Washington DC, June 13th, 2021

Chairman Gary Gensler
U.S. Securities and Exchange Commission
100 F St. NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures

Dear Chairman Gensler:

The Institute of International Finance (IIF) appreciates the opportunity to respond to the U.S. Securities and Exchange Commission's (SEC) call for public input on climate change disclosures.

We welcome the SEC initiative to evaluate its disclosure rules and support its goal of facilitating the disclosure of consistent, comparable, and reliable information on climate change. As an over-arching recommendation, we emphasize the need for a principles-based, non-prescriptive, dynamic framework that is aligned with existing jurisdictional as well as voluntary climate-related initiatives, towards the shared objective of convergence on an international standard for climate-related disclosures.

We encourage the SEC—as well as other U.S. authorities—to actively contribute to current international efforts to develop standardized approaches to the disclosure and reporting of climate and other ESG-related issues. This is key to ensure a robust global framework that reflects U.S. perspectives and considerations and that builds on the pillars of the existing U.S. disclosure framework within the SEC's original mandate, while seeking to draw upon best practices and innovative approaches in other jurisdictions where appropriate.

Answers to selected consultation questions can be found in the annex to this letter. Below, we lay out four core messages:

Need for Global Standards: The request for feedback from the SEC takes place in the context of various jurisdictional, regional, and global initiatives to address climate-related disclosures. From this perspective, and in particular in regard to the financial sector, an internationally recognized and consistent framework for the reporting of climate-related and broader sustainability-related information is needed to ensure consistency and comparability across markets and avoid conflicting rules and regulatory fragmentation. As the IIF has thoroughly articulated in the past,[1] a globally harmonized approach to sustainability reporting is key to address the proliferation of various, potentially misaligned public and private reporting initiatives. Absent a harmonized approach, such reporting will not provide useful and consistent data to investors. Global firms would face costly and time-consuming requirements and might have to comply with duplicative, and potentially conflicting reporting regulatory regimes. In addition, users of the reported information may find it difficult or confusing to receive data from various reporting standards and requirements, threatening the overall reliability of sustainability reporting. We therefore welcome the initiative of the International Financial Reporting Standards (IFRS) Foundation with regard to sustainability reporting. While we acknowledge that this initiative will take time,

[1] "Building a Global ESG Disclosure Framework: A Path Forward," IIF, June 2020.

we urge the SEC to remain engaged in the process and ensure that U.S. perspectives and considerations are adequately reflected. Financial materiality should be a foundational element of the work of the proposed IFRS International Sustainability Standards Board. Any evolving standard also should remain principles-based and allow for the flexibility necessary for development of jurisdictional/industry specific approaches to disclosure.

Importance of Leveraging Existing Initiatives: The SEC should build on the established work and accumulated knowledge of organizations already operating in the climate disclosure space, specifically the Taskforce on Climate-related Financial Disclosures (TCFD) framework. There is a plethora of initiatives on climate disclosure, and it will be important to build upon well-established disclosure frameworks. Towards this end, we welcome the progress towards a comprehensive corporate reporting system from major sustainability and integrated reporting organizations.

Appropriate Sequencing Is Needed: Financial institutions are reliant on information from their corporate counterparties to be able to generate their own climate-related disclosures. It is therefore important that disclosure guidelines for financial institutions reflect the current availability and quality of climate-related disclosure by their corporate counterparties, as well as the broader availability and quality of data and information from third parties such as ratings agencies and specialized data providers.

Compliance: There are several outstanding issues and questions pertaining to how disclosure regimes for climate-related risks can be appropriately designed and implemented. These include how to address the lack of consistent climate-related data disclosed by corporate counterparties which financial institutions require for sound risk assessment and to inform the development of their own disclosures. Many IIF members support or are moving towards supporting mandatory disclosure—which would also facilitate international alignment, as many jurisdictions are already headed in that direction. However, some remain concerned that without better corporate disclosure and a better toolkit, full compliance with prescriptive and quantitative requirements will not be possible. In this context a phased-in approach that recognizes the need for initial flexibility pending improvements in data, models, and metrics could be useful. However, the SEC should consider disclosure requirements that include safe harbor protections broad enough to encourage companies to be candid but narrow enough to ensure that the information provided is meaningful to investors. Not only should the existing safe harbor rules on forward-looking statements apply, but there should also be specific climate reporting safe harbor rules for any statements that must rely on data from third parties that are outside of the financial institution's control.

The IIF looks forward to continue engaging with the SEC in the analysis and consideration of potential new approaches to climate change related disclosures, providing private sector and financial services specific input. Should the SEC have any follow-up questions on this submission, please feel free to contact Sonja Gibbs [redacted] or Andres Portilla [redacted].

