American Bankers Association
Building Success. Together.

Michael L. Gullette
Senior Vice President – Tax and Accounting

June 11, 2021

The Honorable Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Climate Change Disclosure Request for Input

Dear Chairman Gensler:

The American Bankers Association[1] appreciates this opportunity to respond to the March 15 request by the Securities and Exchange Commission (Commission) for input on climate change disclosures (the Request) [2] applicable to all public companies. Investor demand for Environmental, Social, and Governance (ESG)-related information, and specifically information related to climate-related financial risk, has grown dramatically over the past few years, and the Request is one in a growing array of national and global responses to the concerns expressed over climate risk. Appropriate disclosures from all business sectors will be key to understanding and addressing climate risk. With this in mind, we welcome the opportunity to engage on this important topic on behalf of our members.

To manage the global challenge of climate change, businesses and capital providers must understand and assess the financial impacts of potential climate risks. Our members are key providers of capital within an economy that is directed to reduce its dependency on carbon-based energy. Our members will gather, assess, and evaluate climate risk-related information to make decisions as lenders, underwriters, servicers, investors, and asset management firms, and many will provide disclosures for their investors and other stakeholders. Many of our members are smaller and non-complex institutions that focus on their specific communities and lending regions. Accordingly, our recommendations should be of considerable interest to the Commission.

Like many organizations and industries, we have increased our focus on climate risk-related risks. ABA recently joined the U.S. Climate Finance Working Group, a coalition of financial trade associations, in developing a set of principles to guide discussions and engagement on how the financial system and our regulators should scope, identify, and address climate change issues.

[1] The American Bankers Association is the voice of the nation's $22.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $18 trillion in deposits and extend nearly $11 trillion in loans.

[2] https://www.sec.gov/news/public-statement/lee-climate-change-disclosures

These principles are:

- Set science-based climate policy goals that align with the Paris Agreement
- Increase and strengthen U.S. international engagement
- Provide clear long-term policy signals that foster innovation in financial services
- Price carbon and leverage the power of markets
- Minimize costs and support jobs in the transition
- Foster international harmonization of taxonomies, data standards, and metrics
- Promote more robust climate disclosure and international standards
- Ensure climate-related financial regulation is risk-based
- Build capacity on climate risk modeling and scenario analysis
- Strengthen post-disaster recovery, risk mitigation, and adaptation

We believe these principles are consistent with the mission of the Commission and should guide it as it considers regulating disclosures related to climate-related financial risk. ABA supports the Commission's efforts to undertake this initiative. A deliberate and sensible climate risk disclosure regime should contribute to effective climate risk mitigation and capital allocation throughout the economy. Information about climate-related financial risks and opportunities will allow lenders and investors to more effectively assess, price, and manage risk and allocate capital.

With this in mind, ABA makes the following recommendations:

1. The Commission should Focus Disclosure Requirements on Investor Needs, Engage with and Leverage the Work of Existing ESG Disclosure Frameworks, and Continue to Engage on International Efforts to Establish a Global Baseline for Climate Disclosure.

As explained in further detail below, climate risk management is in a nascent stage in the U.S. Reflecting this, there are not yet widely-adopted standards related to disclosure of climate-related financial risks or a widely-adopted framework to assess appropriate disclosure related to investors' broader ESG concerns.[3] As the Commission considers such a framework, it should focus on disclosure of climate-related financial risk that is necessary or important for the protection of investors.

We support efforts to create a global baseline for climate-related financial risk disclosure and welcome U.S. involvement. However, due to the potentially highly-political process of standard-setting, regional-specific priorities and business environments, and funding challenges of such an organization, we do not believe it is necessary to have one global standard-setter.[4] While the developments of various standard-setting organizations facilitate the ability of the London-based

[3] Such a framework would then guide any considerations for the inclusion, structure, and format of future non-financial (including ESG) disclosures.

[4] We have attached our December 2020 letter to the IFRS Foundation that responds to their consultation request as they explore whether to form a sustainability standards board.

IFRS Foundation[5] to consolidate the guidance and promulgate international standards, this should not preclude the Commission from undertaking a similar task for the U.S. However the Commission decides to proceed related to this specific issue, we urge the Commission to maintain active engagement with the various current and future (in the case of the IFRS Foundation) standard-setting bodies to assess the practical challenges of standard-setting for climate change disclosure, and in the future, standard-setting for other ESG disclosures, for the various global capital markets.

In the long-term, the Commission should consider formally designating an ESG standard-setter, much like it currently designates the Financial Accounting Standards Board for financial accounting. In the meantime, we encourage the Commission to take a flexible, principles-based approach and leverage the significant progress that has been made to date by various organizations in setting ESG disclosure standards, including climate-related financial risk disclosure.[6] With appropriate safe harbors (discussed below), market-wide climate-related financial disclosure can be expected to increase significantly and quickly.

