

12 June 2021

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

**Re: Request for Public Input on Climate Change Disclosures**

Dear Chairman Gensler:

This letter is submitted in response to the Request for Public Input on Climate Change Disclosures issued on March 15, 2021, on behalf of the members of the Climate Governance Initiative (CGI), a network of associations (“Chapters”) of non-executive directors of corporate boards located in 14 countries and regions in North and South America, Europe and Asia.

Our 14 member Chapters are committed to promoting the implementation of the [World Economic Forum’s Climate Governance Principles](#), which set out eight best-practice principles to guide effective governance of climate change within corporate boards, and give directors the tools to put the climate transition at the heart of their companies’ corporate strategy. This submission forms an integral part of the CGI’s engagement with policy makers, consistent with our view that successful corporate action on climate change depends on a productive collaboration between business and policy makers.

Of our 14 Chapters, 12 whose membership collectively stands at over 30,000 directors, have joined together in support of the attached submission.

We thank you very much for the opportunity to participate in this consultation, and invite you to contact me at the email address or telephone numbers below.



Karina A. Litvack  
Chairman, Climate Governance Initiative  
London, United Kingdom

[Redacted contact information]

## Submission from CGI to SEC on Climate Change Disclosures

June 2021

Climate change is a global emergency. To achieve the goal of limiting global average temperature increases to 1.5°C above pre-industrial levels and achieve net-zero carbon emissions by 2050<sup>1</sup>, most countries will need to substantially increase their climate ambitions and investments. This places an unprecedented responsibility onto the shoulders of business decision-makers, including non-executive board directors whose stewardship obligations require them to develop and monitor the corporate strategy that will position their companies for resilience in a zero-carbon world.

In support of corporate boards in the G20 and beyond, the Climate Governance Initiative (“CGI” or “the Initiative”), a global project launched in collaboration with the World Economic Forum, has been established with the aim of mobilising non-executive directors<sup>2</sup> to put climate change at the heart of their companies’ business strategies.

The core mission of the Initiative is to promote the implementation of the World Economic Forum’s [\*Guiding Principles for Climate Change Governance on Corporate Boards\*](#), a set of comprehensive and ambitious best practice standards developed to guide board behaviour, by providing a range of engagement opportunities aimed at enhancing their skills in this area.

The Initiative has been expanding internationally by creating local CGI forums or “Chapters” for non-executive directors, often known under the name of Chapter Zero<sup>3</sup>. Each national Chapter works within its respective country as well as across borders to share knowledge and promote climate action, both at company-specific and systems level.

**The member Chapters of the Initiative<sup>4</sup> have collectively responded to the [invitation for input from the U.S. Securities and Exchange Commission](#), giving our strong support to the mandating of climate disclosures in filings and reports.**

The key recommendations in the response are as follows. The U.S. Securities and Exchange Commission (“the SEC” or “the Commission”) should:

- reinforce the view that climate change will have significant implications for all companies and their boards, requiring them to revisit their corporate strategies to respond to it, and to integrate all relevant impacts within the financial statements and disclosures;
- set minimum disclosure<sup>5</sup> requirements that apply to all companies<sup>6</sup>, allow for comparability, and cover the entire value chain, as well as define some specific disclosure requirements that will be necessary for certain industries;

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1 This is the target identified by the United Nation’s Intergovernmental Panel on Climate Change (IPCC) as critical to averting the most extreme forms of damaging climate change. We acknowledge that since the IPCC’s report, other reports recommending climate neutrality as a matter of urgency have been issued which indicate the increasing concern that current net zero targets by 2050 may be insufficient and technologies needed to achieve the Paris goals are not currently available at scale, however, the basis of our assumptions remains the 2018 report until it has been superseded by a revised and widely-accepted new standard.

2 In this document, the terms “non-executive director” and “NED” should be understood to refer to any individual who serves on the board of directors, whether dual or unitary, and bears legal responsibility for the oversight and long-term success of the company. These terms are therefore intended to include all individuals who serve as members of boards of directors and may be referred to in their respective jurisdictions as “directors”, “supervisory board members”, “outside directors”, “independent directors”, “corporate directors” or “board members”.

3 The CGI Chapters in Malaysia, Nordics, Russia and USA are known as Climate Governance Malaysia, Boards Impact Forum, Climate Governance Russian, NACD U.S. Climate Initiative, respectively.

4 The member chapters party to this submission include: Boards Impact Forum (Nordics chapter), Chapter Zero Brazil, Chapter Zero Brussels, Chapter Zero Chile, Chapter Zero France, Chapter Zero Italy, Chapter Zero Switzerland, Chapter Zero in the United Kingdom, Climate Governance Malaysia, Climate Governance Initiative Russia, German Chapter and NACD U.S. Climate Initiative. Chapter Zero in Canada and Poland are not part of the joint submission.

