

# AMERICAN SOCIETY OF ADAPTATION PROFESSIONALS

[www.adaptationprofessionals.org](http://www.adaptationprofessionals.org)

Chair Gary Gensler  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chair Gensler,

Thank you for the opportunity to provide public input on climate change disclosures. I am pleased to share with the U.S. Securities and Exchange Commission recommendations compiled and refined by the members of the American Society of Adaptation Professionals (ASAP).

ASAP supports and connects climate adaptation professionals to advance innovation in the field of practice. With over 700 individual adaptation professionals – and 25 organizational members collectively employing over 75,000 people – ASAP's members offer expertise covering all facets of this rapidly evolving field including risk management, community-based resilience planning and implementation, economic revitalization, and disaster preparedness.

Given our expertise, we are responding to the questions in the Commission's public input request that most directly target climate adaptation. We begin by highlighting several critical cross-cutting themes, with more detailed policy recommendations in response to the committee's specific questions below.

ASAP members bring to their work the highest professional and ethical standards. The considerable years of practical experience represented by our membership has taught us the need for inclusive, authentic, and representative stakeholder engagement in concert with the best science and technical expertise. Please do not hesitate to let us know how we can be of service to the Commission as you establish comprehensive regulation of climate change disclosures.

Sincerely,



Elizabeth Gibbons  
Executive Director

On behalf of the members of American Society of Adaptation Professionals

The current and escalating impacts from climate change threaten the health and well-being of all Americans as well as supply chains, critical infrastructure, and ecosystem services. As such, climate impacts should also shift how companies and other entities assess and disclose risk. **ASAP recommends that the SEC consider the following cross-cutting themes as you design regulation around climate change disclosures:**

- Justice, equity, diversity, and inclusion must be centralized across climate change disclosure guidance and recommendations.
- There are no broadly adopted metrics or standards for adaptation. These must be developed in an inclusive multi-stakeholder manner and used to inform climate change disclosure.
- Climate adaptation is not sufficiently discussed in, and should be better integrated into, TCFD and ESG processes and conversations across corporate and government governance, strategy, risk management, and metrics and targets.

**Further, ASAP recommends that for all investments, the SEC should require disclosure that capture how the asset owner:**

- Understands climate change risks – both hazards and vulnerabilities – faced by assets, activities, systems, and people;
- Addresses these risks through flexible risk-reduction, adaptation, and resilience measures that account for climate change uncertainties;
- Ensures assets, activities, and systems deliver climate resilience benefits over and above addressing identified risks;
- Does no harm to communities beyond asset boundaries to avoid perpetuating environmental, climate, and other social injustices.

### Defining physical and transitional risks

**Physical risks:** Physical risks from climate change can be acute (hurricane, wildfire, or other event-based impact) or chronic (droughts, shifting season, or other climate pattern shifts). These physical risks create direct (i.e., damage to infrastructure and assets) and indirect (i.e., supply chain disruption) financial implications for organizations.

**Transitional risks:** Addressing climate change requires mitigation (reducing GHG emissions) and adaptation (addressing climate impacts). These steps will require and catalyze extensive policy, legal, technology, and market changes. These changes can create financial implications for organizations.

Definitions adapted from CDP

## Question 2

**Risk associated with climate change impacts can be quantified and measured:** Down-scaled climate models can provide quantifiable information at different granularities on temperature (such as extreme heat) and precipitation (including chronic and acute events). Stormwater runoff and its effects on riverine and coastal water pollution can be quantified and measured. Research suggests that markets are not fully accounting for or fully disclosing these risks.<sup>1</sup>

Information such as assets in floodplains, supply chain sensitivity, value of temporary disruption, and percent of operations reliant on fossil fuels can also be quantified and measured.

**Markets currently using quantified information:** Most of the current market activity is happening with insurance companies, followed by asset managers such as Blackrock and Vanguard, which are using data to assess their portfolio risk. Rating agencies, such as Moody's, which acquired 427, a risk analytics company, is also using this data.

