HARVARD
MANAGEMENT
COMPANY

June 11, 2021

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Public Input on Climate Change Disclosures

Dear Ms. Countryman:

Harvard Management Company, Inc. ("HMC")[1] appreciates the opportunity to share its perspective in response to Commissioner Lee's March 15, 2021 request for public input on climate change disclosures.[2] As further described in this response, HMC supports enhanced climate-related disclosures by public companies. This information is important for informed investment and voting decisions.

As a fiduciary for Harvard University's endowment, HMC must consider all risks that could impact the performance of our investments. These considerations require HMC to integrate financially material environmental, social, and governance ("ESG") factors into our investment process, along with our collaborative efforts to promote industry-wide responsible investing. Harvard University has also extended its efforts to combat climate change to include its endowment portfolio, which is committed to achieving net-zero greenhouse gas emissions by 2050.

In 2014, Harvard University became the first U.S. endowment signatory to the United Nations-sponsored Principles for Responsible Investment. Since then, the Harvard endowment has joined CDP, Ceres, the Sustainability Accounting Standards Board ("SASB") Alliance, the Task Force on Climate-related Financial Disclosures ("TCFD"), and Climate Action 100+ to further its sustainable investing efforts.

Climate change poses a systemic risk to the stability of the U.S. financial markets.[3] Disclosure of material, climate-related financial information by corporations is an essential component to

[1] HMC was formed in 1974 as a wholly owned support organization of the President and Fellows of Harvard College. HMC manages Harvard University's endowment and related financial assets.

[2] *See* Then-Acting Chair Allison Herren Lee, *Public Input Welcomed on Climate Change Disclosures*, U.S. SECURITIES AND EXCHANGE COMMISSION (March 15, 2021), https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

[3] *See Managing Climate Risk in the U.S. Financial System: Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission*, CFTC (Sept. 9, 2020), https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-

ensure that climate risks are measured and managed effectively. However, the current voluntary disclosures are not of a scope, breadth, and quality sufficient for market participants and regulators to fully understand and assess relevant climate risks. While disclosures are trending in a positive direction, companies' disclosure of the potential financial impact of climate change on their businesses, strategies, and financial planning remains low.[4] Large companies are disclosing some climate-related information, but significant variations remain in the information disclosed by each company, making it difficult for investors like HMC to understand our exposures and manage climate risks.

Since undertaking our net-zero commitment, our focus has been on improving our access to reliable, actionable climate-related data. Such data is currently very limited. Much of the available data is self-reported and unaudited. Beyond the largest public companies, most registrants do not disclose their carbon emission data. As a result, the third-party data providers are unable to cover these companies in their databases. Therefore, this call for public comment on climate change disclosure is both timely and necessary.

HMC encourages the Securities and Exchange Commission (the "SEC") to abide by the following guiding principles when enacting climate change-related disclosure rules.

1. Adopt a Largely Principles-Based Approach

In crafting new climate-related disclosure rules, the SEC should take a predominately principles-based approach. Registrants should have an express, affirmative obligation to disclose relevant climate-related information that may have a material impact on the financial performance of their securities. A principles-based approach will allow the necessary space for this to occur. A principles-based approach also will result in more thoughtful, tailored disclosure by registrants.

A principles-based approach also is appropriate because investor needs and reporting methodologies continue to evolve. In addition, many climate metrics are not relevant for all companies or for all industries. If the SEC were to adopt rules prescribing specific climate-related disclosures applicable to all registrants, that would likely result in unnecessary corporate reporting burdens and a large volume of information that is immaterial to many investors. The alternative—developing and maintaining industry-specific disclosure requirements on an ongoing basis—would require a significant and ongoing commitment of SEC resources.

2. Recognize Third-Party Standards

The SEC's climate disclosure rules should provide a framework for the recognition of third-party standards and frameworks. This could be recognition by the SEC expressly (as in the accounting sphere with the Financial Accounting Standards Board standards) or by the market (the approach taken under the SEC's Conflict Minerals Rule). Third-party standard setters – including the Value Reporting Foundation (the successor to SASB) and the TCFD – have an important, and

Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf.

[4] *See Task Force on Climate-related Financial Disclosures 2020 Status Report*, FINANCIAL STABILITY BOARD (Oct. 19, 2020), https://www.fsb.org/wp-content/uploads/P291020-1.pdf.

necessary, continuing role to play in helping fill in the "white space" of principles-based climate disclosure rules. The SEC should not reinvent the wheel where an existing voluntary standard or framework already is aligned with the SEC's mandate.

Third-party standard setters also should have an important ongoing role in the continuing evolution of climate-related disclosures. These organizations are better suited to addressing evolving climate-related disclosure needs than the SEC, or any other regulator. First, they bring to bear significant subject matter expertise. Second, they can, and over several years have shown the ability to be able to, devote the necessary resources to this subject area on a sustained basis. Third, they can be more nimble than a regulator when warranted. In any event, the SEC always would retain the flexibility to propose additional rules or publish guidance on top of market-led approaches.