5 Minimum disclosure requirements should not create an onerous and possibly duplicative compliance burden, but instead build on the voluntary reporting on climate-related matters many firms have started to issue, and align with already mandatory requirements in other major markets such as the European Union.

- frame its guidance as a mandatory standard that requires compliance, but allows for the presentation of alternative performance measures (accompanied by reconciliations to those prescribed by the standard) and supported by fulsome explanations.
- require, over time, additional, separate disclosure of the climate-related scenario<sup>7</sup> analysis that underpins companies' strategic planning and investment decisions, including details on inputs and assumptions for industry-specific climate analysis;
- mandate inputs/assumptions and methodology for industry-specific climate-related scenario analysis;
- in recognition of the issue of competing disclosure frameworks, promote alignment with existing frameworks, such as the EU's Directive 2014/95/EU, a.k.a. the Non-Financial Reporting Directive, and the Task Force on Climate-related Financial Disclosures (TCFD); and
- continue to contribute to the standard setting of the International Sustainability Standards Board (ISSB) and designate it as the body responsible for the development of climate change disclosure.

In conclusion, climate change is an urgent issue requiring decisive action by companies in all industries. While it may take a considerable amount of resources to, amongst others, embed the management information systems needed to deliver the data and establish the controls we believe are necessary, such disclosures will allow boards to gain assurance that climate change risks are well-understood and managed, and will help boards better appreciate the strategic implications of climate change for their companies, and enable them to build climate resilience. The U.S. Securities and Exchange Commission's rulemaking in this area can guide their actions through comprehensive and consistent disclosure standards.

Our detailed responses to the SEC's questions are below. If you require further information concerning our comments, please contact, Karina Litvack, Chairman, Governing Board, Climate Governance Initiative at [karina.litvack@gmail.com](mailto:karina.litvack@gmail.com).

Respectfully submitted,  
Climate Governance Initiative

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***Question 1 – How can the Commission best regulate disclosures?***

*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?*

**If left unmitigated, the impacts of climate-related risks will threaten the stability of economies and financial systems, thus threatening shareholder value for companies and their investors. As such, corporates, investors and regulators have a decisive role to play.** Environmental factors must be considered in all risk assessments and business decision-making, and rapid, comprehensive integration of climate transition and adaptation strategies into core business strategies must be the overarching goal: this is critical not only to long-term value creation for issuers and their investors, but also to broader [systemic financial stability](#)<sup>8</sup>. By regulating climate disclosure, the SEC will have a powerful effect on the perceived importance of environmental considerations and on corporate behaviour.

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<sup>6</sup>While it is recognised listed companies fall within the Commission's remit, in the case of climate change, the systemic implications of failure impact all companies and therefore the requirements for listed and private companies should be consistent.

<sup>7</sup> We refer to the recommendations of the Network for the Greening of the Financial System (NGFS), which outlines a comprehensive set of recommendations related to scenario analysis, in particular that reporting take into account three scenarios: a smooth transition to 1.5 C, which will form the basis of the net-zero strategy and will be the scenario of reference; a disorderly (and hence far costlier and more disruptive) transition to 1.5 C; and a higher temperature scenario outcome of +3 C of warming, which is associated with extreme physical effects, unprecedented economic costs and disruption, and significant loss of life.

<sup>8</sup> See **Breaking the tragedy of the horizon - climate change and financial stability - speech by Mark Carney** given at Lloyd's of London annual dinner, <https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability>.

**The Commission should reinforce the view that climate change will have material implications for most companies, and the financial impacts should therefore be integrated within the financial statements and disclosures.** Climate change impacts, whether arising directly from adaptation, transition or liability risks, or indirectly through their effect on systemic stability, have the potential to affect all companies in most sectors. Assumptions and inputs surrounding climate-related risks and opportunities and mitigation and/or adaptation decisions are integral to, and must be integrated within, the financial statements (on a line-by-line basis) and reports, and expanded in disclosure notes. Their implications therefore need to be considered throughout annual reports and filings, and be subject to a consistent level of scrutiny and rigour as that applied to the financial statements, by preparers and auditors.

**The Commission should promote alignment with existing international frameworks, such as the EU’s Directive 2014/95/EU, a.k.a. the Non-Financial Reporting Directive (EU NFRD) and the TCFD.**

Experience has shown, and our members who serve on the boards of companies based in EU Member States can attest, that the requirement to comply with the EU NFRD has significantly raised awareness of the seriousness of the climate emergency; this has, in turn, driven not only better corporate disclosure and performance measurement, but also sparked many companies to reassess their corporate strategies with a view to aligning them with the goal of net-zero emissions by 2050 or earlier; this has, in turn, informed near, medium and long-term target-setting and reporting progress against targets, and more generally driven a steady improvement in the governance and management of climate-related issues.