2. A Flexible Approach to Disclosure will be Needed, Balancing Different Needs for Different Investors and from Different-sized Entities.

No matter how the Commission proceeds in using or applying the work of the various organizations currently setting ESG disclosure standards, the Commission must recognize that, while these standard-setting organizations have followed structured processes to evaluate and set their disclosure standards, active participation by traditional industry-specific analysts, investment professionals, and disclosure preparers has not yet been widespread, at least in the financial services industry.[7] This is because it has often been unclear as to whether and how climate-related financial risk information affects enterprise valuation and, thus, whether the benefits of specific disclosures outweigh the preparation costs. ABA believes this is primarily why the scope of climate-related financial disclosures has thus far been limited, with wholesale adoption of significantly expanded disclosures possibly years away.

While recommendations by the Task Force on Climate-related Financial Disclosures (TCFD) generally include measuring "Scope 3" greenhouse gas emissions (GHGs) throughout company value chains, thorough evaluation will need to be conducted to address how to measure and

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[5] The IFRS Foundation has recently proposed amendments to its Constitution to accommodate an International Sustainability Standards Board. This board would be the second standard-setting body of the IFRS Foundation – the first being the International Accounting Standards Board, which issues International Financial Reporting Standards.

[6] See https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf from SASB, the International Integrated Reporting Council (IIRC), the Global Reporting Initiative, CDP, and the Climate Disclosures Standards Board related to their commitment toward working together and https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf related to a prototype climate disclosure that is consistent with their standards.

[7] We have attached our December 2020 letter to SASB that points out concerns related to the appropriateness of their standards relating to financial inclusion.

present GHGs in a cost-effective manner, especially within investment funds and corporate investments that "finance" GHGs. Before mandating Scope 3 emissions disclosure, the following issues relating to the current lack of methodological consensus and data, as well as the quality of such data, will need to be addressed:

- Under the well-established *GHG Protocol Corporate Accounting and Reporting Standard*,[8] measuring Scope 3 GHGs requires the measurement of Scope 1 and 2 GHGs in 15 different categories throughout a company's value chain, including investments and "financed emissions."[9] For banks, this information is dependent on the availability of other entities' Scope 1 and 2 emissions data. Gaps in data availability and quality, as well as lack of methodological consensus, continue to present significant concerns. Given the operational complexity and cost associated with obtaining this data, assessing how investors will use this information will be critical.
- Minimizing the "double-counting" of GHGs within and across investment portfolios will need to be addressed. Double-counting can occur in emissions financing through consideration of value chains, co-financing, and the use of structured transactions, insurance, and other credit and liquidity risk-mitigating vehicles.
- The quality of data that underlie measurements and forecasts of GHG levels must be agreed upon. While current guidance in the financial services industry emphasizes management of a process that improves the quality of measurements over time, this approach may not be compatible with auditing and attestation protocols typically used in financial reporting.

Recognizing the growing significance that climate-related financial risk information will have on enterprise valuation, a flexible approach is needed related to any disclosure requirements. As this information increases in importance, availability and reliability, it will affect valuations in an evolving way. Accordingly, specific requirements should start narrowly with reliable (or expected to be reliable) data points, which should evolve with the market.

It is critical that the Commission consider cost-effective ways that smaller and less-sophisticated organizations, such as community and regional banks and emerging enterprises, can provide meaningful information to investors. Without alternate means of climate-related financial disclosure, we fear that the time, labor, and costs of compliance could unnecessarily hinder their ability to access the public markets.

Consistent with this, registrants should not be held to a higher disclosure standard for climate-related data than for data required to be included in financial filings. Accordingly, data disclosure requirements should be on a "comply or explain" basis, which the Commission has used in other contexts.[10] Registrants should be able to opt out of providing specific climate-

[8] See https://urldefense.com/v3/__https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf__;!!I2XIyG2ANlwasLbx!C86or9nnrCU7_mBeB-jsnDXR5cdJ6ldWpHiS_9DvUnZU9kE5LVNPgkDN_GEoo6mD$

[9] See https://ghgprotocol.org/standards/scope-3-standard.

[10] Rule 409 under the Securities Act and Rule 12b-21 under the Exchange Act.

related disclosure metrics if they provide a reasonable explanation for why this information cannot be obtained without unreasonable burden or expense. This exemption could be critical, especially to those smaller registrants and registrants that have limited climate-related risks or opportunities due to the scope of their operations.

3. Coordination with Financial Regulators and Agencies is Necessary. However, a Principles-based Approach Should be Maintained.

Consistent with the directives in the recent Executive Order on Climate-Related Financial Risk,[11] we encourage broad coordination of this evaluation of climate-related financial disclosure with actions being taken by other governmental agencies, such as the Treasury Department and Financial Stability Oversight Council, state financial regulators, and government sponsored enterprises. Without sufficient coordination, inconsistent or contradictory requirements could be issued that hinder or otherwise delay the effective dissemination of decision-useful information to investors.