Most market participants are not using quantified information. Techniques for producing quantified information are not standardized and often require black-box data from third party data providers. The lack of confidence in data, and lack of wider distribution creates a first-mover disadvantage for producing quantified information. Some registrants and investors have relied on value at risk (VaR) calculations, usually provided by third party consultants and data providers using various damage functions that are not open sourced or transparent. Guidance on methods to quantify and present data would help create market confidence in the production and disclosure of quantitative, forward-looking climate data, information, and actions.

**Specific metrics on which all registrants should report:** Metrics need to include those related to physical and transitional risks of climate change, and corresponding adaptations. Within this reporting requirement, registrants should also indicate steps taken to reduce that risk. Examples of metric that could be reported on include:

- **Exposure of physical assets to climate risk** (e.g., the degree to which real estate assets and/or business operations are exposed to flood risk, percent of assets that have critical infrastructure above flood levels, implementation of nature-based solutions to absorb storm water);
- **Nature of secondary risks posed by climate-related extreme events** (e.g., energy risk related to extreme weather events including power outage disruptions, disruptions to fuel supply, reduction in operational capacity (capacity factor), change in power demand, percent of facilities with access to backup energy generation);

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<sup>1</sup> Jonathan Woetzel, Dickon Pinner, Hamid Samandari, Hauke Engel, Mekala Krishnan, Brodie Boland, and Carter Powis, "Climate risk and response: Physical hazards and socioeconomic impacts." <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts>

- **Nature of climate risks to social infrastructure** (e.g., workforce ability to get to work during extreme weather events, assess vulnerability of access roads, level of disrupted public transportation systems, loss of remote access);
- **Level of adaptation and resilience planning carried out by company** (e.g., pre-disaster mitigation plan, post-disaster recovery plan, plan to prevent harmful substances being released into the environment during extreme weather events, relocation plans for assets in highly vulnerable geographic locations, integration of equity into all plans to ensure BIPOC and low-income communities are not negatively impacted)

**Markets evaluating and pricing externalities of contributions to climate change:** Markets are currently not pricing externalities of climate change in a coherent way. The key driver, however, is a lack of standardized metrics and inconsistent reporting. Some market participants are beginning to price climate change in an ad-hoc manner, mostly targeted at high-carbon sectors and renewable energy. As such, companies in oil and gas, and particularly thermal coal, will experience a high cost of capital and companies in renewable energy may experience lower cost of capital. However, these are likely value-based decisions on a sector basis and not necessarily driven by disclosure. Consistent disclosures will allow investors to make more asset-specific and fully informed capital allocation decisions.

Some companies are evaluating the financial impacts of climate-related scenarios on their performance over the long-term. As noted above, some are using quantitative financial analysis to assess results. At a minimum, the level of impact should be disclosed qualitatively but ideally quantitatively using a well-recognized, standardized, yet flexible methodology.

#### Question 4

**Establishing different climate change reporting standards for different industries:** Industries have different adaptive capacity and differing ability to mitigate risk. This should be taken into account to ensure that onerous requirements or standards are not placed on market sectors that are likely to be less impacted or have an inherent ability to mitigate this risk relative to other sectors. The SEC can learn from SASB's sector-specific approach.

Standardization of market sectors can result in more applicable, comparable standards than an economy-wide standard. Each organization will react to physical climate risk differently resulting in a highly complex system to assess risk. Focusing on specific market sectors allows for the standardization of profiles. This facilitates comparability within market sectors, but does not generalize risk so much that the standards do not apply or are not properly interpreted/utilized, thus avoiding negative impacts to organizational growth and development.

- **Standards for developing risk indicators:** Standards for data acquisition, data quality, data comparability resulting in the development of risk indicators
- **Standards for impact:** Standards for assessing adaptive capacity by market sector; adaptive capacity indicators based on economic, social, physical and natural factors; setup market sector specific adaptive capacity factor that takes into account exposure, sensitivity to impacts and the ability to adapt.