The EU NFRD requires the publication, preferably in the management report, of information on the impact of corporate activity on, among other factors, “environmental matters”, defined in terms of their “short-term, medium-term and long-term implications... based on the expected impact of science-based climate change scenarios on corporate strategies and activities”.

The SEC should determine which frameworks are already in widespread and effective use, and emulate those. One obvious candidate for the US is the aforementioned TCFD. The TCFD features four pillars that provide a useful framework for organising governance and strategic considerations, and integrating them in the company’s internal reporting and management systems. Its forward-looking approach to disclosure of metrics and targets provides corporate boards and management with the tools to drive value and resilience over the medium and longer term.

Looking to the future, the Commission should monitor closely, and seek to align its guidance with, other regulators and frameworks, including the newly-proposed Corporate Sustainability Reporting Directive (CSRD), a.k.a. Proposal N. 2021/0104 (COD)<sup>9</sup>. The CSRD introduces additional reporting requirements that build on the current EU NFRD, expand to smaller companies, and contain special reporting requirements for financial services companies (see Question 2 below). To the extent that the disclosure standards adopted by other jurisdictions align with, or exceed in stringency, those that the Commission eventually adopts, we

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<sup>9</sup> The Corporate Sustainability Reporting Directive Proposal, which aims to align sustainability reporting requirements with the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation, addresses the following:

- it extends the scope of reporting requirements to additional companies, including all large companies and listed companies (listed micro-companies are given until 1<sup>st</sup> January 2026);
- it requires full assurance of sustainability information by external auditors;
- it specifies in more detail the information that companies should report, and requires them to report in line with mandatory EU sustainability reporting standards; and
- it requires all information to be published as part of companies’ management reports, and disclosed in digital, machine-readable format. In addition, reporting should address:
  - the resilience of the business model and strategy to sustainability-related factors;
  - opportunities related to sustainability;
  - plans to align the business model and strategy with the transition to a sustainable economy, defined as limiting the rise in global average temperature to 1.5 °C above pre-industrial levels, in line with the Paris Agreement;
  - stakeholder engagement practices and their implications for the business model and strategy;
  - implementation of the strategy as it relates to sustainability;
  - sustainability-related targets and progress achieved against them;
  - the role of functional areas and business units, as well as of the board, whether one-tier or two-tier as per local practice in different Member States, with regard to sustainability;
  - principal actual or potential impacts related to the company’s broader value chain, and any action taken and results achieved to prevent, mitigate or remediate negative impacts;
  - indicators to measure and report on the above.

encourage the Commission to recognise these foreign standards as “super-equivalent”, and therefore for compliance by such foreign issuers with their own domestic regulatory requirements to be recognised and accepted under the new SEC standards.

### ***Question 2 – What information should be disclosed?***

*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?*

**Disclosure should consist of both quantitative and qualitative information.** To be meaningful, quantitative data must be produced according to a standardised methodology and be released in machine-readable form. There are a growing number of indicators that lend themselves to quantitative reporting, including, amongst others; greenhouse gas emissions (Scopes 1, 2 and 3); carbon intensity; avoided emissions. Disclosure of all of these should include historic performance against baseline and targets, and forward-looking targets. However, in order for these figures to be comparable, it is necessary for the Commission to define a single common methodology for each category of indicator, including:

- A common baseline year for measuring reductions;
- Standard timelines for target-setting, e.g. reductions by 2050, 2040, 2030, rolling 5-year targets;
- A common methodology for calculating absolute and relative metrics;
- The year by which issuers will achieve net-zero emissions (e.g. by 2050 or earlier);
- The relative and absolute volume of emissions reductions, both historic and prospective, achieved via operational/industrial measures (e.g. energy efficiency, leaks reduction, technological upgrades, renewable energy purchases) vs. industrial offsets (e.g. carbon capture and storage) vs. biological sequestration (e.g. forestry offsets), noting the impact of extraordinary events such as acquisitions or divestitures;
- A common methodology for valuing carbon offsets;
- Measurement of carbon emission resulting from new capital expenditure investment projects.

**The Commission rightly takes into account the balance of costs and benefits associated with any regulatory change, and this one should be no different. In fact, our experience of complying with the EU NFRD has revealed that an ambitious standard of disclosure is ultimately to the clear benefit of companies, their investors, and the market as a whole.** While it is true that certain aspects of climate disclosure may engender non-trivial initial costs, i.e. as companies develop the management information systems (MIS) to collect previously unmeasured data and design and implement controls and processes to validate the information, these costs have been shown to come down significantly once robust MIS are in place, and are in any case far outweighed by the benefits to companies, investors and the impacts on market stability and efficiency. Companies benefit especially by identifying levers for better operational performance, as well as opportunities to reassess and adapt business models for a zero-carbon economic system; and the annual flow of new data facilitates target-setting and performance-monitoring. Conversely, a failure to require such additional disclosure would perpetuate current market inefficiencies caused by the poor visibility and comparability of these data. The cost-benefit balance should therefore be evaluated with a systems lens, i.e. acknowledging the collective impact of individual firms on the wider economic system, in addition to the direct benefits to companies, their investors and other stakeholders.