4. Climate Risk Management is a New Discipline to the Economy: Significant Transition Periods are Necessary for any Required Disclosure.

Climate risk management is a nascent discipline. It may take many years to build an infrastructure -- a widely-used and generally accepted system to identify, collect and analyze relevant and reliable data used in key decision-making – that reasonably integrates climate risk analysis into reasonable estimates of financial risk and enterprise value.

a. There is a lack of granular historical experience that can support models meant to reasonably estimate the financial risks involved, especially considering that climate-related physical risks can vary dramatically, based on geographic location and sector. Further, many potential governmental policies that can cause climate-related transition risk have never before been implemented. As noted by worldwide banking regulators and other experts,[12] the existence of "tipping points" and "non-linearity" of forecast modeling may put the usefulness of existing data into question.

b. Few processes currently are in place to routinely collect much of the data from key stakeholders that are likely needed to enable comprehensive climate risk analysis by public companies. Many of these stakeholders are individuals and privately-held organizations that are not subject to regulatory requirements to disclose data in any prescribed form, further making such an effort challenging to coordinate and execute.

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[11] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/

[12] See Basel Committee on Banking Supervision, "Climate-related Financial Risks: Measurement Methodologies," April 2021 https://www.bis.org/bcbs/publ/d518.pdf. This paper further cites tipping point discussions from Intergovernmental Panel on Climate Change, "Impacts of 1.5 degree of Global Warming on Natural and Human Systems," 2018a. https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Summary_Volume_Low_Res.pdf

Many financial institutions do not yet routinely collect this data in typical lending or securitization arrangements. In addition to the implementation of processes to collect such data by SEC registrants, required collection of such data will necessitate significant changes within a broad range of the securities markets, especially those involving asset-backed securities, including those of government-sponsored enterprises (such as Fannie Mae and Freddie Mac).[13]

c. While much productive work has been performed by various organizations on measurement and reporting standards (noted above), significant gaps remain across various industries. Moreover, we are unaware of any efforts to widely field-test such standards to assess (i) how institutional and retail investors will use the information for the sake of enterprise valuation across companies of different sizes, (ii) how auditors or other assurance specialists will provide assurance to such disclosures, and (iii) how smaller enterprises can comply with the standards in a timely and cost-effective manner.

d. The nascent nature of climate risk management means that in some cases, boards of directors of many companies may lack the experience to provide appropriate governance over the management of climate risk and to oversee the internal controls that normally accompany disclosure provided to the Commission.

For the foregoing reasons, climate-related financial risk information often is not disclosed by SEC registrants. Moreover, when such information is disclosed, it is usually disclosed outside of the financial filings, is significantly limited in scope, and is not generally subject to the same internal control structure that supports traditional financial reporting within a Sarbanes-Oxley context.

With all this in mind, building an appropriate infrastructure to measure and manage climate risk will require time. Any requirements to measure and manage climate risk and provide effective governance over such processes will need a significant transition period prior to being an official part of financial reporting. Smaller organizations will also likely need significantly more time to comply than large organizations.

Careful attention should be given to current efforts in the EU and the United Kingdom related to climate risk management and reporting. Pilot programs there to collect sufficient counterparty data to model climate risks within investment and lending portfolios could guide Commission decisions related to transition periods of any further requirements or expectations. Any similar proposed prescriptive standards, however, should be subject to especially robust evaluation and vetting. Disclosure requirements need to take into consideration data dependencies across different parts of the value chain since financial institutions are reliant on information from their

[13] Related to the banking industry, the Basel Committee on Banking Supervision recently noted gaps in both the quantity and quality of data within the context of measuring climate-related financial risks. See "Climate-related Financial Risks: Measurement Methodologies." https://www.bis.org/bcbs/publ/d518.pdf

clients and counterparties – many of which are privately held – to be able to generate their own climate-related disclosures.

5. A Wide Safe Harbor is Needed to Encourage Climate-related Financial Disclosure.

While their climate risk reporting systems may not yet be adequately developed to meet the requirements for financial filings with the SEC, SEC registrants should, nonetheless, be encouraged to disclose the climate risk management processes and the climate-related financial data they use. Therefore, SEC registrants should be provided a safe harbor for their disclosures of climate risks and climate-related financial data that limits their liability for unintentionally misleading statements, amounts or estimates.[14] Similar safe harbors related to forward-looking statements currently exist within the Commission's reporting framework for financial filings. However, without such an explicit safe harbor, even if the Commission requires further specific disclosures, such disclosure could be limited for the foreseeable future to boilerplate language, which neither investors nor the Commission intends.

6. Climate-related Financial Disclosures should be Permitted in a New Report Furnished to the Commission or Posted on a Registrant's Website.

