June 11, 2021

Gary Gensler
Chairman, US Securities and Exchange Commission
Washington, DC

Dear Chairman Gensler,

The World Benchmarking Alliance (WBA) welcomes the opportunity to comment on the SEC's proposal to mandate climate change disclosures.

WBA is an independent organization working to assess, measure, and rank 2,000 of the world's most influential companies on their contributions to the UN Sustainable Development Goals (SDGs) and other international norms for sustainable development through free, publicly available benchmarks. Disclosure and availability of comparable, reliable, and consistent data is thus critical for WBA's work, which enables stakeholders such as investors, businesses, governments, and policymakers and civil society to understand and compare company performance, to create accountability, and to drive the necessary change in the private sector to achieve sustainable development.

Over a quarter of the companies we are assessing are headquartered in the United States, making our engagement with these companies on their sustainability disclosures critical to our ability to assess them accurately, and to credit leaders while holding laggards to account. The SEC's proposal to mandate climate change disclosures is therefore critical to the ability of these companies to report on the issues that matter most for systemic transformation towards a more sustainable future.

All WBA benchmarks build on existing frameworks, standards, and norms. A key principle of our work is to not duplicate what already exists, by building on existing efforts and working towards globally agreed goals and social norms. WBA works with our global community of over 240 Allies – including GRI, Values Reporting Foundation, CDP, CDSB, UNGC, Impact Management Project, and others – to accelerate the evolution and support the harmonization of reporting standards. We believe such alignment is vital to provide clarity to all stakeholders. Harmonization can ensure that the diverse users of such information have consistent and comparable data and that companies do not face an unnecessary burden of reporting differently across multiple platforms.

We believe that the world needs a set of globally accepted sustainability reporting standards, which should provide guidance to companies on how to disclose and report on issues that are financially material, as well as those issues where companies have an impact on society and the environment. In this way, we support a double materiality view, which goes beyond looking at sustainability through a narrow lens of enterprise value creation (or financial materiality). We believe sustainability reporting is an essential part of creating the incentives needed to align companies with the SDGs, the UN Guiding Principles on Business and Human Rights (UNGPs), and the Paris Agreement. These global agendas cannot be achieved without the support of the private sector. Clarifying key public policy objectives, targets, and recommendations on how to reach these common sustainability goals is also essential to capture impact.

The SEC's proposal comes at a critical time for action on climate change, which poses a systemic risk to the global economy. Companies and investors across the globe, including in the United States, have been on the front lines of taking systemic action on climate change in recent years, but individual company efforts on disclosure are often fragmented and serve as the exception rather than the rule. Shifting from a voluntary to a mandatory reporting regime is therefore critical to put all companies on a level playing field. While competitive capitalism means some will always innovate and raise the bar, we urgently need a baseline of consistent, comparable, and reliable data to better allow us to assess the needs and opportunities for companies operating in this space. And while disclosure is not the same thing as impact, it is a useful and a necessary first step for all stakeholders to better support and hold companies to account.

WBA is pleased to share the following responses to the SEC's questions for public comment and looks forward to engaging in subsequent dialogue as we work to provide investors and other stakeholders with the information they need to more meaningfully engage with companies on their sustainability performance.

Sincerely,

Gerbrand Haverkamp
Executive Director

Annex 1: Responses to consultation questions

Question 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?

WBA strongly supports mandatory climate disclosure by companies based on science, as well as shifting societal expectations. The data resulting from this disclosure is essential for investors, regulators and society at large. It is also critical to enabling organizations like WBA to assess companies using consistent and comparable data. WBA supports the integration of climate change disclosures into financial reports, with the ultimate aim that such reporting is done from a double materiality perspective. WBA additionally supports annual, standardized reporting that is machine readable to maximize use and usability by investors and other users. Such disclosures are critical to providing consistent and comparable data on company performance based on issues that are material to both enterprise value, as well as society and the environment more broadly.

SEC-mandated disclosures should go beyond climate-related information that is considered to be immediately financially material and should also look to provide information that will become increasingly financially material over a mid-to-longer time horizon. Disclosures should also provide insights on companies' actual impact on climate change.

