

June 11, 2021

The Honorable Gary Gensler  
Chair, U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Re: March 15, 2021 Commissioner Lee's Statement Welcoming Public Input on Climate Change Disclosures

Dear Chair Gensler:

I am writing on behalf of Paradise Investment Management LLC ("Paradise") and submit this comment in response to the U.S. Securities and Exchange Commission (SEC) request for public input on climate-related financial disclosures. Thank you for the opportunity to address this critical matter.

Paradise is an investment management firm organized as a limited liability company under the laws of the State of Delaware and registered as an investment adviser with the SEC. We are wholly owned by an Australian trust controlled by Paradise Investment Management Pty Ltd, an employee-owned investment advisory firm founded in Australia in 1999. Paradise as a group manages over US\$14 billion, of which more than US\$4 billion is managed by our US-based global investment business. The US business provides discretionary investment advisory services to pooled investment vehicles, government entities, superannuation or pension funds and institutional accounts through strategies including Global Small Mid Cap Equity, International Small Mid Cap Equity, and Emerging Markets. These strategies are managed by Paradise's investment teams based in Denver, CO and San Francisco, CA.

Our vantage point on ESG disclosure generally and climate-related financial disclosure specifically is informed by our global investment mandates spanning developed and emerging markets, our experience in managing equity strategies across the market cap spectrum, and our global base of clients sitting in jurisdictions including Australia, the United Kingdom, and Canada. Global listed companies are at very different places with regards to sustainability reporting and climate-related risk awareness, capacity, and strategic integration. The same can be said for various asset managers/owners/consultants and regulators. As we seek to honor our commitments as a PRI signatory, and as our client expectations advance significantly in the realm of ESG analysis and integration, with a major emphasis on climate-related risks and opportunities, we find ourselves on our own journey in this regard.

One of the greatest obstacles we face as we integrate ESG topics in our analysis is inadequate disclosure by listed companies generally, and small cap companies in particular. Climate-related disclosure is a prime example. Our clients, seeking to safeguard against what they see as long-term financial risks posed by climate change, increasingly want to know the carbon footprint of their portfolio, both in absolute terms and relative to a benchmark. We are unable to field such requests with great confidence given the low level of basic emissions disclosure (e.g. scope 1/2 greenhouse gases), let alone more comprehensive disclosure in line with the framework published by the Task Force on Climate-Related Financial Disclosures (TCFD) in 2017. The US-listed companies held by our Global Small Mid Cap Equity strategy are collective laggards in this regard, compared to our Japanese, European, and UK holdings. With limited climate-related disclosure, it is hard for both issuers and users of financial statements to advance beyond the level of mere

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awareness to organizational capacity and strategic integration, which is where corporate value can truly be protected or enhanced in the face of climate risk and opportunity.

When it comes to climate-related financial disclosure specifically, and financially material, decision-useful ESG disclosure more broadly, regulators such as the SEC can play a critical role in raising the bar. We simply need more and better sustainability information from public companies to meet our evolving fiduciary obligations. Many companies are not voluntarily providing this data in the absence of regulatory requirements, as there are costs involved, so we would like to see clear disclosure requirements for all firms listed on major US exchanges (e.g. NYSE and Nasdaq). This would follow steps already taken by the EU, UK, Hong Kong, and New Zealand. Global momentum for mandatory disclosure is building, as reflected in the G7 finance ministers' communique following a recent meeting in London.<sup>1</sup> The US has an opportunity to reverse course and become a leader in this regard.

Acting Chair Lee's March 15<sup>th</sup> request for public input posed many important questions that we don't know the answers to, but key elements we would like to see incorporated in any new climate disclosure rule would include the following:

- Quantitative and qualitative disclosures in line with the TCFD framework, including metrics and targets accompanied by discussion and analysis of the issuer's climate-related governance, strategy, and risk management.
- Cross-industry as well as industry-specific metrics to be calculated in accordance with globally accepted standards such as the Greenhouse Gas Protocol and as specified by an independent standard-setting body such as the Value Reporting Foundation (the recently formed successor to IIRC and SASB). According to the May 19th comment submitted by SASB's Chief Executive Officer, corporate issuers' use of the SASB Standards, first released in late 2018, has grown to more than 928 companies. The SASB Standards have been endorsed by asset owners and managers representing approximately \$72 trillion in assets under management, evidencing extremely strong investor demand and support.<sup>2</sup>
- Disclosure of whether third-party assurance of climate/sustainability disclosure has been obtained by accredited auditors.
- A mechanism by which these climate-related financial disclosure rules can be generalized to encompass financially material, decision-useful sustainability reporting in other areas such as human capital management. We recognize the SEC's efforts to date surrounding enhanced human capital disclosure under Regulation S-K, which we believe could significantly benefit from mapping to the SASB Standards. An early analysis by EY of the first 150 or so S&P 500 companies to provide new human capital disclosures found that roughly "two-thirds included at least one metric in addition to the number of employees," which suggests there remains room for more robust disclosure under future guidelines.<sup>3</sup>

As climate issues are a matter of global concern, our hope is that SEC climate reporting standards could be harmonized with developing global standards, such as those being pursued by the IFRS Foundation, over time. There is a proliferation of ESG data today, contributing to resource inefficiency and market confusion, and we believe the SEC can

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<sup>1</sup> <https://www.reuters.com/business/environment/g7-backs-making-climate-risk-disclosure-mandatory-2021-06-05/>

<sup>2</sup> [https://www.sasb.org/wp-content/uploads/2021/05/SASB\\_SEC\\_Climate\\_Letter\\_2021-05-19\\_FINAL.pdf](https://www.sasb.org/wp-content/uploads/2021/05/SASB_SEC_Climate_Letter_2021-05-19_FINAL.pdf)

<sup>3</sup> <https://www.financialexecutives.org/FEI-Daily/May-2021/The-SEC%E2%80%99s-New-Human-Capital-Disclosures-Year-1.aspx>

contribute to harmonization of sustainability reporting by embracing already existing, market-validated disclosure standards such as TCFD and SASB. Harmonized sustainability reporting would greatly benefit both issuers and investors (especially those operating or investing across borders).

Thank you for considering our point of view as a global investment manager seeking to preserve and enhance value for our clients and their beneficiaries.

Sincerely,



Toby Shute  
Senior Analyst, Investment Team Head of ESG  
Global Equity Investment Team  
Paradice Investment Management LLC