

June 11, 2021

The following comments are presented by Miller/Howard Investments, Inc. (Miller/Howard) in response to an invitation for comment on climate change disclosures by SEC Acting Chair Allison Herren Lee to be submitted by June 14th, 2021.

Miller/Howard submits this comment letter in support of a rulemaking by the SEC on mandatory climate change disclosures. We believe that disclosure of the material and systemic risks of climate change will help companies and investors to understand, price, and manage climate risks and opportunities. These activities are not only at the core of efficient securities markets, but are also essential to ensuring a just and thriving economy that works for all people and communities.

Miller/Howard is an independent, research-driven investment boutique with thirty years of experience managing portfolios for major institutions, mutual funds, and individuals in dividend-focused investment strategies. As active investors, we routinely assess the resiliency and profitability of the companies in which we invest, and strive to work with companies when we identify areas that could be sources of risk or opportunity, or gaps in public-facing disclosures on topics that we believe are material and important. Additionally, Miller/Howard works closely with organizations, such as Ceres and the Interfaith Center of Corporate Responsibility. These organizations engage hundreds of corporations on their environmental, governance and social impacts.

Miller/Howard believes climate disclosures are critical for effective investment decision-making.

### **Rationale for mandatory climate disclosures**

*Climate change poses a systemic risk to the economy, and therefore has material impacts on companies of all sizes in all industries.*

- U.S. regulators recognize climate change as a systemic risk to the financial system.<sup>1</sup>
- A company may be *impacted by* climate change, and a company can have climate-related *impacts on* the larger economic and social systems in which it is embedded. This is the concept of double materiality,<sup>2</sup> which has been recognized by corporate reporting systems internationally.
- The impacts of climate change include physical risks to real assets from climate-fueled weather events and transition risks posed by regulatory, technology, economic and litigation changes during the shift to a net-zero economy. These risks are happening now as evidenced by the increased frequency and intensity of “100-year” weather events across the globe and the EU taxonomy regulations, for example.
- Climate change risks drive economic instability: they can combine in unexpected ways, with serious, disruptive impacts on asset valuations and global financial markets.

<sup>1</sup> <https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf>

<sup>2</sup> <https://www.bsr.org/en/our-insights/blog-view/why-companies-should-assess-double-materiality>

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- While not all companies have financially material balance sheet exposures to climate risks (at present), a company's actions may still have outward impacts on people and the planet that contribute to the systemic risks of climate change; in turn, exposing all actors in the economy to the long-term systemic risks of climate change. Therefore, all companies across all industries should be subject to transparent disclosure on how they have *impact on* and are *impacted by* climate change.

*Ignoring climate-related risks will be costlier than climate disclosure compliance.*

- The costs to companies of inaction may be dire in the medium and long term, and many of those impacts, such as those from floods, fires, droughts and hurricanes, are already being incurred in the short term.
- While there will be a cost for compliance with SEC climate disclosure rules, it is far less costly to companies and their investors than ignoring the risk.
- What gets measured gets managed: climate disclosure helps companies and investors identify and manage climate-related risks and opportunities.
- Disclosures to CDP in 2019 showed that 215 of the biggest global companies reported nearly US\$1 trillion at risk from climate impacts, with many of those impacts likely to hit within the next 5 years. Meanwhile, companies also reported US\$2.1 trillion in cumulative gains from realizing business opportunities related to climate change.<sup>3</sup>

*Climate risk disclosure would bring significant benefits to investors and companies.*

- Investors need consistent, comparable and reliable information at scale that will support both companies and investors in comprehensive risk exposure assessments to navigate the path to a net zero future.
- Investor interests in climate-related data include potential impact on financial returns, but also to fulfill governance and stewardship responsibilities as fiduciaries, which necessitate examination of long-term climate-related risks and impacts. This calls for disclosures of climate information across short, medium, and long-term time horizons.
- Investors' current process of engagement on climate disclosures on a company-by-company basis is inefficient and slow, which limits the availability of information to investors and perpetuates the systemic risks of climate change. Mandatory climate disclosures would improve efficiency, reduce engagement costs, and protect investors from broad climate-related risks across capital markets
- The current state of climate disclosure does not meet investor needs for comprehensive, science-based, decision-useful data from all enterprises facing material short, medium, and long-term climate change risks.
- A new study has found that mandatory ESG reporting has improved the quality of reporting and increased the accuracy and reduced the dispersion of analysts' earnings forecasts, among other benefits.<sup>4</sup>