Recent scientific evidence from the US Commodity Futures Trading Commission (CFTC) has identified the potential for climate change to pose a systemic risk to the US financial system, as well as the potential for climate-related "sub-systemic" shocks to pose a risk to state and local-level financial systems. Investors are already acting on this evidence, with 87 asset managers representing $37 trillion now having set net zero targets, according to the Net Zero Asset Managers Initiative. This data illustrates the critical need for investors to have access to information on the impacts of climate change beyond enterprise value. This is especially important for intermediaries, such as banks and insurance companies, who have exposure to multiple industries and would therefore benefit from standardized disclosure frameworks that can help them to address potential positive/negative impacts of their activities.

However, the existing disclosure regime *"has not resulted in disclosures of a scope, breadth, and quality to be sufficiently useful to market participants and regulators,"* according to the US CFTC. A recent TCFD updated found that surveyed companies only provided an average of 3.6 out of its 11 total recommended disclosures. The 2010 SEC Guidance also *"has not resulted in high-quality disclosure across U.S. publicly listed firms [and] could be updated in light of global advancements in the past 10 years."*

Question 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

<u>inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?</u>

To ensure that companies can ensure long-term value creation while operating within planetary boundaries, it is essential to focus on wide-scale, systemic transformation. This means focusing on decarbonization in line with a 1.5-degree pathway as outlined in the Paris Agreement. While markets are beginning to price in the negative externalities of climate change, as reflected by the growing demand from investors to see net zero commitments from companies, they have not yet adequately considered the adverse impact of climate change on the cost of capital, particularly in developing economies. This is largely due to a lack of both quantitative and qualitative data on company performance against these commitments. Measuring climate-related risks and opportunities on companies' financial planning and performance, including the need for a clear narrative of significant planned changes in business models and a low-carbon transition plan backed up by clear financial breakdowns (i.e. by capital expenditures or operating expenditures), is critical to enabling investors to engage more effectively with companies.

Mandatory climate disclosures can help on this front by providing standardized guidance for companies to report on both their financial and non-financial performance. Such disclosures should build on the target-setting guidance of the Science-Based Targets Initiative and the reporting standards developed by organizations such as Values Reporting Foundation and TCFD (all of which focus on financially-material disclosure) but should go further by embracing a broader perspective along the lines of the reporting standards developed by GRI and CDSB. WBA accordingly recommends a disclosure regime based on the ACT assessment framework, which takes a sector-specific, time-bound, double materiality approach to issues such as governance, metrics, targets, and risk management. In line with the ACT methodology, disclosures should include information on scope 1, 2, and 3 emissions, as well as greenhouse gas reduction goals, to ensure that the full scale of a company's climate-related impacts – beyond just its direct operations – are considered. These disclosures should also include short (1-3 years), medium (2030), and long-term (2050) goals, along with added specificity for certain sectors to allow for accurate aggregation across reporting boundaries (i.e. subsidiary vs group level).

<u>Question 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>

WBA supports a robust multi-stakeholder process to develop disclosure standards that would allow for the full range of potential climate-related impacts, including on social issues such as a just transition, to be considered in a way that acknowledges the information needs for both investors and other stakeholders. A multi-stakeholder process would also help to ensure that a dynamic/double materiality perspective is reflected in the development of the standards, rather than a more limited focus on financial materiality that may emerge from a narrower array of inputs by investors, companies, and industry participants.

Such a process, however, should be premised with a commitment from the SEC to implement a disclosure requirement so that the process focuses on the design of the disclosure standards, rather than a debate of whether such standards should exist. The SEC should also make clear its intention to build on existing frameworks, standards, and guidance as outlined in question 2 above, as well as to align with ongoing multi-stakeholder processes aimed at establishing global sustainability disclosure standards, such as the European Commission's Corporate Sustainability Reporting Directive and the Statement of Intent to Work

Together Towards Comprehensive Corporate Reporting by Values Reporting Foundation, GRI, CDP, and CDSB.

The standards should satisfy minimum disclosure requirements established by the Commission but should also reflect consensus from participants on where additional requirements can be harmonized with global standards to avoid fragmentation and strengthen the incentives for companies to disclose on the full range of their activities.

Question 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?

