WBCSD Response to US SEC Request for Comment on Climate Disclosure

The World Business Council for Development (WBCSD) welcomes the opportunity to comment on the "Commission's disclosure rules and guidance as they apply to climate change disclosures**,** and whether and how they should be modified."

WBCSD is a global, CEO-led organization of more than 200 leading businesses, including 40 North American, mostly U.S.-based Fortune 500 corporations working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. We also have strong US presence, including the US BCSD and Council of Great Lakes Industries. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

WBCSD welcomes the US SEC's efforts to more formally and adequately "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."

Forward-thinking and sustainable businesses within WBCSD believe that clear, comprehensive and comparable disclosure is a foundational building block of a well-functioning financial system. Better financial and ESG reporting – including on issues related to climate risks and impacts – by firms and financial institutions is urgently needed to reflect a truer picture of costs, benefits and values.

Much of the work across WBCSD's membership is focused on addressing shortcomings in the financial system through robust transparency and accountability related to a company's ESG performance.

Leading members across WBCSD have been advocating for broadly accepted disclosure standards for measuring performance and impacts on carbon, health and safety, and human capital because –

ultimately – this information will support better informed decision-making by businesses and investors.

A formalized process and mandate by the US SEC would go a long way towards clarifying the information necessary to make decisions based on sustainability performance and prospects.

As key preparers of sustainability information for annual and financial reports, we see the US SEC's efforts as an opportunity to ensure that upcoming initiatives on corporate sustainability reporting reflect the views of practitioners from the real economy and are connected to existing voluntary efforts and wider global developments.

Sustainable business stands ready to contribute to these efforts and discussions – and is committed to ensuring that any updated requirements put forward are robust, ambitious and feasible.

Thank you for the opportunity to respond.

Key points:

- **Business supports the ambition**: Business welcomes and supports the SEC's efforts towards consistent, comparable, clear and useful disclosure of climate and ESG-related information.
- **Climate disclosures should appear in the financial statements as appropriate**: To the extent that they respond to existing SEC requirements (i.e. principal risks) and potential impacts to a company's performance and position, climate change disclosures should appear in financial statements in accordance with existing financial standards.
- **Companies should be encouraged to use existing processes**: Where appropriate, companies should be encouraged to apply existing processes, such as internal controls, sensitivity analysis, enterprise risk management processes, investment decision criteria, etc. to evaluate and disclose climate risk.
- **Current requirements should be adapted, rather than written from scratch**: Wherever possible, existing requirements (such as Reg S-K) should be adapted rather than establishing standalone rules. Standalone rules may be more likely to lead to fragmented reporting requirements and fail to adequately build on the disclosure principles already inherent in the rules.
- **Include input from issuers and investors**: Any update on "reporting requirements for issuers to include material, decision-useful environmental, social, and governance, or ESG factors" should include input and guidance from issuer and investor communities to 1) ensure information requested through disclosure is meaningful for investors, and, 2) ensure companies can feasibly produce such information without undue cost.
- **Mandate data assurance against global standards**: Our experience is that the absence of mandatory assurance against global assurance standards (such as those issued by the IAASB) is unlikely to yield high quality investor grade information. The SEC should play an oversight and co-ordination role to ensure assurance is carried out to a standard that builds confidence amongst investors.

- **Provide space for context**: Companies frequently state the importance of providing context alongside quantitative metrics in order to allow investors and other stakeholders to fully understand their approaches and performance.
- **Pursue a global common baseline**: The SEC may want to retain rule-making until the global ESG standard setting institutions such as IFRS, complete their current phase of consolidation. A baseline is needed to ensure comparable information is reported by issuers.

Please see below for more detailed responses to the key questions where WBCSD and its members are able to provide further insight.

Note, this consultation response was released in the name of WBCSD. Like others, it is the result of collaborative efforts. It does not mean, however, that every member company agrees with every word.

Questions for Consideration

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?

To the extent that they respond to existing SEC requirements, for example on disclosure of principal risks, climate change disclosures should appear in the relevant parts of SEC filings. Similarly, to the extent that financial impacts affect a company's current or recent performance and position, climate change disclosures should appear in the financial statements in accordance with existing financial standards.