If the SEC does not want to endorse specific third-party standards or frameworks, it should provide guidelines for taking voluntary standards and frameworks into account without giving them the force of law. Such guidelines should permit registrants to meet their reporting obligations by disclosing climate-related information in accordance with a suitable framework established by a body that follows appropriate due-process procedures, such as ensuring that the framework is open to public comment, reasonably consistent, sufficiently complete, and relevant to an evaluation of the company's climate risk. At a minimum, the SEC should encourage registrants to look to relevant standards and frameworks, as guidance, in formulating their climate-related disclosures under a principles-based framework.

3. Consider a Limited Number of Mandatory Disclosures

For the reasons discussed above, climate disclosures should largely be principles-based. However, there are a limited number of universal climate-related metrics that are so important to understanding registrants' contributions to climate risk that they should be required to be disclosed. This is important to ensure registrants consistently report the key metrics and that the data reported are comparable across registrants. Two such metrics are companies' Scope 1 and Scope 2 greenhouse gas emissions. There may be others, but the SEC should exercise caution in setting metrics disclosure requirements that are not industry-specific.

Third-party standard setters and frameworks have an important role to play here as well. Rather than providing technical definitions of or technical standards on how to calculate these metrics, SEC rules should allow registrants to utilize widely accepted methodologies developed by third-party standard setters. Registrants then would only need to disclose the methodology used and any significant assumptions underlying their key metrics disclosures.

4. Provide for Mutual Recognition of Other Regimes

New SEC climate disclosure rules also should seek to enhance comparability and reduce complexity. This will be of significant benefit to both investors and issuers. Through the rule-making approach described above, the SEC can further these goals by continuing to leverage the work already being done by third-party standard setters. The SEC also should expressly recognize other comparable regulatory frameworks. This would be analogous to the approach already taken by the SEC in connection with its recently adopted resource extraction payment disclosure rules. Mutual recognition could occur at the time new climate disclosure rules are adopted, or at a future date. Incorporating the concept of mutual recognition into any SEC climate disclosure rules will be an important step in creating a global disclosure standard, while ensuring the SEC does not cede its regulatory and oversight mandate to other regulators. The possibility of mutual recognition also will provide an incentive for other regulators to align with U.S. climate disclosure requirements, since that will benefit their home country registrants.

5. **Guidance for Private Markets Transactions**

The request for comment also asked how new rules should address private company disclosures. Requiring climate disclosures in unregistered offerings would place a burden on certain private issuers without a commensurate benefit to investors. In many cases, such companies are too small or too early in their lifecycle to have the internal processes and resources necessary to collect and report such information. For more mature private companies, investors in private markets transactions have the ability to conduct due diligence and negotiate with issuers prior to investment for the information they require.

Placing overly burdensome requirements on these companies will impede the capital formation process that is so crucial to economic growth. However, many private companies look to the SEC as a tone setter and begin preparing for eventual adoption of SEC public company disclosure requirements as they grow. Establishment of a robust disclosure framework for public companies by the SEC can thus significantly influence private company reporting as well, creating a *de facto* framework for disclosure in institutional private placements and ongoing reporting by these companies.

6. **Other ESG Considerations**

In addition, the request for comment asked whether climate-related requirements should be part of a broader ESG disclosure framework. The SEC is right to prioritize climate-related disclosure. The approach that the SEC develops for climate-related financial disclosure can subsequently be applied to a broader range of financially material sustainability information. The SEC should consider the implications of issues relating to diversity, equity and inclusion in particular.

As with climate-related disclosure, the SEC can significantly reduce the implementation complexity for companies of new rules by leveraging existing, voluntary frameworks and standards. But any such measures should be undertaken within the SEC's mission of protecting investors. While the promotion of other, non-financial goals is a legitimate interest of many investors, proposing more expansive rules would likely wade into the promotion of development or impact goals beyond the scope of the SEC's mandate. Premature rulemaking by the SEC on this front could actually impair market-based developments and advancements in this area and harm many positive trends that are already underway.

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HMC appreciates the SEC's efforts to carefully deliberate about its approach to climate change disclosures and the opportunity to provide comments. We believe the approach outlined in this letter strikes the appropriate cost-benefit balance. Investors will receive the information that is important to their investment and voting decisions, while placing the least possible burden on registrants. In addition, this approach will facilitate global harmonization by leveraging the work of voluntary standards and frameworks and other regulators, without ceding the SEC's regulatory authority to third parties.

HMC also welcomes the opportunity to discuss the views outlined in this letter with SEC staff. Please reach out to me at [redacted] with any questions.

Respectfully submitted,

Kathryn I. Murtagh

Kathryn I. Murtagh
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Harvard Management Company, Inc.

cc: The Honorable Gary Gensler, Chair
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
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