June 11, 2021

Via Electronic Mail

The Honorable Gary Gensler
Chair
The Honorable Allison Herren Lee
Commissioner
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler and Commissioner Lee:

The Investment Adviser Association (**IAA**)[1] appreciates the opportunity to comment on the March 15, 2021 request for public input on climate change disclosures by corporate issuers.[2] An increasing number of investment advisers engage in sustainable investment strategies on behalf of their clients and consider environmental, social, and governance (**ESG**) factors individually and collectively as an integral part of prudent investment and risk management processes, both as a way to maximize return for their clients over the long term, and to respond to increased investor interest in this area. Many investors are looking to advance their values and goals on issues such as sustainability and human capital through their investment portfolios. Thus, we support the Commission taking actions to facilitate advisers' ability to engage in ESG investing. In this letter we provide high-level recommendations regarding certain issues discussed in the Request. We and our members look forward to meeting with you to discuss these issues in more detail.

We believe that the provision of more consistent, comparable, and reliable ESG disclosures of material information by corporate issuers will allow investment advisers to better serve their clients by improving transparency for investors and facilitating apples-to-apples analysis and comparison of issuers. This will in turn lead to better and more accurate pricing of

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[1] The IAA is the leading organization dedicated to advancing the interests of investment advisers. For more than 80 years, the IAA has been advocating for advisers before Congress and U.S. and global regulators, promoting best practices and providing education and resources to empower advisers to effectively serve their clients, the capital markets, and the U.S. economy. The IAA's member firms manage more than $25 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, and corporations. For more information, please visit www.investmentadviser.org.

[2] *Public Input Welcomed on Climate Change Disclosures*, then-Acting Chair Allison Herren Lee (Mar. 15, 2021) (**Request**), available at https://www.sec.gov/news/public-statement/lee-climate-change-disclosures. Our focus in this letter is limited to corporate issuer disclosures.

risks. Accordingly, the IAA supports creation of a framework on climate- and other ESG-related matters by the Commission in furtherance of this goal.

Because of the complexity and nascency of these issues in the U.S., we recommend that the Commission establish a framework and engage either a third-party standard setter or an expert advisory group to assist in developing and updating this framework. We strongly believe that any such framework will need to be dynamic to respond and adapt to the rapid developments in this area. In particular, the focus should be on information that is material to investors and that may also be practically provided by issuers. We believe that it would be valuable and most efficient for the Commission to leverage the existing framework of the Task Force on Climate-Related Financial Disclosures (**TCFD**) and the approach to industry-specific metrics that the Sustainability Accounting Standards Board (**SASB**) is known for to develop its framework.[3] Many issuers already utilize both TCFD and SASB on a voluntary basis, often with the encouragement of investors. We suggest as an initial step that the Commission work with stakeholders to propose a discrete set of baseline disclosures and build on this framework over time.

To encourage issuers to provide high quality disclosures that are useful for investors, and to address issuers' liability concerns, we suggest that the Commission provide a temporary safe harbor for issuers working in good faith to comply with any new disclosure requirements. We also recommend that the Commission phase in any requirements so that they would apply first to large issuers, and later to smaller and non-public ones.

I. The IAA supports consistent, comparable, and reliable disclosures of material information by issuers on climate and other ESG matters.

Having consistent, comparable, and reliable disclosures of material information from issuers, including disclosures related to climate- and other ESG-related matters, would help investment advisers make informed decisions on behalf of their clients. This information, provided on a timely basis, enhances investment advisers' understanding, management, and disclosure of risk, including risks related to an entire portfolio, and enables advisers to identify opportunities for creating value for their clients. Investment advisers currently see a wide range in the amount, content, and quality of issuer disclosures on climate- and ESG-related issues. This significant variability makes it challenging for investors and investment advisers to analyze information with respect to a particular issuer and across issuers. While certain issuers provide disclosures on climate- and other ESG-related issues based on the TCFD framework and SASB standards, that practice and the disclosures themselves are not consistent across issuers.

A thoughtful disclosure framework that reduces these disparities would help make issuer disclosures more meaningful and useful to investors and investment advisers. Clarity in this area would also create efficiencies and streamline response processes for issuers that currently receive

[3] SASB recently announced a merger with the International Integrated Reporting Council to form the Value Reporting Foundation.

requests for climate- and ESG-related information in multiple ways and are asked to respond in a variety of formats. In addition, many investors and investment advisers use information from ESG rating providers pertaining to issuers in their analysis. Another benefit of a framework that provides for consistent, comparable, and reliable information from issuers is that it could improve the quality and reliability of information provided by ESG rating providers and reduce reliance on estimated data.[4]

II. The IAA supports development by the Commission of a framework for climate- and ESG-related disclosures.

We believe that, for investors and investment advisers to obtain consistent, comparable, and reliable issuer information about climate- and other ESG-related matters, the Commission will need to create and implement a disclosure framework for issuers with metrics and standards that are specific. However, in order to keep up with the fast changing landscape, the framework as well as the metrics and standards will also need to be dynamic over time. We support the Commission's engagement with a third-party standard setter or expert advisory group to develop and maintain such a dynamic framework that remains current with regulatory, industry, and other developments as they evolve. We recommend that the Commission consider the following in developing this framework:

A. ***Leverage Existing Frameworks and Encourage Consistency***: A number of climate- and ESG-related disclosure standards have been developed and others are under development, leading to a potentially confusing patchwork of disclosures. With many issuers already providing reporting based on the TCFD framework and SASB standards (albeit not in a uniform way), we believe that any framework for issuer disclosure that the Commission adopts should leverage these standards. We also encourage the Commission to promote consistency between any Commission-developed framework and the other sustainability disclosure standards under development, including those that the International Financial Reporting Standards (**IFRS**) Foundation is working on in cooperation with the International Organization of Securities Commissions (**IOSCO**), of which the Commission is a member.