Some operational climate information might be supplied to other regulators, for example, the EPA under GHG regulations made under the Clean Air Act. In this case, it might be appropriate to consider whether cross referencing to that information serves the needs of investors.
Some climate information, such as governance arrangements or management's strategy to address climate change risks or to maximize climate-related opportunities might be best suited to disclosure in the MD&A.

In considering the question about where and how disclosures should be provided, it might be helpful to distinguish between information that is disclosed to conform with existing requirements - or that fits neatly into a section of existing SEC filings - from information that might not. (For example, forward-looking information about climate innovations and associated costs and potential revenues). It will be important to ensure that such information is appropriately cross-referenced.

Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

Such disclosures should be included into the financial filings. In our view, sustainability/climate issues are not separate from financial ones.

What information related to climate risks can be quantified and measured?

The recommendations of the Taskforce on Climate-Related Financial Disclosures provide clear guidance on this for issuers. The SEC should consider aligning such requirements with the TCFD. Similar moves have been made by other regulators, including the UK Treasury and the New Zealand Ministry for the Environment. The recommendations of the TCFD are supported by 1500+ companies globally.

Should disclosures be phased in over time? If so, how?
No. Over twenty years have elapsed since the Petition for Interpretive Guidance on Climate Risk Disclosure was made. Given that the type of climate-related information that is commonly requested since 2010 has not changed, a 20 year phase-in period has arguably already elapsed. We therefore suggest that clear, rigorous and enforceable reporting provisions are introduced as quickly as is feasible. The SEC should undertake formal reviews every 3-5 years and adjust the rules as needed.

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?

In line with the practices of leading companies, where appropriate, companies should apply existing processes, such as internal controls, sensitivity analysis, enterprise risk management processes, investment decision criteria etc. to evaluate climate risk. Some internal processes need to be adapted to cater for the particular characteristics of climate change as indicated in the TCFD's Guidance on Risk Management. However, where existing business processes, controls and analyses are suitable for application to climate change, they might already be disclosed or referenced in SEC filings and therefore not add to the burden of disclosure.

The practice of using climate scenarios for analyzing resilience against climate risk is still in its infancy and further reporting/practical infrastructure would need to be put in place before disclosures to investors could be made effective. WBCSD is working on a project to develop reference climate scenarios for companies operating in the energy system and, if successful this might act as prototype from which scenario analysis practices could be further developed. The technical team at WBCSD would be happy to discuss further.

What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them?

Any update on "reporting requirements for issuers to include material, decision-useful environmental, social, and governance, or ESG factors" should include input and guidance from issuer and investor communities to 1) ensure information requested through disclosure is meaningful for investors, and, 2) ensure companies can feasibly produce such information without undue burden.

There are significant potential advantages to involving a wide group of relevant stakeholders, including investors, registrants and other industry participants in the development of disclosure standards. For efforts to be widely adopted, input from business as a key stakeholder in the real economy will be important for creating an informed and effective disclosure requirement.

There is a significant overlap in the long-term interests of companies, investors, and other stakeholders in understanding and mitigating a companies' climate-related risks. Allowing for diverse input into the development process should lead to disclosure standards that are both feasible for companies to adhere to, and to serve the needs/interests of multiple stakeholder groups.

The SEC should seek to work with other regulatory bodies and standard-setting organizations to ensure the development of its climate change disclosure rules and guidance aligns with existing global best-practices. This could include the recommendations from the Taskforce on Climate-Related Financial Disclosures, the efforts of the European Commission and EFRAG to establish an EU non-financial reporting standard, and the IFRS Foundation in its plans to establish a global International Sustainability Standards Board.

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?

We suggest developing a climate change reporting standard that applies generally across sectors and then adding detail about how the general reporting provisions should be applied by individual sectors.

The nature of climate risk can vary significantly across industries. Ensuring any potential standard sufficiently allows for these variations across industries will be necessary for ensuring any disclosures made provide relevant, decision-useful information for investors and other stakeholders.

To support the implementation of the recommendations of the TCFD at a sector level, WBCSD, in collaboration with TCFD convened "Preparer Forums" for priority sectors and industries: oil and gas, electric utilities, chemicals, construction, automobiles and food, agriculture and forest products. Each guide provides industry specific examples, learnings and reflections on how they are implementing the TCFD recommendations and responding to climate-related risks and opportunities.