**The Commission should also require robust qualitative disclosures, including comprehensive discussion in the 10K and 20F reports,** so as to enable investors to gain a full understanding of the breadth and complexity of their current positioning with regard to the climate emergency, as well as make informed

judgements about their strategy to mitigate risks and reposition themselves for success in a potentially disrupted environment. Detailed narrative discussion of the strategies for both climate transition and adaptation, including through operational measures, industrial transformation, M&A transactions, etc., must be fully integrated into companies' existing narrative disclosures.

**Although challenging to measure at first, Scope 3 emissions are of critical importance and disclosure of current emissions, and especially reduction targets, is essential:** the fact that one company's Scope 3 emissions are a supplier's or customer's Scope 1 or Scope 2 emissions, often dismissed as "double-counting", is irrelevant to the argument that a company with a major Scope 3 footprint is exposed to significant commercial risk, insofar as rivals that can offer low or zero-carbon alternatives pose a competitive threat that can hasten the obsolescence of its business model. For investors, understanding a company's vulnerability to such risks is crucial, just as the mitigation measures companies take are for those that want to make a persuasive business case to their investors for investing in a strategy of ambitious Scope 3 reductions. Many companies have Scope 3 emissions that represent up to 80-90% of their total greenhouse gas footprint; a disclosure regime that omitted such emissions would create a major blind spot, depriving investors of vital information concerning these companies' impacts and their mitigation strategies, and causing significant distortions in the financial marketplace. Conversely, clear leadership by the Commission on Scope 3 disclosures will incentivise companies to manage them effectively, with beneficial effects on their supply chains, as smaller suppliers that may otherwise lack the awareness or commitment to adopt their own climate transition strategy will have a compelling commercial reason to do so.

**The Commission should require additional metrics of companies operating in the Financial Services sector, specifically to capture their Scope 3 emissions as well as their impact on wider systemic financial risk.** These metrics should be defined in line with the objectives of the [Network of Central Banks and Supervisors for Greening the Financial System \(NGFS\)](#)<sup>10</sup>, of which the [US Federal Reserve became a member](#) in December 2020. Companies operating in the banking, insurance, and fund management sectors face significant exposure to climate risk through their portfolios of loans, insurance customers, and investments, insofar as the exposure of these companies to climate risk may affect their credit quality, insurance risk profile, and market valuations. Conversely, financial services companies are significant drivers of the climate transition across the broader economy, insofar as access to, and pricing of, bank funding, insurance coverage and debt and equity capital is fundamental to the ongoing commercial viability of their clients and investee companies. As financial services companies increasingly adjust pricing of, and restrict or facilitate access to, funding and insurance coverage to reflect climate risks, and expand availability of innovative products to stimulate the growth of green business, the Commission should define sector-specific disclosure criteria that capture this aspect of their evolution. These should include:

- Annual reporting of the results of, and assumptions underpinning, long-term climate scenario analysis;
- Annual reporting of the results of portfolio-wide climate audits;
- Targets to mitigate areas of particular risk and bring down overall portfolio risk exposure; and
- Narrative explaining the range of measures they are taking, or intend to take, to drive down the climate risk embedded in client loans, insurance coverage, as well as investee companies and over what period of time.

In addition to the impact of customer and investee company risk on each financial institution's individual risk profile, the Commission should also require disclosure of specific metrics to capture these institutions' contribution to the cumulative impact of such risks across the wider financial system, as well as the measures they are taking or will take to bring them within acceptable risk ranges.

**The concept of materiality, which rightly underpins financial reporting, must be understood in a way that is fundamentally different from the approach embedded in conventional accounting practice.** The

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<sup>10</sup> The NGFS is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk. As of 30 April 2021, it consisted of 90 members and 14 observers, including the US Federal Reserve, which joined in December 2020. Its purpose is to help strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the Network defines and promotes best practices to be implemented within and outside of the Membership of the NGFS and conducts or commissions analytical work on green finance.



traditional concept of materiality has often proved to be of limited effectiveness in identifying climate-related issues because of the time horizon over which it is assessed, and its narrow focus on direct “outside-in” effects on the company, rather than also capturing the externalities that companies can generate. Negative externalities related to climate change have the potential, over time, to translate into direct risks for the company to the extent that they lead to punitive regulation, technological obsolescence, increased cost and reduced availability of capital, reputational risk, or litigation, as well as indirect negative impacts on the company due to their contribution to extreme climate-driven events and broader systemic instability. We therefore support a broader and more prescriptive definition of materiality that explicitly recognises the extraordinary degree of uncertainty and systemic damage associated with climate change over a longer time horizon than that of conventional accounting practice.