Standards should be developed requiring the use of high quality, locally relevant climate data to assess physical risk of assets. A process/standard should be put in place to validate/certify the data quality. A risk indicator score should be developed to ensure consistency and comparability across climate risks. Once risk indicator(s) are developed, the standard should then require the organization to assess its adaptive capacity to the assessed risk.

As reporting standards are developed, it will be important to build into the process that our understanding of climate-related risks and opportunities are evolving and likely to improve in depth and breadth over time, particularly as it relates to the cascading effects of climate-related impacts. As an example, it has become increasingly clear that the effects of forest fires on air quality of surrounding regions is a significant source of business interruption risk, particularly to large city centers which may be less exposed to the direct risk of fire.

Reporting standards should be determined by the Commission using an inclusive multi-stakeholder process rather than by an industry-led process.

## Question 5

**Rules that incorporate or draw on existing frameworks:** These frameworks have taken years, considerable strategic thought, and resources to develop. Companies have grown familiar with these frameworks. Leveraging existing frameworks and making them more stringent, robust, and required will help to advance climate-related risk disclosures across the board.

If we start with a new framework and add to the plethora of frameworks that already exist, it will not only place undue burden on the companies reporting and disclosing, but it will undermine the frameworks that are already in place, add more confusion on which framework is the best one to use, and may deter companies from reporting – unless it is required by the SEC. Ideally, the SEC would leverage SASB and TCFD to generate one, standardized, recommended reporting framework that is endorsed by these other entities and releases flexible, yet detailed guidance for companies on how, when, why, where, and what to disclose based on their sector.

Specifically, TCFD appears to be becoming an international standard that is widely accepted on a global level. It is imperative the SEC take into account the current global standards setting to ensure U.S. companies are not at a competitive disadvantage. That being said, the physical climate risk and adaptation elements of existing frameworks (e.g. TCFD) are not sufficiently prominent and lack clarity (or create confusion) as they relate to these areas.<sup>2</sup>

If the SEC decides to adopt TCFD disclosure standards, in full or in part, an effort must be made to further build out standards for identifying, assessing and disclosing physical climate risk. This effort can begin by the SEC being more actively involved in the standard development process. Taking a more direct role will allow for the further development of a relatively well accepted standard that is being adopted across a large number of major organizations. According to TCFD, 60 percent of the 100 largest public companies support TCFD standards.

Considerable effort is being made to align the Sustainability Accounting Standards Board (SASB) ESG reporting requirements with TCFD. SASB is already the standard for ESG reporting by financial institutions. Coupling SASB and TCFD provides a more comprehensive framework allowing for overall improved transition and physical climate risk disclosure.

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<sup>2</sup> Karl Schultz, "Is TCFD a catalyst for transformational climate adaptation?" <https://www.greenbiz.com/article/tcf-d-catalyst-transformational-climate-adaptation>

## Question 7

**Best approach for requiring climate-related disclosures:** The SEC already requires some level of risk reporting. If a company considers climate change to be a material risk, they are required to disclose that in their 10-K filings; however, a lack of effective guidance on the nature and format of this disclosure has limited actionable information available to the investor community and the proper reflection of climate risks in market outcomes. We recommend continuing to use the same mechanism, but requiring more robust, in-depth reporting that provides more significant details on both transition and physical climate risk. Disclosures should be publicly available and open for public scrutiny at some level.

Risk reporting for climate falls under Regulation S-K. Under this regulation the SEC asks, but does not require, disclosure of material climate change impacts to its organization. In the context of climate change, a business must provide a description of the business, legal proceedings, risk factors and any of management's discussion and analysis of financial conditions and results of operations. The intent is to identify any material impact to the business due to climate change, largely focusing on transition risk. The voluntary approach of disclosing risk has led to disclosures that lack consistency, comparability, and are not very reliable.

The SEC should require disclosure of any climate-related physical risks while also clearly noting which of these are material to the entity/organization and why. The SEC should develop, with stakeholders, the means of establishing what constitutes materiality and formulate a principles-based approach to what they need to consider when identifying the impacts. The SEC should reference SASB and their definition for materiality in regard to physical climate risk. SASB has a high-level mapping tool that helps with identifying what is deemed material for different market sectors.<sup>3</sup> The SEC should further ask regulated entities to outline measures they have or intend to undertake that deal with these risks (i.e., transfer, avoid, reduce, or accept).