Sincerely,

Sonja Gibbs

Managing Director and Head of Sustainable Finance
Global Policy Initiatives

Managing Director and Head
Regulatory Affairs

Annex - Consultation Questions:

Question 1: *How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?*

- The SEC should develop an approach to climate change disclosures that **builds on the pillars of the existing U.S. disclosure framework within the SEC's original mandate**, while seeking to draw upon best practices and innovative approaches in other jurisdictions where appropriate. The SEC should ensure consistency with international disclosure standards as they emerge while leaving room for national specificity; for example, including "safe harbor" rules for forward looking statements to protect against liability. Not only should the existing safe harbor rules on forward-looking statements apply, but there should also be specific climate safe harbor rules for any statements that necessarily rely on data from third parties that are outside of the financial institution's control.
- In developing a framework for disclosures of climate-related risks and opportunities, the SEC **should draw upon the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)**, which is the de-facto global standard for corporate and financial institution disclosures. However, considering that elements of the TCFD recommendations may soon be revised and/or augmented (including, for instance, supplemental guidance on forward-looking metrics following from the TCFD's public consultation process earlier this year), we suggest that the SEC not seek to implement far-reaching or highly detailed regulations without broader international coordination.
- The core focus of the SEC's work should be on setting a **consistent baseline for disclosure by corporates and financial firms**. Over time, the SEC should seek to guide the market with a clear implementation pathway detailing future expectations for more detailed and/or stringent requirements (e.g., specification of metrics to be disclosed by different sectors), in areas where the level and quality of disclosure is lacking.
- Recognizing that policymakers and regulators in several jurisdictions are moving ahead with efforts to **integrate the TCFD framework into supervisory expectations and regulatory requirements**, the SEC should consider and reflect upon the degree to which any of these approaches could be considered relevant to the U.S. context.
- With respect to the structures and channels for disclosure, the SEC should engage with market participants to identify **what models are most useful** for the widest range of users of disclosure. Currently, disclosures are divergent in length, structure, and level of granularity, which creates barriers for comparability and consistency. We would encourage the SEC to provide guidance on a set of approaches that could be relevant for individual firm level disclosures.

Question 2: *What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?*

- Many existing disclosure frameworks include metrics to assess or quantify climate risk. There is a significant demand for consistently calculable and widely applicable metrics. At present, there is a multitude of metrics proposed across the many established and emerging ESG disclosure frameworks that attempt to measure different aspects of ESG information or use different measurement approaches.
- The choice of specific metrics—and how much reliance there is on metrics—to summarize certain ESG information should be based on relevance to the specific ESG factors at hand. Any metrics should be chosen based on materiality as well as compatibility with existing, commonly used frameworks, while preserving flexibility to use those metrics as part of independent analytical approaches.
- The SEC should build on the established work and accumulated knowledge of organizations already operating in the climate disclosure space, primarily the TCFD framework. The Sustainability Accounting Standards Board (SASB) has also developed frameworks which should be considered in the context of climate disclosure.

Question 3: *What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?*

- The SEC should build on the progress achieved through industry-led collaboration on disclosure frameworks, including the TCFD, and other voluntary standards like the SASB, to support further development by industry in areas where the approaches, methodologies, and data underlying disclosure items (e.g., physical risk assessment, forward-looking metrics) are still developing. Such engagement can help establish whether industry disclosure standards can satisfy minimum disclosure requirements established by the Commission.
- In general, a proper degree of granularity should be used to define industries, considering that certain industry sub-sectors may be more or less well-positioned to respond to the strategic risks and opportunities associated with climate change and the low-carbon transition. An understanding of what sectors may be most affected by (or derive opportunities from) climate change—as well as more standardized and complete disclosures on

how firms may seek to respond to strategic risks and opportunities—will help financial institutions make more efficient investment decisions. The SEC should consider the work of industry bodies working across jurisdictions, which are seeking to build industry consensus on the degree of granularity of disclosures in multiple jurisdictions.

Question 4: *What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?*

- In different industries and in different companies, different climate-related factors are likely to be material. The approach to materiality taken by SASB is instructive in this regard and should be considered as a core building block for the proposed IFRS International Sustainability Standards Board, which is supported by IOSCO.
- Industry-focused standards could be developed through sectoral engagement platforms to support further development by industry in areas where the approaches, methodologies, and data underlying disclosure items (e.g., physical risk assessment, forward-looking metrics) are still developing.