WBA supports a sector-specific approach to climate-related disclosure to allow for greater comparability by investors and other stakeholders. WBA's Climate & Energy Benchmarks already provide sector-specific methodologies in the automotive and electric utilities sectors (with oil & gas coming soon), based on the ACT Methodology outlined in question 5 below. This approach is reflected by other standards-setters such as GRI (which focuses on sector-specific standards) and Values Reporting Foundation (which focus on industry group).

WBA also believes, however, that a systemic approach to climate change is critical and that many important metrics to assess company behavior are common across different industries. We support an approach that considers how best to build upon standardized metrics that are sector-agnostic, while allowing for specific indicators that are tailored to the realities of specific sectors.

Question 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?

WBA supports the development of rules that build on existing target-setting guidance, reporting standards, and assessment frameworks. This is critical to ensuring that companies are not overly burdened to report against vastly different requirements, and to support investors and other stakeholders in being able to meaningfully engage with company data.

At the same time, WBA advocates for rules that incorporate an approach based on consideration of planetary boundaries and broader impact on society and the environment, rather than solely enterprise value. As such, we support existing efforts, such as GRI, CDP, SBTI, and the ACT framework, that incorporate a broader materiality lens (see question 2 above for more detail).

Question 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?

WBA supports regular updates to disclosure requirements and recommends that the Commission undertake a voluntary review of the soon-to-be-developed guidelines after 2-3 years of compliance by companies. This will allow the Commission to identify areas in which the standards are enhancing the quality of company disclosures and the engagement of stakeholders with companies as a result of those disclosures, and areas in which there may be an opportunity to strengthen or revise the standards.

WBA supports a multi-stakeholder review process, carried out by the Commission itself, to solicit inputs and draft the proposed revised rules. This will help to ensure independence and provide participants, particularly investors, with confidence that their interests are being protected in accordance with the Commission's mandate, while also ensuring that any proposed rules incorporate a wider lens of climate impact beyond solely enterprise value.

<u>Question 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?</u>

No response.

<u>Question 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?</u>

Companies should be required to disclose their internal governance and oversight and climate-related issues. This is critical to assessing scenario-planning, assessing performance against targets, and allowing stakeholders to identify those companies that are prioritizing robust engagement on climate-related issues. In line with the ACT framework, WBA supports a governance approach that considers oversight of climate change issues, capability of climate change oversight, a low carbon transition plan, climate change management incentives (such as compensation structures), and climate change scenario testing.

The inclusion of climate change disclosures in annual reporting (see question 1 above) also requires governance oversight and assurance through the usual reporting cycle, which helps to facilitate the appropriate assessment of such information by stakeholders. WBA's 2020 Climate and Energy Benchmark assessing the Electric Utilities supports this view:

"The evidence indicates that for 90% of the companies [benchmarked], either ties still exist between executive remuneration and fossil capacity growth, or it is unclear whether these ties have been cut, and these companies have not committed to stop new fossil fuel. Linking remuneration to fossil fuel expansion creates a conflict of interest and could result in weak commitment to the delivery of low-carbon transition plans. Additionally, only one third of the companies have high-level strategic buy-in for the delivery of a comprehensive set of low-carbon transition commitments. The fundamental decisions that will make electric utilities prepared for the low-carbon transition can only be made by those at the top of the organization."

<u>Question 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</u>

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?

WBA supports greater harmonization between standards setters, with mandatory disclosure requirements based on a common set of global standards. A baseline of global standards that jurisdictions can build on would allow for guidance that is aligned with globally agreed-upon goals and targets (such as the Paris Agreement and its 1.5-degree pathway), while incorporating specific considerations that may differ regionally or nationally. Mandatory requirements would also establish a baseline for company expectations to allow stakeholders to better assess needs and opportunities, while recognizing leaders and holding laggards to account.

WBA supports the work of the IFRS Foundation on this front, particularly the creation of the Sustainability Standards Board, as a fundamental step towards reaching consensus on global alignment. WBA also supports the willingness of the IFRS Trustees to move towards convergence while recognizing the need for a short, medium, and long-term approach that can focus on the impact of disclosure on enterprise value in the first instance, with the potential to extend to broader impact on society in the future.