In order to encourage robust and useful climate-related financial risk disclosure, while at the same time providing clarification to investors that climate-related financial risk information may not be subject to the same internal controls and governance as traditional financial reporting, we recommend that registrants be provided the option to provide any required climate-related disclosures (that are not otherwise required to be included in registrants' prospectuses or Exchange Act reports) in a separate climate (or sustainability) report. In a format prescribed by the Commission, the report would either be submitted to the Commission for posting on EDGAR or posted on a registrant's website (with the related URL made available via prospectus or an Exchange Act report). This report should be considered as furnished, and not filed, with the Commission.

7. Climate Risk Analysis will Evolve: Consideration of Short-Term Solutions and of Permanent Solutions for Smaller Organizations is Critical.

It is currently unclear how investment analysts apply climate-related financial risk information into specific forecasts of future cash flows and enterprise value as they relate to many industrial sectors. However, we believe that this analysis will take shape as more data is made available and practices will evolve over many years.[15] While, as just mentioned, there is no infrastructure

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[14] To the extent any matter presents a material risk to a company's business, SEC interpretive guidance already requires disclosure and discussion of the matter. *Commission Guidance Regarding Disclosure Related to Climate Change* (Interpretive Release 33-9106) puts this into the light of our current challenge. While some may believe more guidance related to climate risk or to the concept of financial materiality is needed, an immediate safe harbor would allow the Commission to expediently address the issue in the short run.

[15] ABA observes that the majority of investor analysis in climate risks thus far supports asset allocation decisions related to general characteristics of defined ESG-related investment portfolios. The analyses appear to often result in "qualify/not-qualify" decisions in individual portfolios.

to support the kind of reporting normally included in SEC filings, ABA believes there may be, nonetheless, cost-effective approaches that can be considered in the near term to assist investors in general analysis of climate risk in their portfolios. These approaches should also be considered as permanent solutions for smaller entities and for those entities whose span of material climate-related risks may be limited due to the scope of their operations. This is especially relevant for community and regional banking institutions.

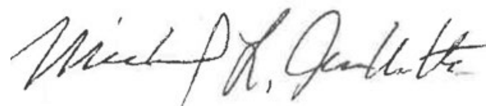
For example, entities may refer to a growing number of databases maintained by certain service providers and ratings organizations to support high-level estimates of GHGs by industry. Further, in lieu of reporting quantitative climate change-related metrics in their portfolios, investment funds and financial services organizations might be able to disclose their loan and investment portfolios by relevant industry and geographic concentrations. Engagement with industry analysts, third-party data providers, and relevant industry regulators would be critical in assessing this alternative.

Conclusion

Evaluating climate-related risks and opportunities involves a complex set of issues and a wide range of stakeholders. Assessing those risks and opportunities and adapting frameworks to facilitate those assessments are daunting tasks. Most businesses are only in the early stages of developing the necessary resources and expertise. We commend the Commission for issuing the Request to begin to assess how best to inform investors of the nature, form, and parameters of risks and opportunities that climate change might pose today and in the future. We hope that our comments are helpful in furthering the Commission's efforts in this area, and we stand ready to engage further with the Commission and with affected stakeholders.

Thank you for your attention to this matter and for considering our recommendations. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this further.

Sincerely,



Michael L. Gullette

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ATTACHMENT 1

Michael L. Gullette
Senior Vice President – Tax and Accounting
202-663-4986
mgullette@aba.com

December 22, 2020

IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf
London
E14 4HD
UK

Via email: commentletters@ifrs.org

RE: *Consultation Paper on Sustainability Reporting*

To the Trustees:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (the Paper). The Paper seeks comment on the role the IFRS Foundation (the Foundation) should play in worldwide efforts to address the need for generally accepted standards related to sustainability reporting. The demand for sustainability information by investors and other stakeholders related to environmental, social, and governance risks and activities[2] has grown dramatically both worldwide and in the U.S. and there is general agreement among many that comparable and consistent disclosure standards are needed. ABA members consist of lenders, investment bankers, asset managers, investment analysts and custodians and, consequently, bring perspectives from both the users of the information as well as the preparers.

Overall, ABA agrees that there is a substantial need for sustainability reporting standards that focus on relevant, comparable, consistent, and decision-useful information and ABA supports the efforts of the Foundation to explore this important issue. As overseer of the International Accounting Standards Board (IASB), the Foundation possesses a strong culture of relationship-building among stakeholders, of due process, and of transparency. These are critical aspects that a standard-setter must possess. ABA also believes that practical experience that the IFRS Foundation possesses related to assessing stakeholder needs, internal control requirements, and cost-benefit relationships will be critical moving forward. Nonetheless, a decision by the Foundation to form a Sustainability Standards Board (SSB) is complicated by the complexity of climate risk metrics, an active and fast-changing field of standard-setters, and the funding

[1] The American Bankers Association is the voice of the nation's $20.3 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $15.8 trillion in deposits, and extend more than $11 trillion in loans. Learn more at www.aba.com.