Question 5: *What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?*

- The SEC should leverage market-led efforts on disclosure to encourage comparability and ensure that disclosure requirements for corporates and financial institutions are appropriately harmonized. There is a plethora of initiatives in this field and we believe it will be important to build upon well-established disclosure frameworks. The SEC should ensure that U.S. perspectives are adequately reflected and balanced in current international efforts to develop standardized approaches to the disclosure and reporting of climate and other ESG related issues.
- With respect to climate-related risks, the principles-based recommendations of the TCFD framework have proven to be a workable and widely accepted framework to report on climate-related risks and opportunities.
- Aspects of the disclosure regime should remain market-led; the efforts of voluntary frameworks towards a common approach to corporate reporting are helpful.
- We welcome the work of voluntary standard setters towards harmonization of existing frameworks, such as the joint statement of intent by the CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the SASB to work together towards a comprehensive corporate reporting system and the merger of SASB and IIRC to form the Value Reporting Foundation. However, the official sector (in particular regulatory agencies and standard setters) could consider ways to encourage such convergence more directly, with financial materiality as a baseline.

Question 9: *What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?*

- To ensure consistency and comparability across markets and to avoid regulatory fragmentation, an internationally recognized and uniform baseline framework for the reporting of climate-related information is needed which at the same time allows for initial flexibility to allow data, model, and metric improvement. While the proliferation of multiple voluntary reporting frameworks has stimulated innovation in disclosure practices, it has also resulted in a diverse array of standards, frameworks, and indicators.
- We therefore support efforts and collaboration between voluntary standard setters to work towards harmonization of existing frameworks. For instance, in September 2020, both the IIRC and the SASB—alongside the CDP, the GRI, and the CDSB —issued a statement of intent to work together towards a comprehensive corporate reporting system. In December 2020, this group released a joint paper outlining a climate-related reporting standard. Also, the World Economic Forum's (WEF) International Business Council (IBC), in conjunction with the Big Four accounting firms, announced in September 2020 a set of universal sustainability metrics to encourage greater cooperation and alignment. In November 2020, the SASB and the IIRC announced their intention to merge into the Value Reporting Foundation. As noted above, the SEC could consider ways to encourage this convergence more directly.
- We also welcome the IFRS Foundation's initiative with regard to sustainability reporting. The IFRS Foundation is uniquely positioned to establish such standards because the organization already has substantial experience in establishing and running an appropriate governance structure to oversee the process of global standard setting. However, while we acknowledge that the IFRS Foundation's undertaking will take time, we will closely monitor the developments and urge the SEC to stay engaged in the process and ensure that U.S. perspectives and considerations are adequately reflected. Any evolving standard must remain principles-based and allow for the flexibility necessary for appropriate development of jurisdictional/industry-specific approaches to disclosure.
- In many ways, the various existing voluntary frameworks are effectively becoming compulsory, through investor and other stakeholder demands, meaning that firms may face significant market and competitive consequences if they do not disclose sufficient ESG information. In this context, making the disclosure of certain information mandatory could be beneficial to drive progress on consistency. If the SEC were to consider mandatory disclosure requirements, a phased path would be appropriate.
- Either way, financial institutions are reliant on information from their corporate counterparties to be able to generate their own climate-related disclosures. It is therefore important that disclosure guidelines for financial institutions reflect the availability and quality of broader climate-related disclosures by their corporate counterparties.

- It will be very important to work with national, regional, and international authorities which have established, or are in the process of developing legislative, regulatory, and supervisory frameworks for disclosure of climate-related information. International collaboration and alignment will help reduce the risk of fragmentation emerging from different approaches taken by official sector authorities. In this context we welcome the work of the G20 and FSB road mapping exercises now in progress, including the initiatives underway under the auspices of the G20 Sustainable Finance Working Group. The SEC—as well as other U.S. agencies and authorities—should monitor these efforts to ensure that the U.S. point of view is adequately reflected.

Question 10: *How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?*

- Various existing disclosure frameworks already contain certain expectations around verification and assurance, which many firms satisfy today. However, in many jurisdictions there is currently no requirement to externally assure such information.
- Disclosure requirements also need to include safe harbor protections broad enough to encourage companies to be candid but narrow enough to ensure that the information provided is decision useful. Not only should the existing safe harbor rules on forward-looking statements apply, but there should also be specific climate safe harbor rules for any statements that necessarily rely on data from third parties that are outside of the financial institution’s control.

Question 15: *In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?*

- Considering data constraints and the fragmented nature of measurement and reporting across the numerous sustainability fields there is value in initially focusing on climate-related risks. Should the SEC decide to adopt further ESG disclosures, it should be consistent with and build upon the framework used for climate-related risks.