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<sup>3</sup> SASB, "SASB Materiality Map." <https://materiality.sasb.org/>

## Question 15

**ESG and Climate-related disclosure:** The rise of ESG and in particular ESG investing is driven by emerging research suggesting that registrants advanced in the ESG space provide robust, risk-adjusted investment returns to shareholders and are capable of outperforming industry peers that are not as advanced on ESG.

Climate change is a subset of the “E” in ESG. Climate change is now starting to receive attention as it has been well recognized as a systemic risk that affects the performance of markets, influences investment returns, and for which investors need effective, consistent and comparable disclosures that are most impactful when backed by regulatory bodies such as the SEC.

ESG should include how companies approach climate risk and their adaptive capacity.<sup>4</sup> ESG-related financial reports permit companies to provide public information on material environmental, social, and governance activities that are impacting business operations and value. Extending this reporting to additional material risks due to climate change allows for a more comprehensive look at how a company’s operations and investments may impact the value and long-term viability of a company. ESG reporting without climate risk disclosure provides a partial picture of the overall activity and impact a company has on the environment and the communities where it is working. Better understanding direct climate risks to an organization and that organization’s response to mitigate this risk allows shareholders and stakeholders to make more informed valuation and investment decisions.

This should not be too heavy of a lift. There is an effort underway already to align ESG reporting with climate risk disclosure, indicating that a methodology and process will soon be in place. ESG reporting standards including the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) are actively working to align ESG reporting with transition and physical climate risk disclosure standards developed by TCFD. For financial reporting, it will likely be most efficient to align the SASB ESG framework with the TCFD climate risk disclosure standards.<sup>5</sup>

Based on a 2019 report by the Corporate Reporting Dialogue,<sup>6</sup> there is existing strong alignment between SASB, GRI, and CDP with TCFD reporting standards. The report finds that TCFD’s 11 recommended disclosures align well and are comprehensively covered by one of the three ESG-related reporting standards; 80 percent of TCFD’s metrics were seen as “fully covered” or “reasonably covered” by the indicators of at least one of the reporting schemes. Great strides have been taken for this reporting, but additional work will need to be done to have more alignment between TCFD and SASB to improve reporting efficiency.

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<sup>4</sup> Peter A. Soyka, “Why the ESG bandwagon must embrace adaptation.”

<https://www.greenbiz.com/article/why-esg-bandwagon-must-embrace-adaptation>

<sup>5</sup> Argyle Company, “Aligning ESG Reporting Frameworks with the TCFD Recommendations.”

[https://argyleteam.com/downloads/Argyle\\_ESG%20Reporting%20Frameworks.pdf](https://argyleteam.com/downloads/Argyle_ESG%20Reporting%20Frameworks.pdf)

<sup>6</sup> Corporate Reporting Dialogue, “Driving Alignment in Climate-related Reporting.”

<https://corporatereportingdialogue.com/publication/driving-alignment-in-climate-related-reporting/>



It is also important to understand if a firm is considering community impacts of their risk mitigation. For example, PG&E is an award-winning ESG reporter, but is also at the center of much property and life lost as a result of not sufficiently adapting to climate change. At the same time, the SEC needs to be aware of the unintended consequence of climate risk disclosures that can disproportionately impact communities already experiencing underinvestment or disinvestment. Climate risk disclosure does not just have an impact on their business but also on the community in which they are located. For example, if a company closes a facility in a community because of newly assessed and disclosed physical climate risk, this will reduce the company's exposure to physical climate risks, but if that facility was providing critical jobs for workers in the community, they now have no jobs, less adaptive capacity, and greater vulnerability to a whole host of issues, climate change being one of them.

Requiring reporting on adaptation within ESG would provide a more holistic picture of the company's practices as they relate to advancing climate solutions.