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?

Since 1992, there has been a ten-fold increase in the number of corporate reporting requirements related to environmental, social and governance (ESG) topics – making it difficult, expensive and time-consuming for issuers to respond.

Business sees an urgent need to improve consistency and comparability in sustainability reporting so that there's better visibility on risk, as well as appropriate valuation and pricing of companies based on their sustainability performance and prospects. Aligning with existing frameworks will support ensuring consistency and comparability of disclosure by issuers. It will also ensure that any efforts made by the SEC utilize cutting-edge thinking on the topic and leapfrog off of other useful initiatives.

For instance, the Task Force on Climate-Related Financial Disclosure (TCFD) aims to give markets better, more comparable and complete information about climate change by helping companies disclose against climate-related financial risk. Already, over 1500 companies support the Recommendations, and regulators including the UK Treasury and the New Zealand Ministry for the Environment have adopted them.

In addition to working closely with the TCFD on the technical content for any disclosure mandate, WBCSD encourages the US SEC to align and work closely with the IFRS Foundation and other regional efforts, such as in the European Union, the United Kingdom, India and others, to ensure that all efforts around consistent, comparable, and investor grade ESG/climate disclosure can be more easily applied and adapted for local jurisdictions and markets, reducing the burden on issuers, and increasing the utility for information users.

For a comprehensive, searchable database of all existing ESG reporting requirements across over 70 countries, WBCSD invites the US SEC to examine www.reportingexchange.com.

How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time?

The SEC should undertake formal reviews every three to five years and adjust the rules as needed.

It takes some time for reporting requirements to be properly applied and for practice to mature. Experience with the Non-Financial Reporting Directive in Europe highlights that when requirements are set at too high a level, there can be a lack of clarity from law makers on what companies are expected to do. The result in this case, has been patchy and inconsistent reporting (see Report by Alliance for Corporate Transparency).

Therefore, there should be an ongoing review of practice, with guidance for issuers on how disclosures should be improved. Many in the accounting profession are well-placed to help companies keep up with any adjustments, so that SEC are not seen to be changing the rules too often. Likewise, alignment with global ESG standard-setting processes will help ensure the quality and consistency of reporting from an earlier stage.

Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so?

There are several dimensions to improving disclosure practices. The SEC should encourage market actors to step up and lead the conversation on what represents good practice from an accountability and decision-making perspective. The accounting bodies can play a key role, ensuring that their training programs provide adequate understanding and support for the profession.

As mentioned above, the SEC should undertake formal reviews every 3-5 years and adjust the rules as needed. In the interim, an emphasis on material issues would be useful to catch events and circumstances that may not be directly contemplated by the rules.

If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding?

Issuers and the accounting professions should be responsible for the execution of requirements and ensure appropriate compliance. The SEC should restrict its use of resources to formal rule-making and enforcement.

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?

Clear and definitive standards are needed to guide good disclosure. By remaining agnostic on ESG standards, the SEC could risk developing standards that could be incongruous to global best practice.

For the same reason that the FASB exists, it may be prudent to have a domestic standard setter that can represent and contribute to the direction of global requirements. If a body is designated, it is critical that it works to align with the FASB to address the current lack of coherence between financial and non-financial disclosures. It will also be crucial to align with global standard-setters and international frameworks (IFRS/IOSCO as well the European Commission and other jurisdictional approaches/efforts).

As such, the SEC may want to inform its rule-making as the global ESG standard setting institutions complete their current phase of consolidation.

It will be critical for the standard setter to achieve domestic alignment in reporting (between MD&A and the financial statements) and also to have an appropriate due process that is inclusive.

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?

Wherever possible existing requirements (such as Reg S-K) should be adapted rather than establishing standalone rules. The latter is likely to lead to fragmented reporting requirements and fail to adequately build on the disclosure principles already inherent in the rules. There should be an overall disclosure objective driving climate disclosures so that other issues will be caught as they become material for a business. At present, ESG disclosures are replete with information that does not address the needs of investors or other stakeholders. For example, 2019 Harvard Business School research suggested, “the sheer variety, and inconsistency, of the data and measures as well as how companies report them” lead to significantly different results in investment decision-making.

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?