[2] The terms "Sustainability" and "ESG (for Environmental, Social and Governance factors)" may be used interchangeably in this letter.

structure of the IFRS Foundation. Therefore, we have the following comments for your consideration:

Climate Reporting Challenges May Take Years to Address

The Paper notes that an initial focus of a Sustainability Standards Board (SSB) would be on climate-related risks. ABA agrees that climate risk reporting should be a priority. However, addressing climate risk reporting will be a challenge that could potentially impair the IFRS Foundation's reputation as a global setter of high quality reporting standards. The environment related to metrics that are relevant to climate change is virtually embryonic worldwide. The current lack of standardization of reporting metrics that the Foundation seeks to address is likely the result of relatively new and quickly-evolving understandings of science, ones that have yet to be "monetized" into a common economy. Such an economy must have reporting standards. More importantly, however, it must have wide and generally-accepted infrastructural mechanisms to incentivize or enforce the accuracy of the reported metrics.

These mechanisms do not yet exist on a wide basis and may take many years to develop.[3] Until such mechanisms are generally accepted and in place, which could conceivably include taxation regimes and auditing requirements, compliance with the standards may be limited. It will be difficult to argue that such standards are of high quality if compliance rates are low. In this scenario, the impact of any finalized standards could be minimal and this will impede the overall purpose of the objectives presented in the Paper.

The Relationship with Existing Standard-setters should be Clarified

The Paper acknowledges the efforts of various other standard setters and their commitment toward creating a coherent and comprehensive reporting system. The Paper also illustrates how the SSB activities would initially address investors as its primary constituent and how certain other standards would address other stakeholders. We observe that the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and metrics set by the Sustainability Accounting Standards Board (SASB) appear to collectively be preferred from an ESG investor's perspective in the United States.[4] While the TCFD has no standard-setting

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[3] Among many, one challenge of setting standards related to climate risk is that scientific studies may indicate changing urgencies in the reduction of certain greenhouse gas (GHG) emissions (say, methane) compared to others (say, carbon) which then could change corresponding economic policies. As a result, some may believe that a high-level "principles-based" approach toward standard-setting (to merely require GHG emissions to be disclosed) may not be sufficient in this case.

As another example, while there are current activities in the banking industry addressing the measurement of financed GHG emissions, there are yet to be significant activities addressing emissions that are sequestered or that are avoided. Any disclosure of one issue without addressing the others may obfuscate the assessments of investors and other stakeholders related to bank commitments to their climate-related targets in financing.

[4] This is not to say that efforts by other organizations is not of significant value. Standard-setting organizations, such as the Global Reporting Initiative, the Climate Disclosure Standards Board, CDP, and others have made significant strides in assessing and promoting voluntary ESG disclosures. Other efforts, such as the Partnership for Carbon Accounting Financials, are providing valuable detailed guidance in applying these disclosures within the

authority, SASB's due process and conceptual framework appear to fit comfortably into those likely foreseeable by the Foundation if an SSB is pursued.[5] ABA notes that SASB intends to merge with the International Integrated Reporting Council in 2021 to create the Value Reporting Foundation (VRF). The resulting entity appears to comprehensively address the gap between general purpose financial reporting and value creation reporting for investors, who are proposed by the Paper to be the initial primary constituent of the SSB. As a result, it appears that an SSB would initially "compete" with SASB/VRF.

We do not view this competition negatively. In fact, the current relationship of standards developed by the U.S.-based Financial Accounting Standards Board (FASB) and those by the IASB indicate complementary and appropriately distinct differences in key areas. We believe that financial reporting worldwide may be more decision-useful as a result of the different perspectives reflected. In other words, "competition" between respected standard-setters can be beneficial. While competition can be healthy, however, this does put into question whether a new SSB is needed.

With all this in mind, ABA recommends that the Foundation first formally define how the SSB's standard-setting activities will be conducted in light of the activities of SASB/VRF's and other standard-setters. This will also include an analysis of reporting gaps the SSB will address and how the SSB can be best to fill the gaps. A sound decision related to SSB formation can be made only after analyzing such factors.

The Foundation Funding Model is a Major Consideration

The majority of the IFRS Foundation's funding is currently from voluntary contributions from jurisdictions that have put in place national financing regimes, as well as from private organizations. With this in mind, the potentially highly-political usage of sustainability metrics can produce "winners and losers" and, thus, may unintendedly put voluntary contributions at risk. Regardless of any separate fund raising processes, this could effectively reduce funds needed for the IASB. This would be an unacceptable result, as it could undermine the IASB's ability to fulfill the mission it effectively fulfills.

As the Foundation considers the decision to form an SSB, priority must be given to eliminating – or substantially reducing –the risk that IASB funding levels can be adversely impacted.

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financial services industry. The core competencies of each of these organizations must be leveraged in any effort to set global disclosure standards.

