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Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: *Input on Climate Change Disclosures (March 15, 2021)*

Dear Ms. Countryman:

We appreciate the opportunity to respond to the request for comments by the United States Securities and Exchange Commission (the "Commission") on the framework for climate change-related disclosures by public companies. We commend the Commission's engagement in this important and timely matter. The Capital Group Companies is one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The vast majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies managed by Capital Research and Management Company, distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

We share the view that has been articulated by various policymakers, academics and other market participants that climate change poses a systemic risk to our financial markets and the broader economy. The potential impacts of climate change on financial markets are broad and far-reaching, including disruptions not only in asset valuations but more generally in the proper functioning of the markets as market participants seek to mitigate physical and transition risks stemming from climate change. As a result, investors increasingly view material climate (and other ESG)-related risks and opportunities as critical drivers of a company's ability to generate value over the long-term. To that end, there is a strong need for climate-related issuer disclosure that is consistent, comparable and rooted in materiality.

Today, the asset management industry faces a significant data challenge with respect to climate or ESG-related information. As the Investor-as-Owner Subcommittee of the Commission's Investor Advisory Committee noted in its May 2020 report, issuers take a range of different approaches (or none at all) in providing ESG-related disclosure: of those that do provide disclosure, some publish stand-alone reports while others incorporate disclosure in existing regulatory filings; some disclose information against third-party standards such as those issued by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD) while others do not; and still others do not report directly but provide information to third-party data providers. [1] Such data providers employ vastly different methodologies for ESG scoring systems that often result in an issuer being rated favorably for its ESG practices by one data provider but unfavorably by another. In short, while there is a plethora of ESG-related information in the marketplace, the information tends to be subjective, spotty and unreliable, limiting investors' ability to effectively and efficiently consider material climate or other ESG risks in allocating capital.

Climate-related disclosure that is consistent, comparable and material would benefit all investors, but such transparency would add particular value for professional investors. For most retail investors, distilling the vast universe of issuer disclosures into decision-useful information for sound investing is a tall task; few have the resources or the sophistication required to do so. Professional investors are well-positioned to bridge this gap, and to address the growing retail interest in, and demand for, climate and other ESG-related information, subject to a more uniform disclosure regime for such information.

In addition, as regulatory expectation with respect to fund ESG disclosure evolves, it is worth underscoring that any climate or other ESG-related disclosures made at the fund level would necessarily need to be based on issuer disclosure. Accordingly, any regulatory requirements for issuer ESG-related disclosures must precede any such requirements for funds and for asset managers. As we have observed, the reversal of such order in Europe with respect to certain ESG-related disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR) and the Non-Financial Reporting Directive (NFRD) has created key

[1] Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure (May 14, 2020), page 5.

challenges for asset managers by requiring them to report certain ESG-related metrics relating to underlying investments without the necessary inputs from issuers. For example, the SFDR requirements relating to principal adverse impacts require asset managers to disclose gender pay gap information for their portfolio holdings. But issuers are not yet subject to parallel requirements to disclose gender pay gap data, and until they are, asset managers will not be able to provide meaningful disclosure of gender pay gap data as required under SFDR.

At Capital Group, we strive to achieve superior long-term results for our clients, and to invest in companies that we believe are well-positioned to generate sustainable returns. Given our long-term focus and the fact that many ESG issues tend to materialize over the long run, consideration of ESG issues is, and has been, an intrinsic part of our investment process. Such issues are systematically integrated into our investment process in the following ways: (i) through over 30 sector-specific, proprietary ESG investment frameworks developed by our analysts which are updated on an annual basis, we identify and analyze material long-term sustainability issues affecting companies; (ii) we monitor our holdings using third-party ESG data, combined with our own proprietary research, and apply appropriate scrutiny to holdings that are flagged for certain ESG issues including, but not limited to, violations of international norms; and (iii) we engage management teams on material ESG issues identified by either the investment frameworks or the monitoring process, documenting goals discussed with them and measuring progress against those goals to inform future discussions.[2] Proxy voting is an integral part of this third component and our investment stewardship process more generally. Our proxy decisions are not outsourced but rather determined in-house and informed by our ESG analysis. Our engagement with companies on ESG topics may result in our vote against management if we believe it is in the best long-term interests of our investors.

[2] In addition to our investment analysts' engagement with individual portfolio companies in the regular course, we also have more collective engagement with companies from time to time on specific ESG issues. For example, earlier this year, we wrote to more than 1,500 company boards, calling for enhanced disclosure of workforce data.

Given growing investor need and market demand for climate-related disclosure, [3] as well as related regulatory actions in many jurisdictions around the globe, we believe the time is ripe for the Commission to issue regulatory guidance in this area and to play a more active role in the international debate around sustainability-related reporting and disclosures. In short, we would support the Commission taking action to require climate and other ESG-related disclosures by all, or nearly all, public companies. With respect to the appropriate regulatory framework to enable such disclosures, we largely agree with the comments submitted by the Investment Company Institute (ICI). We highlight, in particular, the following points.

