The Credit Roundtable

THE VOICE OF THE BUYSIDE

June 11, 2021

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

Re: Public Input on Climate Change Disclosures

Dear Chairman Gensler:

The Credit Roundtable appreciates the opportunity to submit this letter to the Securities and Exchange Commission (the "Commission") in response to its recent request for input on climate change disclosures.

The Credit Roundtable ("CRT") is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $4 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants, and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education with the goal of benefitting all bond market participants through increasing transparency, market efficiency, and liquidity. Our membership includes firms that employ analysts who specialize in assessing the impact of Environmental, Social and Governance ("ESG") issues on corporate debt issuers. The comments which follow represent common threads across our membership and may at times align and at times diverge from the feedback the Commission may receive from equity-focused organizations and investors.

Among the challenges the CRT believes the Commission should consider in determining the scope and pace of ESG-related disclosures is the ability of companies of all sizes to comply with contemplated requirements. There are a sizeable number of issuers of fixed income securities which have small market capitalizations or are privately held. Our members report that these issuers, when asked ESG-related questions, can engage both quantitatively and qualitatively. However, many do not have the resources to produce audited or standardized reporting. Even so, these issuers are often working toward disclosure goals, but they only have the capacity to focus on those ESG issues which are most material to their business.

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As a result, we urge the Commission to consider letting the capabilities of less-resourced issuers guide the first phase of disclosure policy. Within fixed income, it may not be helpful to investors to place time-and resource-intensive reporting requirements on companies for metrics which are not well understood or standardized. Furthermore, the ESG auditing capabilities of firms currently engaged by most issuers are limited. Meanwhile, the consistency and standardization across firms who may be able to provide audits of quantitative metrics related to climate change or other ESG issues may not be sufficient to provide the apples-to-apples comparisons needed to best serve investors even as their use could incur substantial additional costs for companies.

We believe it may be prudent for the Commission to keep initial quantitative disclosure requirements to a limited number of accessible metrics which are relevant across issuers and industries and which can more readily fit into existing auditing arrangements. We also believe it would be too limiting to require only audited information. Thought imperfect, working with unaudited information would be superior to working with no information, and the risk of potential regulatory penalties to incentivize more accurate information may be sufficient to serve investors at these early stages of ESG disclosure requirements, while leaving room for ongoing improvement as the industry matures.

In taking this path, the Commission can also provide a more tractable situation for the growing green and sustainability-linked bond industry. We believe there is an urgent need for accountability in the metrics issuers are using in the terms of debt linked to ESG issues. In our collective experience, too often, data are estimates and can be unverifiable, another reason auditing requirements may be less effective than anticipated. However, by focusing the first stage of required disclosures on a shorter list of material metrics which are already reportable and verifiable, the Commission will also be providing clear guidance on which metrics investors can rely upon for accuracy when working with issuers to set the terms of green and sustainability-linked bonds.

In addition to the above suggestion to narrow the scope of quantitative disclosures, we believe issuers should be expected to discuss other ESG topics that they consider material to their business or which otherwise warrant some level of qualitative disclosure (e.g. through investor demand). The Commission can further support all issuers in this effort by providing a framework of ESG factors and guidance on best practices for companies to consider. This can be accomplished by partnering with an existing organization or developing a recommendation which draws from several current efforts. We expect the ability of companies to comply with additional requirements to grow over time and with experience, which will enable the Commission to build on these first steps. We believe the long-term success of ESG disclosures will benefit from a more measured "bootstrapped" pace of development.

By resisting the urge to rush a comprehensive program in favor of a more methodical approach, the Commission can avoid mandating disclosures which are not material to smaller issuers while still requiring that issuers discuss risks they or their investors deem most important. Notably, materiality varies by industry, so taking such companies into consideration does not undermine a robust and informative framework. Furthermore, the Commission can learn from the data being disclosed in qualitative risk disclosures by companies of various sizes and with varying investor types to more directly identify those metrics which are most relevant. In addition, such risk disclosures would still give investors the benefit of accuracy required with the regulatory mandate which does not exist in current ESG-related reporting. However, by moving such requirements into periodic filings already being made by issuers, the Commission can impose a foundation of standardization upon which to build over time.

In conclusion, as an organization representing a large cross section of credit investors, the CRT is well-aware of the challenges faced and processes needed to develop solutions to effect accountability while maintaining a big tent. There will be many voices advocating for a variety of outcomes in this process. We vigorously support the goal of more disclosure from more issuers, and the concerns we have heard from our members is that moving too fast may leave a significant portion of the investable credit universe behind. We urge the Commission to begin this effort by focusing on benefiting the largest cross-section of investors through an approach to ESG disclosures which is inclusive of all companies and securities.

We thank the Commission for its consideration of these comments and welcome the opportunity to discuss our concerns, opinions and recommendations in greater detail. Please direct any questions to Kelly Byrne Skarupa of The Credit Roundtable at [redacted] or [redacted].

Sincerely,

The Credit Roundtable
[redacted]