[5] There is currently an outstanding SASB-issued exposure draft addressing its conceptual framework and due process.

In closing, ABA encourages the Foundation to explore the possibility of forming an SSB in detail. While there are challenging issues the Foundation must address prior to making a decision, we believe a sober and transparent assessment will be valuable for all stakeholders, no matter the ultimate decision the Foundation makes.

Thank you for your attention to this matter and for considering our request. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this further.

Sincerely,

Michael L. Gullette

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ATTACHMENT 2

Michael L. Gullette
Senior Vice President – Tax and Accounting
202-663-4986
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December 22, 2020

Sustainability Accounting Standards Board (SASB)
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Via email: comments@sasb.org

RE: *Proposed Changes to the SASB Conceptual Framework and Rules of Procedure*

To Whom It May Concern:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the Exposure Draft *Proposed Changes to the SASB Conceptual Framework and Rules of Procedure* (Proposal). The Proposal updates the basic concepts, principles, definitions, and objectives that guide the SASB in its approach to setting sustainability disclosure standards. SASB's mission is "to establish industry-specific disclosure standards across environmental, social and governance topics that facilitate communication between companies and investors about financially material, decision-useful information. Such information should be relevant, reliable and comparable across companies on a global basis." SASB currently publishes metrics specifically related to seventy-seven industries, of which six are related to banking.[2]

With this in mind, the demand for sustainability-related information from companies has grown dramatically over the past few years and asset managers are often basing investment decisions and portfolio allocations on specific sustainability[3] metrics. ABA members consist of lenders, investment bankers, asset managers, investment analysts and custodians and, consequently, bring perspectives from both the users of the information as well as the preparers.

ABA supports efforts to set cost-effective standards for voluntary sustainability disclosures and believes SASB is reaching out with questions that are generally appropriate for an organization seeking to set sustainability disclosure standards. With this in mind, we make the following observations:

1. Reliability of Environmental Metrics Will be Challenging

[1] The American Bankers Association is the voice of the nation's $20.3 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $15.8 trillion in deposits, and extend more than $11 trillion in loans. Learn more at www.aba.com.

[2] Those standards address asset management and custody activities, commercial banks, consumer finance, investment banking and brokerage, mortgage finance, and security and commodity exchanges.

[3] The terms "Sustainability" and "ESG (for Environmental, Social and Governance factors)" may be used interchangeably in this letter.

ABA presumes that metrics issued by a disclosure standard-setter primarily for the benefit of investors will be included within company annual reports to investors. However, at this point, most companies will be unable to provide assertions, in accordance with the Sarbanes-Oxley Act, related to the effectiveness of internal controls over foreseeable climate-related estimates. In other words, the nascent nature of environmental risk management means that reliable quantitative measurements of relevant metrics may not be possible for many years.

We understand that SASB has not yet issued specific reporting standards that address climate change metrics in any substantial fashion. However, financing of greenhouse gas (GHG) emissions is at the forefront of banking sustainability discussions occurring today. With this in mind, a standard to estimate greenhouse gas emissions within bank lending portfolios would require methods to estimate emissions of bank borrowers and the many supply chains that support them.[4] Generally accepted methods to measure such emissions are not in wide use today[5] and, while methods could be developed in the near future, they may prove to be irrelevant if there are no infrastructural mechanisms to incentivize or enforce their accuracy. Until such mechanisms are in place, which may foreseeably include a carbon tax regime and audit requirements, it will be difficult to understand how to evaluate both the cost effectiveness and reliability of such information. Without reliability, such metrics can mislead both investors and other SASB stakeholders. Without reliability, most companies – fearing liability resulting from potential perceived misstatements – will choose not to disclose SASB metrics.

As SASB continues to explore standards addressing climate and other environmental metrics, the Board must continue to evaluate such considerations so they maintain the high quality that a standard-setter should maintain. This may take many years before compliance becomes a reality.

2. Assessments of Materiality Can Differ between Investors and Preparers

The understanding of "financial materiality" to preparers of information may often conflict with those of investors, as investment decisions and portfolio allocations are now often based on specific thresholds related to nonfinancial (e.g. ESG-related) information. For example, ESG-related investment funds often have "yes/no" investment criteria related to board membership or involvement in activities considered "controversial". Such metrics may not be considered financially material to the preparer, but they would be critical to these specific investors.

[4] Many refer this to as Scope 3 emissions, which also would include emissions from both upstream and downstream value chains.

[5] In addition to the lack of widely used methods to measure Scope 3 emissions, as well as the lack of a widely-implemented method for banks to measure financed emissions, there are yet-to-be issued standards regarding the measurement and reporting of emissions that are removed or sequestered, as well as emissions that are avoided. ABA believes that many investors and other stakeholders will also find such measures relevant.