The SEC's endorsement or incorporation of a global standard, and its enforcement of mandatory compliance, would go a long way towards fully recognizing the impact of ESG issues, including climate change, as systemic risks to the US economy. Data from a recent study by the European Corporate Governance Institute supports this view:

"Mandatory ESG reporting has in turn beneficial effects on firm's information environment: analysts' earnings forecasts become more accurate and less dispersed after ESG disclosure becomes mandatory. On the real side, negative ESG incidents become less likely, and stock price crash risk declines, after mandatory ESG disclosure is enacted. These findings suggest that mandatory ESG disclosure has beneficial informational and real effects."

Question 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?

WBA supports audit and assurance of disclosures to ensure that company data is reliable and accurate, and that it meets the needs of stakeholders. However, WBA recognizes the potential need for, and is supportive of, a phased approach that could consider audit and assurance in subsequent iterations of the standards. We also believe that if there is a mandatory assurance requirement, it is crucial that the bar for quality of disclosures is not lowered or diminished. Given that non-financial assurance is not as widespread as financial assurance and can be perceived by some reporters as costly and complex, we support building upon current professional standards such as the ISAE 3000 and the International Ethics Standards Board for Accountants' Code of Ethics. We also support the approach of the Institute of Internal Auditors, which has cited four lines of defense, including segregation of duties in delivery and management approvals of sustainability performance data, data management and reporting processes and control, internal audit, and external audit.

Question 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?

In addition to the enforcement of disclosures through audit and assurance, WBA supports certification of climate disclosures by a corporate officer. This would fundamentally shift corporate governance and align management incentives to ensure that companies adequately price in the externalities of their climate-related impacts. It would also help to address systematic risk of climate, driving down the cost of capital and facilitating company engagement from investors. This is in line with the draft revised GRI Universal Standards, which propose having a statement from the Board/most senior Executive, in addition to external assurance, taking responsibility for sustainability disclosures.

Question 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?

WBA does not support a "comply or explain" framework for climate as this decreases the incentives for companies to disclose information against standards and allows for variability in the quality of disclosure by companies. All climate-related disclosures should be mandatory to compel companies to adhere to the standards and enable investors and other stakeholders to access reliable, consistent, and comparable data.

Question 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?

No response.

Question 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?

WBA supports mandatory climate disclosure requirements that extend to both public and private companies of all sizes. This reduces the potential for private companies to be opaque regarding their climate-related impacts and gives investors and other stakeholders access to comparable data. As climate disclosures are needed by investors across all asset classes, including Equity and Fixed Income, they are also relevant for non-listed companies that issue bonds. This is in line with the feedback provided by investors to the UK government for the roll out of mandatory TCFD-aligned disclosures.

Question 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?

Yes, WBA supports a broader ESG disclosure framework that considers climate and environmental-related disclosures alongside social and governance-related disclosures. The Commission can address various governance-related issues through its climate requirements by focusing on some of the key management and oversight issues outlined in question 8 above, such as transition planning, incentive structures, and scenario testing.

On social-related issues, WBA believes that inequality poses a systemic risk to the global financial system and recommends that the Commission integrate disclosure requirements that demonstrate companies' commitments to, and performance against, core elements of social inclusion, as well as a just transition that achieves the goals of decarbonization while protecting the rights and wellbeing of workers and communities. WBA's Social Transformation Framework offers a potential starting point for the Commission to consider how best to integrate the social dimension into its climate-specific disclosure requirements through a set of indicators that cover respect for human rights, provision and promotion of decent work, and ethical behavior. WBA's Just Transition methodology builds on these baseline expectations by considering the specific intersections between climate and social inclusion, such as just transition planning, social dialogue and stakeholder engagement, green and decent job creation, retaining and reskilling workers, social protection, and just transition advocacy and policy engagement.

WBA endorses disclosure requirements that go beyond environmental issues and consider companies' impacts on a broader range of social and governance issues. We reiterate our support for a double materiality lens that recognizes the inherent dynamism of issues which may prove financially material to companies over time, and which investors will find useful. Such an approach will also provide critical information needed for WBA to accurately assess companies on their sustainability performance, thereby enabling investors and other stakeholders to support, incentivize, and hold companies accountable for their contributions to sustainability and sustainable development.