**The Commission should therefore adopt an approach that enshrines what the European Commission has called “double materiality” in disclosure requirements.**<sup>11</sup> This will create the conditions for companies to report transparently both on their resilience to the physical effects of climate change, and on the steps they are taking to reposition the company for commercial resilience in a world where market, regulatory, technological, capital markets and competitive drivers will force them to craft and execute on a robust climate transition strategy.

**The Commission should require, by no later than 2025, additional, separate disclosure of the climate scenario analysis that underpins companies’ strategic planning and investment decisions,** so as to enable investors to understand how longer-term climate drivers have been incorporated into corporate strategy and financial disclosures. Risks that are not currently perceived as material are likely to become so at a future date: companies must therefore undertake scenario modelling that captures the full range of possible future climate scenarios. For example, they may divide the scenarios into base case, worse case, better case and Black Swan scenarios related to possible climate transition pathways, or use the recommendations of the NGFS, taking into account three scenarios: a smooth transition to 1.5°C, which will form the basis of the net-zero strategy and will be the scenario of reference; a disorderly (and hence far costlier and more disruptive) transition to 1.5°C; and a higher temperature scenario outcome of +3°C of warming, which is associated with extreme physical effects, unprecedented economic costs and disruption, and significant loss of life. They must report transparently on the key assumptions used to produce these climate scenarios, including those related to carbon pricing and the pace of transition to a net-zero economy, and explain how these feed into their base case, worse case, better case and Black Swan scenarios. This is necessary to enable companies to communicate effectively to investors how they have built climate resilience into their strategy and investment plans, as well as the necessary optionality to enable them to adjust the pace and direction of their transition plans as conditions evolve, including in the face of potentially significant disruption.

**To enable comparability between companies, the Commission should prescribe a methodology and certain climate-related standard scenario assumptions.**

**These should include the key assumptions that underpin such scenarios,** such as a net-zero pathway and carbon pricing model to 2050, consistent with a maximum average temperature increase of 1.5<sup>0</sup>C over the pre-industrial era, while leaving the option for companies to produce additional alternative scenarios if they believe these can provide useful information for their investors. The Commission should require companies to disclose the impact of stress-testing their business against each of the prescribed scenario options, including the impact of various carbon pricing assumptions. The impact of carbon pricing should be disclosed under different taxation scenarios, including whether or not carbon taxes are deductible as operating expenses.

**The standardised methodology imposed by the Commission to determine Proven Reserves in the Oil and Gas sector is a good example of the benefits of mandating a single common set of key assumptions in order to enable comparability between reporting companies.** While we recognise that a one-size-fits-all approach may not always be optimal for purposes of arriving at a precise and accurate figure, past experience in the Oil and Gas sector demonstrated the risks to investors and to the broader market of allowing discretion to

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<sup>11</sup> The concept originated with the EU Commission as part of the Non-Binding Guidelines on Non-Financial Reporting Update (NFRD).

companies in how reserves were valued. The same applies to scenario assumptions: imposing a single baseline for all companies to apply consistently will improve comparability, while still leaving the option for companies to make additional non-SEC prescribed disclosures to guide the narrative about their company's strategy and where they believe they add value for investors. Such uniformity will also facilitate external assurance, again as experience with historic reserves scandals has shown.

**The Commission should require companies to report fully on the donations and other financial or in-kind contributions that they have made to policy-makers, as well as advocacy groups and trade associations.** In order to form an accurate and balanced view of the role companies play in influencing the public policy and regulatory framework related to the climate transition, investors need to be able to assess the extent to which companies' declared policy commitments align with their actions. Companies also benefit from better transparency in this area, by gaining valuable insights into how other business actors are engaging with the public policy process. These disclosures should include the financial value of monetary and in-kind donations, the amount of fees paid to public policy consultants (lobbyists), the policy positions taken directly by companies, and the extent to which the organisations they have supported are aligned with their own stance.

**With respect to the timing of the phase-in of its reporting guidance, and the tiering between larger and smaller companies, the Commission should seek to align itself with the EU NFRD, as well as monitor closely the evolution of the proposed Corporate Sustainability Reporting Directive (CSRD).** The EU NFRD was passed in 2014, and has been in effect since 1 January 2017. It applies to public companies above 500 employees (as well as to banks and insurance companies regardless of number of employees), although the proposed CSRD currently under review now calls for smaller companies to be included, subject to a grace period to 2026. It is our view that the new SEC Guidance should take effect by 2025 for all companies except those below an SEC-determined threshold, and should apply to all companies regardless of size by 2027. The CSRD makes no distinction as to size for banks, and we support a similar approach by the SEC.