WBCSD’s extensive review of ESG information over the last decade (see Reporting Matters) shows that reporting on governance remains one of the weakest areas of reporting, despite also being a critical area of concern in ESG. While the prevalent practice is for the board to have little to no role in the oversight of E&S information, through Reporting Matters research, we see leading companies are allocated more responsibilities around these issues to the board.

It would be helpful to require the board to sign-off the disclosures explaining what process they went through to review the information, as well as obliging disclosure to outline overall governance structures for the management of E&S within the organization.

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?

At this point in time there is no single global standard setter for ESG-related information. Very encouraging signs have been given by the IFRS Foundation in its plans to establish a global International Sustainability Standards Board. The standard setter would be well positioned to provide the basis for comparability for issuers around the world.

WBCSD encourages the US SEC to align and work closely with the IFRS Foundation and other regional efforts, such as those by EFRAG in the European Union, the United Kingdom, India and others, to ensure that all efforts around consistent, comparable, and investor grade ESG/climate disclosure can be more easily applied and adapted for local jurisdictions and markets, reducing the burden on issuers, and increasing the utility for information users.

Notwithstanding the existence of a global standard setter, as we know from the implementation of IFRS that jurisdictions will need to consider how it will adopt those standards. It will be important to ensure there is strong alignment between global standards adopted in the US with those issued by the FASB.

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?

A baseline is needed to ensure comparable information is reported by issuers. The notion of comparability is not as straight-forward as that for financial information, especially if different reporting approaches are used. Different business models will alter what is material in terms of impacts and dependencies and so there will be limits to standardization and comparability. A robust set of principles supported by clearly prescribed disclosure requirements will be vital to ensure effective reporting by issuers. The IFRS Foundation is working to establish such a baseline.

If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability?

A distinction needs to made between the rule-maker delegated by the legislature and voluntary reporting frameworks. Strictly, as there can only be one rule-maker it will be their prerogative to adopt and adapt the standards developed by voluntary standard setters.

What should be the interaction between any global standard and Commission requirements?

The SEC should use any global standards as an informational basis for its requirements. As mentioned above, these should align as much as possible with the TCFD, IFRS and EU approaches.

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?

Our experience is that the absence of mandatory assurance against global assurance standards (such as those issued by the IAASB) is unlikely to yield high quality investor grade information.

If there is an audit or assurance process or requirement, what organization(s) should perform such tasks?

The PCAOB should play a role in the supervision of assurance providers in much the same way that it reviews auditors of financial statements.

What relationship should the Commission or other existing bodies have to such tasks?

The SEC should play an oversight and co-ordination role to ensure assurance is carried out to a standard that builds confidence amongst investors.

What assurance framework should the Commission consider requiring or permitting?

In our view, ISAE 3000 issued by the IAASB should be the standard for the provision of assurance of non-financial information. It is the most advanced and globally accepted standard applicable to all professions.

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?

The same standard of care is needed over financial and non-financial disclosures. Our research has indicated that there is currently a disconnect and litigation arising from conflicting and unsubstantiated claims about ESG-related performance. Accordingly, a robust system of internal controls is needed for non-financial information to ensure that it can be relied upon for internal and external decision-making.

Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

Such a certification is needed, ensuring that oversight and accountability for the climate disclosures is sufficiently senior.

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

The recommendations of the Taskforce on Climate-Related Financial Disclosures provide clear guidance on this for issuers. The SEC should consider aligning such requirements with the TCFD. Similar moves have been made by other regulators, including the UK Treasury and the New Zealand Ministry for the Environment. The recommendations of the TCFD are supported by 1500+ companies globally.

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?

A sustainability disclosure and analysis section as part of the MD&A aligns with existing global best practice, for example the recommendations of the Taskforce on Climate-Related Financial disclosures. Such a requirement could and should be consistent with such best practice, thus avoiding duplication and confusion for issuers, and preventing the divergence of global best practice. Such qualitative disclosures help fulfil stakeholder requirements around fully understanding not just a company's performance/data, but also a company's overall approach, strategies and other relevant contextual information.

The requirement for a qualitative disclosure and analysis alongside quantitative metrics can lead to the use of boiler plate language by companies, as well as the obfuscation of the most pertinent information and metrics for investors and other stakeholders. Providing clear guidance on what should and should not be included in such disclosures can help ensure the utility of the disclosures.