B. ***Both Quantitative and Qualitative Disclosures are Informative***: Investors and investment advisers find both quantitative and qualitative disclosures from issuers to be helpful. For example, when considering an issuer's diversity, equity, and inclusion (**DEI**) practices, investors and investment advisers find it valuable to review not only quantitative, statistical information about the diversity of an issuer's workforce, but also qualitative disclosures about an issuer's practices, initiatives, and goals in this area.

[4] *See* Sustainable Investing is an Active Process, IAA Active Managers Council (2020), for a discussion of the use of sustainability ratings.

Qualitative information is also helpful in understanding an issuer's path toward voluntary climate commitments and targets. Quantitative information shows where an issuer is now, and qualitative information explains how the issuer plans to achieve its goals.

C. ***Industry-Specific Disclosures***: For some categories of disclosures, particularly climate-related disclosures, we believe that it is helpful to have industry-specific standards. This is particularly valuable with respect to the higher impact sectors such as energy, transportation, construction, agriculture, and forest products. SASB standards, for example, provide for industry-specific metrics that can be used to "fill in the blanks" of the largely industry-neutral TCFD framework.

D. ***Begin with Implementing Certain Baseline Disclosures***: Building this framework will be a significant undertaking and will represent a seismic shift for certain issuers. Thus, as a starting point, we suggest that the Commission work with stakeholders to develop discrete baseline disclosure requirements. Baseline disclosures that include, for example, information from issuers on scopes 1 and 2 greenhouse gas (**GHG**) emissions, would be helpful.[5] This information is increasingly requested by investors and investment advisers, and while many issuers already provide it, some issuers still do not.

Investors and investment advisers are also increasingly interested in information about issuers' human capital management, including workforce diversity. We note that human capital-related information is already provided by many issuers in the Equal Employment Opportunity Commission's Form EEO-1. Therefore, we believe that making that type of information public is a reasonable place to begin to obtain critical, foundational data on diversity.

III. The IAA recommends that the Commission provide a temporary safe harbor and phased-in implementation for issuers in connection with new disclosures in this area.

While we believe it is imperative for the Commission to develop a disclosure framework for climate- and ESG-related matters, issuers will likely have concerns about liability in connection with these disclosures, particularly for disclosures that are filed with the Commission. We recommend that the Commission provide a temporary safe harbor for issuers that can demonstrate that they are making a good faith effort to comply with any new disclosure standards in this area. A safe harbor would not only help to address issuer liability concerns, but

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[5] Scope 1 emissions "are direct [GHG] emissions that occur from sources that are controlled or owned by an organization (*e.g.*, emissions associated with fuel combustion in boilers, furnaces, vehicles). Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, heat, or cooling." U.S. Environmental Protection Agency, EPA Center for Corporate Climate Leadership, *Scope 1 and Scope 2 Inventory Guidance*, available at https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance.

it would also encourage more substantive, reliable disclosures. It is important for the Commission to avoid implementing a disclosure framework that allows for or encourages the use of "boilerplate" disclosures. We feel strongly that boilerplate language is not helpful to investors or investment advisers because it does not provide a level of specificity necessary for them to understand or distinguish between issuers. We believe that a safe harbor would help prevent boilerplate disclosures.[6]

Finally, we emphasize that larger issuers will be better situated to comply with any new disclosure standards because they have greater resources and are more likely to be providing similar information in response to investor requests today. While our members would appreciate having disclosures on material climate- and ESG-related matters across all issuers in the near future, we understand that this approach would significantly burden smaller issuers. As a result, we suggest that the Commission apply any new standards to larger issuers first, and phase them in over time for smaller issuers. A phased-in approach would recognize and address the additional burdens on these issuers. We also believe that non-public corporate issuers should be subject to any new standards over time because it would be beneficial for investors and investment advisers ultimately to have consistent, comparable, and reliable climate- and ESG-related information across issuers.

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We appreciate your consideration of the IAA's comments and would be happy to provide any additional information that may be helpful. Please contact the undersigned or IAA Associate General Counsel Sarah Buescher at (202) 293-4222 if we can be of further assistance.

Respectfully Submitted,

/s/ Gail C. Bernstein

Gail C. Bernstein
General Counsel

cc: The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
John Coates, Acting Director, Division of Corporation Finance
Sarah ten Siethoff, Acting Director, Division of Investment Management
Kristina S. Wyatt, Senior Special Counsel, Division of Corporation Finance

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[6] The Commission may also consider whether it should provide for a "comply or explain" approach with these disclosures. Under this approach, which is used by regulators outside the United States, an issuer would have the option to either disclose pursuant to the new framework, or explain why the issuer felt that the disclosures were not material. We believe that it will be especially important for the Commission to discourage the use of boilerplate disclosures if it proceeds with this option.