**The Commission should also give due consideration to, and to the greatest extent possible align with, the recommendation that will emerge from the IFRS Foundation's Trustees' Consultation Paper.** During 2020, the IFRS Foundation Trustees' published a Consultation Paper on Sustainability Reporting that earned a favourable response from numerous stakeholders, including several governments and regulators such as the Financial Reporting Council and International Organization of Securities Commissions. In April 2021, the Trustees published a Feedback Statement summarising the significant matters raised by respondents to the consultation paper and their views on the strategic direction of the new board. These addressed the following matters, which we recommend the Commission actively consider:

- Investor focus for enterprise value: the new ISSB<sup>12</sup> would focus on information that is material to the decisions of investors, lenders and other creditors.
- Sustainability scope, prioritising climate: due to the urgent need for better information about climate-related matters, the ISSB would initially focus its efforts on climate-related reporting, while also working towards meeting the information needs of investors on other ESG (environmental, social and governance) matters in a subsequent phase.
- Build on existing frameworks: the ISSB would build upon the well-established work of the Financial Stability Board's TCFD, as well as work by the alliance of leading standard-setters in sustainability reporting focused on enterprise value<sup>13</sup>. The IFRS Trustees will consider the prototype proposed by this alliance in developing its own new climate-related reporting standards. To prepare for this work, the IFRS Foundation will initiate a process of structured engagement with the relevant organisations.
- Building blocks approach: by working with standard-setters from key jurisdictions, standards issued by the ISSB will aim to provide a globally-consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability impacts.

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<sup>12</sup> Not to be confused with the Sustainability Accounting Standards Board

<sup>13</sup> Carbon Disclosure Project, the Climate Disclosures Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board



### ***Question 3 – Voluntary or minimum disclosure requirements?***

*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.)?*

**While voluntary best-practice approaches have an important role to play in driving innovation and continuous improvement, they work best when followed over time by mandatory regulation to raise the minimum baseline of compliance and create more uniformity. At present, sustainability reporting is marked by a proliferation of voluntary reporting and disclosure standards, and with the notable exception of the EU, an absence of clear regulatory standards. While the standard-setters have recently worked to align their frameworks, as described further below,<sup>14</sup> the multiplicity of standards can cause uncertainty for both companies and stakeholders alike. The Commission should therefore specify comprehensive, mandatory disclosure requirements that apply to all companies in its remit.**

Climate change reporting today reflects its origins as a voluntary movement that gathered pace in different parts of the markets, with different priorities and orientations. As such, it is marked by a multiplicity of competing frameworks that make comparability, both for reporters and users, a major challenge. It has reached the stage in its evolution where it is regarded as necessary by a critical mass of both users and reporters, but its processes still lack the maturity and robustness necessary to bridge the disconnect between long term-value creation and climate change performance.

Corporates therefore need the Commission to establish a set of robust, comprehensive reporting requirements that can serve as a compliance baseline and apply across the board to all companies of all sizes and in all sectors. In addition, inasmuch as climate reporting is still a relatively new concept, there is room for additional voluntary standards that exceed minimum compliance to continue to develop, evolve into soft law, and eventually become incorporated into regulation as they mature and gain currency, as is now happening with the TCFD. This will be particularly true with specific sectors, such as financial services, which are the subject of in-depth review by the 80+ members of the Network for Greening the Financial System and will, over time, be incorporated into prudential regulatory frameworks.

### ***Question 4 – Different standards for different industries?***

*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?*

**The Commission should set minimum disclosure requirements that apply to all companies and cover the entire value chain, complemented by a set of specific additional disclosure standards for selected industry sectors.** There should therefore be a standard that forms the core requirement for all companies. Please see Question 2 above for our recommendations on the Financial Services sector.

### ***Question 5 – Drawing on existing frameworks?***

*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? \*This list is not meant to be exhaustive, and should also be construed to include potential successor organizations. See, e.g., [IIRC and SASB announce intent to merge in major step towards simplifying the corporate reporting system](#) (Nov. 25, 2020)*

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<sup>14</sup> <https://www.cdsb.net/corporate-reporting/1139/global-sustainability-and-integrated-reporting-organisations-launch>

**As noted in our responses to Questions 1 and 2, we strongly recommend that the Commission seek maximum alignment with the EU NFRD (which will be amended by the newly-proposed CSRD).**

**The Commission's new climate change disclosure requirements should also build on and complement the TCFD recommendations,** as has been the case with European Union regulation.

