organization that values ESG with strong integration practices we are hopeful that the SEC can make a valuable contribution to market integrity and transparency. This would be consistent with the intention announced by the G7 Finance Ministers recently to move towards mandatory climate-related financial disclosures.

Please reach out to Jennifer Coulson, Vice President ESG at [REDACTED] for any further questions related to this submission.

Sincerely,



Daniel Garant  
Executive Vice President and Global Head  
Public Markets