*Climate change risks are directly connected to human rights and other environmental issues.*

- As an active investor, we call on the SEC to consider the interconnections between climate change, racial justice, and human rights, as the worst impacts of climate change are often

<sup>3</sup> <https://www.cdp.net/en/articles/media/worlds-biggest-companies-face-1-trillion-in-climate-change-risks>

<sup>4</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3832745](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3832745)



borne by low-income communities and communities of color. These disproportionate impacts contribute to social inequities, which can have negative consequences on the economy.

- We encourage the SEC to explore the connection between climate, water, food and forests.

## Considerations for climate disclosure rules

For the benefit of all market participants, we believe climate change disclosure rules from the SEC should include, at a minimum, the following elements:

- **Based on TCFD:** The SEC's work should be based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which has been endorsed by hundreds of companies and investors globally. The TCFD covers disclosure guidance on governance, strategy, risk management, and metrics and targets.
- **Transition plan disclosure:** Disclosure rules should provide clear insights into companies' climate transition plans, including short, medium, and long term targets. Disclosure on transition plans should address risk management, governance and strategies, and scenario planning for a net zero future.
- **Industry-specific metrics:** SEC rulemaking should include industry specific metrics, because material climate risks manifest in different ways by industry. These metrics should build on existing standards in common use by investors and companies. Identifying such industry specific metrics would also allow for comparable disclosures.
- **Complete emissions disclosure:** Disclosure rules should include Scope 1, 2 and 3 greenhouse gas emissions, which are needed to assess the full range of climate change risks facing companies. This must include emissions attributable to the lending, investing, and underwriting activities of financial institutions, often referred to as "financed emissions", which contribute substantially to the systemic risk of climate change faced by the financial sector.
- **Inclusion in financial filings:** Material climate disclosures, including discussion on risk exposure and business opportunities, impacts on strategy and emissions reporting and management, should be included in annual, quarterly and other appropriate SEC filings.
- **Subject to audits:** Climate-related disclosures in financial filings should be subject to auditing and assurance measures as are financial disclosures. The SEC should work with the Public Company Accounting Oversight Board (PCAOB)<sup>5</sup> to fully incorporate climate into its audit regulatory functions, over which the SEC has statutory oversight responsibility.
- **Regular updates:** Scientific consensus around climate impacts and capital market responses to climate risks are rapidly evolving. SEC rules should be updated regularly in response to these developments, and they should include the development or adoption of new metrics, as existing climate standards and frameworks have done as the science and markets have evolved.
- **Broad ESG disclosure framework:** The topics of "E", "S" and "G" disclosures are inextricably linked; therefore, the SEC should consider the development of a broad ESG disclosure framework that climate disclosures would feed into; however, it is imperative that the development of a broader ESG disclosure mandate does not delay a rulemaking for mandatory climate disclosures. The climate crisis is too urgent and investors need this information as soon as possible. Additional ESG disclosure themes that the SEC should consider prioritizing include, but are not limited to, political spending and human capital management.

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<sup>5</sup> The PCAOB was set up to oversee the audits of public companies and other issuers in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent [audit](#) reports



## Conclusion

The climate crisis requires immediate action to mitigate the growing threats to financial markets and the economy, as well as to the people and communities that exist within them; therefore, we ask the SEC to act urgently in its climate disclosure rulemaking process. We appreciate the opportunity to participate in the SEC's request for information and thank you for your consideration of our comments.

Thank you for the opportunity to provide input on this important topic.

Sincerely,

A handwritten signature in black ink, appearing to read "Luan Jenifer". The signature is fluid and cursive, with a large loop at the end.

Luan Jenifer, President  
Miller/Howard Investments, Inc.

**Miller/Howard Investments, Inc.**

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