**The TCFD is based on meeting the needs of business decision-makers.** It has received the backing of more than 1,000 corporations around the world, while 87 investors managing \$37 trillion assets under management, representing nearly 40 percent of the total assets under management across the globe, have also committed to transparent and rigorous accountability and annual reporting against the TCFD recommendations. The adoption of TCFD represents a major milestone in the process of integrating the reporting of climate governance, risk, metrics, targets and capital allocation within corporate decision-making.

The Commission should also monitor closely the aforementioned progress currently underway by a group of **five global organisations** - CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) – which have released a joint statement of Intent to work together to achieve comprehensive corporate reporting and disclosure standards based on the TCFD, leading to integrated sustainability and financial disclosure. Should this commitment prove successful in establishing a robust reporting framework that adds further value to that developed by the EU and TCFD, the Commission should give it due consideration when developing its own standards.

**Within the United States, the Commission should create an interagency platform that promotes collaboration and allows for alignment on climate-related matters pertaining to disclosures.** In May 2021, President Biden issued an Executive Order on Climate Change Financial Risk, with responsibilities for Treasury, the Office of Management and Budget, and the Financial Stability Oversight Council and its constituent agencies<sup>15</sup>. Among the significant aspects of this new Executive Order are initiatives to ensure alignment to identify, measure, mitigate and disclose climate change financial risk; the Commission should therefore provide the platform for similar engagement to take place, and incorporate the views of the Federal Reserve System and other key organisations.

**Finally and most notably, the Commission should seize this moment to position itself as a leader in driving high standards of climate disclosure and climate action at a global level:** we have now seen significant regulators in other markets incorporate the TCFD framework into their own minimum disclosure regulations, including Canada, the European Union, Japan, Singapore and South Africa. New Zealand and the United Kingdom are mandating climate risk disclosures in line with the TCFD by 2023 and 2025 respectively. As the TCFD framework gains currency in a growing number of jurisdictions, there is an historic opportunity for the US to advance disclosure regulation to a tipping point, thus making it the *de facto* global norm that all other countries, including some of the world's largest emitters, will be hard-pressed to ignore.

#### ***Question 6 – Updates and developments over time?***

*How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?*

**The Commission should adopt a dynamic approach to releasing updates to its guidance, because of the relative newness of, rapid evolution of best practice in, this area of reporting.** As noted above, with the

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<sup>15</sup> The White House, *Executive Order on Climate Related Financial Risk*, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/>

notable exception of harmonisation across the EU27 thanks to the NFRD, there is a lack of standardisation across national markets, and a multiplicity of voluntary reporting standards. This stands in the way of effective, efficient reporting, creates needless confusion for both issuers and investors, and undermines the efficiency of the financial markets. It also undermines competition across national borders, as business rivals in different jurisdictions are held to different standards of transparency. Consistent, comparable, reliable information, released in machine-readable form wherever possible, is key to overcoming these challenges. The Commission should seek to drive continuous improvement in reporting standards through the release of timely periodic updates to the guidance.

**Once fully established, the International Sustainability Standards Board, under the governance of the International Accounting Standards Board<sup>16</sup> (IASB), will likely come to be regarded as the leading international standards body responsible for the development of climate change disclosure requirements. The Commission should therefore monitor its progress, and be a strong voice for both continuous improvement and maximum convergence.** The ISSB<sup>17</sup> that will be formed in response to the IFRS Foundation's Trustees' Consultation Paper and Feedback, will operate under the IASB, and with the appropriate governance structures and continued broad stakeholder engagement, will be best positioned to develop consistent, comparable, and reliable climate/sustainability disclosure standards at national and regional level.

#### ***Question 7 – Where to require disclosure?***

*What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?*

The Commission should require a combined approach that embeds climate reporting in all existing financial disclosure, and complements it with reporting on specific indicators as outlined in Question 2 above. Effective from 2028, both sets of disclosures should be filed with the Commission.

The Commission should require that all company disclosures be evaluated with, and therefore fully incorporate, a climate lens. Companies should be required to ensure that core financial disclosures reflect a proper assessment of the short, medium and long-term implications of climate change, in terms of both transition and adaptation, how they might impact their corporate strategies and capital investment priorities, and if so, to include an evaluation and monetisation of such impacts.

#### ***Question 8 – Internal governance disclosure?***

*How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?*

**The Commission should require disclosure of the internal governance of climate-related issues, as set out by the TCFD framework. This should include details on the functioning of both the board of directors and executive management.**

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<sup>16</sup> The IASB is the independent accounting standard-setting body of the IFRS Foundation, and has the controls and measures in place to retain its focus on critical reporting topics across borders. The International Organization of Securities Commissions has a significant role in the endorsement and oversight of international accounting standard-setting by the IASB, further strengthening the Board's governance and stakeholder engagement.