1. **The ESG disclosure regime should be principles-based and rooted in materiality.**

Any ESG disclosure requirements should build upon the Commission's existing principles-based disclosure framework that is rooted in financial materiality. As the ICI notes in their comment letter, the concept of materiality has undergirded the disclosure framework under the securities laws for many years. Thanks to the body of case law and regulatory guidance that have accrued for nearly a century, the framework of materiality is well-established, defined and understood.

Perhaps just as important for ESG disclosures, a principles-based and materiality-driven legal standard is flexible and capable, not only of being applied to quantitative as well as qualitative information, but also of remaining relevant in a rapidly evolving ESG landscape. As we have seen from disclosure standards such as TCFD, relevant ESG information should not be limited to quantitative financial metrics; meaningful ESG disclosure often requires qualitative discussion, whether with respect to actions the company is taking or plans to take in mitigating certain risks, or with respect to certain factors that may be non-quantifiable at present but are nonetheless material. In addition, because the standard of materiality asks what a reasonable investor deems to be relevant and material, it necessarily reflects evolving market norms or expectations that may shape and re-shape such understanding. Finally, notwithstanding the application of double materiality in certain other jurisdictions, we agree with the ICI that such standard is wholly inconsistent with the U.S. securities laws disclosure

[3] According to the 2020 S&P 500 Flash Report by Governance & Accountability Institute, 90% of the S&P 500 Index companies published corporate sustainability reports in 2019. However, as noted in this comment letter, there is great need for standardization of disclosure.

regime and imposes obligations that go well beyond the fiduciary duties of asset managers or, for that matter, those of the boards of directors of issuers.

2. **Most if not all companies should make TCFD-aligned climate-related disclosure.**

Capital Group is a supporter of TCFD, and we believe it would be helpful and appropriate for most if not all issuers to make climate-related disclosure that is aligned with TCFD recommendations. TCFD recommendations involve an assessment of materiality and include, among other things, reporting of Scope 1, Scope 2 and, as appropriate, Scope 3 greenhouse gas emissions of companies. We recognize that such disclosure requirement, particularly the Scope 1, 2 and 3 reporting, may create a disproportionate burden upon smaller issuers. Accordingly, we would be supportive of the Commission taking a comply-or-explain approach or making some other type of short-term accommodation to allow smaller issuers more time to comply with the new disclosure requirements.

3. **Rather than creating new climate or other ESG disclosure standards, the Commission should align with existing third-party standards.**

Not unlike accounting information, ESG disclosure would benefit from a set of common standards to drive consistency and comparability of information. In this regard, we believe the Commission should leverage and build on the progress that has been made in climate change reporting through private sector initiatives such as SASB and TCFD. These two standard setters in particular have gained wide acceptance and endorsement within the industry and many companies today already voluntarily make ESG disclosure based on their recommendations. The SASB standards and TCFD recommendations are complementary in nature, and there are efforts underway through the work of the Climate Disclosure Standards Board to harmonize them further. We believe aligning the Commission's requirements with SASB's standards – rather than creating a new set of standards – would enable the Commission to implement its ESG disclosure requirements effectively and with relative speed within its desired timeframe. Given the competing standards in the marketplace, including those set forth by foreign regulators, the Commission's alignment with an existing standard setter such as SASB will serve to build consensus and to prevent other standards, including those inconsistent with the U.S. securities laws disclosure regime, from becoming the default approach.

4. **We do not believe the benefits of third-party assurance with respect to issuer ESG disclosure outweigh the costs and such assurance should not be made mandatory.**

We do not necessarily agree that third-party assurance of issuer ESG disclosure should be made mandatory, whether at the outset or at a later time. We are cognizant of the burdens that public companies will bear as a result of complying with new climate or other ESG-related disclosure requirements. Layering on an additional requirement of third-party assurance of such ESG disclosure would, in our view, produce even greater cost to issuers, and we are not persuaded that such costs would be outweighed by the benefits.

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In sum, we believe public issuers should be required to make climate and other ESG-related disclosure that is principles-based and driven by financial materiality, and based on existing standards that have already seen wide adoption, such as SASB and TCFD. We recognize that a thoughtful and comprehensive approach to mitigating climate change-related risks will involve a broad range of market responses that go beyond mandated climate-related disclosure by issuers. However, as the intent of such disclosure would be to increase transparency and investor understanding around the climate change-induced risks and opportunities companies face, we believe any new set of requirements should reflect, and be appropriately tailored to, the role and fiduciary duties of asset managers.

We thank the Commission for its consideration of our above comments. If you have any questions or would like to discuss the contents of this letter, please feel free to contact Clara Kang at [redacted]

Sincerely,

Jessica Ground
Global Head of ESG
Capital Group

Clara Kang
Counsel
Capital Research and Management Company