With this in mind, we also believe that investor priorities related to ESG topics can rapidly change and evolve. For example, an investor's perception of a bank's commitment toward addressing the environment can change significantly if their focus changes from the financing of Scope 1 and 2 GHG emissions (Direct and indirect emissions from sources that are owned or controlled by the company) to those of Scope 3 emissions (also including those in the company's supply and value chains).[6] In turn, materiality may also change if a company's operations or products that address certain positive environmental objectives (for example, climate change adaption) are achieved at the expense of other environmental objectives (for example, sustainable use of water).

SASB should, thus, work with the Securities and Exchange Commission and other financial regulators in addressing how preparers should consider materiality in this fast-evolving environment.

3. More Work is Needed to Address the Completeness of Certain Sustainability Metrics

There may be no other private industry that is as dedicated to financial inclusion, including the access and affordability of its products and services by lower and middle income people, than the banking industry. Compliance with the Community Reinvestment Act further makes this a critical aspect of our business. With this in mind, however, ABA notes that current SASB standards related to this issue may omit significant efforts banks make toward such inclusion goals. For example, certain SASB metrics target only loan balances, while bank efforts can often additionally consist of investments in debt securities, as well as equity and partnership investments. Many banks also regularly make charitable contributions to foundations that are strictly dedicated toward the same inclusion goals.

With this in mind, we look forward to working with SASB in assessing the completeness of banking industry metrics and encourage SASB to further reach out to preparers in other industries to accomplish the same.

In summary, we support SASB's efforts to become an important standard-setter of sustainability disclosures. However, we also believe that this will necessarily address climate risk measurement and such measurements may take years before reliable information will be available. On the following pages are more detailed responses to certain questions in the Proposal. They address not only the concerns expressed above, but also specific technical observations directly asked by SASB.

[6] An example of Scope 3 emission measurement would include a manufacturer that assembles materials that are 1) petroleum-based and 2) shipped from overseas. Though the entity's manufacturing center and warehouse may be low GHG-emitting, the GHG emissions of its products and its suppliers (who may often perform other manufacturing and shipping processes), can be significant.

Thank you for your attention to this matter and for considering our recommendations. Please feel free to contact me ([redacted]) if you would like to discuss this further.

Sincerely,

Michael L. Gullette

APPENDIX: RESPONSES TO CERTAIN QUESTIONS POSED IN THE PROPOSAL

Question 1 – Globally applicable sustainability accounting standards

Do you believe the concepts described in the Conceptual Framework exposure draft are appropriate for a global standard-setting organization? Are there concepts or principles that warrant discussion in—or removal from—the Conceptual Framework to help the Standards Board more effectively develop standards that have global applicability?

ABA Response

We believe that the concepts described in the Proposal are generally appropriate for a standard-setter. SASB's approach, core objectives and characteristics of decision-useful information appear to address the key concerns of company management and their investors. With this in mind, however, the proposed conceptual framework is unclear how reliability – a key characteristic noted in the SASB mission – is addressed. We believe that reliability of information is a critical aspect of decision-useful information and, combined with the concept of "financial materiality", forms the basis in assessing the "cost effectiveness" of information.

As SASB considers disclosure standards that may include quantitative environmental metrics (such as those relating to greenhouse gas (GHG) emissions), reliability becomes a significant concern. Not only are there growing expectations for banks to disclose their own GHG emissions, but also to measure and disclose emissions they are financing (in other words, the emissions of its borrowers). Quite simply, however, there are no generally accepted standards for measuring GHG emissions that are in wide use today and systems to comprehensively measure such emissions – those that measure not only direct and indirect company emissions, but also those within a company's supply and value chains – rarely exist at banks or its borrowers.[7]

Further, the term "reliability" implies there will be internal controls over such reporting and the need for this information to be audited. This will naturally add to the assessment of cost effectiveness. However, as reliability relates to disclosure of certain climate risks in a loan portfolio, quantitative estimates may often rely on assumptions that are highly speculative and have no basis in historical experience or market prices to base their reasonableness. For example, certain companies currently estimate the "transition risks" (the risks to the value of assets from transitioning to a lower carbon-based economy) of certain assets and investments based on assumptions related to the price of carbon though —at least in the U.S. – there is currently no (and never has there been an) economy-wide price of carbon. As an economy-wide price for carbon would be highly dependent on taxation levels or regulatory practice, it is difficult to foresee how to see how internal controls over such bias will be designed in context of such long-term forecasts. While there may be scientific studies that can support certain aspects of these estimates, they likely are not subject to the internal controls that support assertions made

[7] There are currently efforts to develop standards that measure what portions of a borrower's emissions are being financed by the lender.

in accordance with Sarbanes-Oxley auditing requirements. In summary, without infrastructural incentives to manage carbon risks (such as through audit requirements and/or carbon taxation), the challenges of reliable reporting are daunting.

Fortunately, such estimates likely have little impact on investment allocation decisions in the current environment. However, as reporting related to climate risk becomes more mainstream, we foresee a time when they will. With this in mind, SASB must be mindful that decision-useful information that is reliable[8] may require many years before the necessary infrastructural foundations are sufficient to collect the necessary information in order to reasonably estimate certain environmental exposures.

Question 3 –Definition of Financial Materiality

Are all aspects of the proposed definition of financial materiality clear and understandable? Does the definition accurately reflect SASB's mission to facilitate communication between companies and investors about financially material, decision-useful sustainability information?

ABA Response

In an effort for SASB standards to be global in scope, the Proposal replaces U.S.-based discussions of financial materiality and defines materiality in a manner similar to one that is used in International Financial Reporting Standards. With that specific point in mind, we believe that the Proposal's references to "short-, medium, and long-term" time frames and "financial performance and enterprise value" are unneeded and can bring confusion to preparers of such information. For example, while we acknowledge that the noted time frames may clarify to investors that SASB standards are not meant to be useful solely for short-term investment decisions, we also believe that materiality should be assessed on an entity-by-entity basis by the preparers of this information and current internal control requirements could be interpreted to require separate analysis by them over each of the different noted timeframes.

All that said, however, we also strongly encourage the SASB to specifically address the real-life implications of the current ESG investment environment. ESG-based portfolios are already being designed by asset managers for their clients and financial materiality related to fund allocation decisions can often, for practical purposes, be non-existent. For example, managers currently make "in or out" portfolio allocations based on various ESG topics, including specific metrics on board membership, as well as specific involvement or investment in certain specific activities. Further, as more scrutiny is brought to certain activities, we anticipate that how "activities" is defined may also evolve. For example, as it relates to cannabis banking, commercial banks currently face questions as to whether they are able to provide banking services not only to cannabis growers or retailers, but also to the service providers of these

[8] We note that, in 2011, the Financial Accounting Standards Board replaced the term "reliable" as a characteristic of decision-useful information with the term "Faithful Representation" and that the Proposal's term "Representationally Faithful" is a characteristic defined in this Proposal. While some may believe that the term "reliable" could be simply deleted from the SASB mission, the same concern related to reliability exists. As it applies to financing of emissions, some may question how representationally faithful climate-related emissions disclosures could be without taking into account "Scope 3" emissions, which include those expended by both upstream manufacturers in a supply chain and downstream users of a manufactured product.

entities. Very similarly, investor perception related to the materiality of financed GHG emissions can change based on whether Scope 1 and 2 emissions are solely measured versus also including Scope 3 emissions. ABA further notes that the European Union's issuance of an environmental taxonomy highlights the challenge that exists where the perceived materiality of certain positive aspects of a company's operations (which, for example, may be focused on climate change adaption) may conflict with how those operations or products may adversely affect other environmental objectives (such as the sustainable use of water). How companies will assess materiality must take on various considerations that are far more complex than in use in today's financial reporting environment.

As SASB considers disclosures related to measuring climate-related exposures, financial materiality (or lack thereof) must be considered in these lights. How preparers of such information should address materiality is critical and we recommend SASB work with the Securities and Exchange Commission and other financial regulators to address these differences.

Question 4 – Characteristics of topic and metric selection

Are the characteristics of topic and metric selection (as framed and defined in the exposure draft) supportive in establishing standards that produce financially material, decision-useful, and cost effective information (i.e., SASB's three core objectives)? Are the definitions of the characteristics sufficiently clear? Are any characteristics that may be supportive of the objectives of the Standards missing, and therefore should be added? Are any characteristics redundant or misaligned with these objectives, and therefore should be removed?

ABA Response

As defined in the Proposal, we agree that accounting metrics should be "Complete" to understand and interpret performance on the sustainability disclosure topic. With this in mind, there is likely no other industry that, as part of its business model, reaches out specifically to lower and middle income constituents. ABA observes that current standards relating to "access and affordability" of products do not consider the full range of relevant activities that banks perform. For example, certain SASB metrics target only loan balances, while bank efforts can normally consist of investments in debt securities and equity and partnership investments. Many banks also regularly make charitable contributions to foundations that are strictly dedicated toward the same inclusion goals. Bank performance related to this key sustainability issue is, thus, much more than merely issuing loans.[9]

ABA notes that these activities can be highly impacted by banking regulations related to the Community Reinvestment Act (CRA) and that CRA is currently under review by the banking agencies. The metrics that underlie the SASB standards may, therefore, change. With these things in mind, ABA is happy to work with SASB in reviewing metrics that will achieve SASB's

[9] ABA also observes that certain metrics detailed in the current SASB standards relate to loan *balances* and not to loan *originations* or *increases* in loan commitments. Many may believe the latter two metrics are likely better indicators of periodic *performance* rather than reporting mere balances at period-end.

goals of complete, decision-useful and cost effective information as circumstances and regulations change in the industry.