<sup>17</sup> Momentum towards the creation of a comprehensive, holistic, global system for disclosure continues to build. Announcements from the IFRS Foundation's strategic direction for sustainability reporting and the 500ation of EFRAG's (European Financial Reporting Advisory Group) final reports on possible EU non-financial reporting standards, are the latest developments signalling the urgent demand for convergence and consistency in reporting. The EFRAG has stated that a building block approach will be required and that convergence and collaboration with existing initiatives will be vital, referencing the work initiated by CDP, CDSB, GRI, IIRC and SASB towards convergence. EFRAG's mission is to ensure European views are properly considered in the IASB's standard-setting process and in related international debates, therefore the Group is expected to be involved in the ISSB standard-setting process reinforcing the ISSB as an international standard. .

In our experience, factors and processes that are the subject of mandatory disclosure are seen by boards and top management to be of vital importance. Disclosure of the internal governance measures that have been adopted enables investors to see what measures the board is taking to: place climate change at the top of the board's agenda; ensure an integrated approach across all aspects of board and committee decision-making; and drive the execution of a climate transition strategy that is integrated across all aspects of the business, including strategy, culture, human capital development, finance, risk, audit, remuneration and external engagement with investors, policy-makers and stakeholders. This in turn allows investors to assess the effectiveness with which the company is responding and adapting to the climate emergency.

Under the recommendations of the governance pillar of TCFD, companies must:

- describe the board's oversight of climate-related risks and opportunities; and
- describe management's role in assessing and managing climate-related risks and opportunities.

**With respect to the specific question of executive remuneration, the Commission should require that boards adopt and disclose a set of policies that align both annual bonuses and long-term incentive plans with robust performance targets tied to their companies' climate transition strategies.** This means that disclosure should include Key Performance Indicators (KPIs) that link annual bonuses to operational improvements, such as annual reductions in greenhouse gas emission, improvements in energy efficiency, reduction in leaks of high-potency greenhouse gases; as well as KPIs that link long-term incentive packages to specific milestones laid out in their companies' climate transition roadmap, such as new industrial capacity in areas of innovation, progress against medium and long-term targets that reshape the portfolio of products and services, M&A activity to accelerate the rebalancing of the business model, etc.

The [\*Guiding Principles for Climate Change Governance on Corporate Boards\*](#), published by the World Economic Forum, aim to foster effective climate governance on corporate boards and help non-executive directors improve their mastery of all relevant aspects of climate governance includes amongst others recognition of the importance of financial reporting as a key area in board decision-making.

#### ***Question 9 – Global standards and Commission requirements?***

*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?*

**The Commission should play a leading role in driving the emergence of a single set of global and internationally recognised, mandatory standards, applicable to companies operating around the world;** this has been consistently expressed by our members. In the response to question 3, we set out some of the many disadvantages of the current proliferation of reporting and disclosure standards.

As noted in response to question 5, we stated our strong recommendation that the Commission's disclosure requirements build on and complement the TCFD recommendations, and align as much as possible with the EU NFRD and CSRD.

#### ***Question 10 – Enforcement, assurance and audit?***

*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?*

**The Commission should require companies to apply the same standard of audit to climate change disclosures as is employed for the financial statements.** The climate information must reflect the true, fair and balanced state of the business, by considering both the impacts of the company on stakeholders and the environment, the impacts on the company from its exposure to external factors such as extreme weather events, and its exposure to regulatory, technological, reputational and litigation risks, such that they can be evaluated with the same rigour as that applied to financial statements. The Commission should therefore treat climate information as being as relevant to users and stakeholders as the financial information, and should require that it be subject to the same challenge and be given the same level of priority to ensure its integrity.

In the earlier stages, climate disclosure will inform many inputs in the financial statements and accounts, and the long-term performance and viability of the business. As it matures into an integral part of the business' strategy, it will become impossible to separate it from financial reporting. Therefore, both should be subject to the same level of assurance from the earliest opportunity.

The many business leaders within our forum who rely on the assurance provided by external auditors to test the integrity of their companies' reporting, and thereby make informed decisions, agree that a multi-faceted opinion that evaluates and, if necessary, incorporates, climate change as a key audit matter is essential for the audit opinion to be valid. A lesser level of assurance may result in insufficiently challenged inputs, thereby misstating the financials.

Finally, a siloed approach involving two separate assurance exercises in climate change/sustainability on the one hand and financial reporting on the other cannot result in comprehensive consideration of these ubiquitous and often interdependent sets of risk. Alternatively, they could result in duplication of efforts, where external auditors re-evaluate the sustainability information to understand the implications for their engagement, potentially reaching inconsistent conclusions.

**With regard to enforcement, the Commission should apply the same sanctions as for existing rules (such as Regulation S-K or S-X).**

***Question 11 – Other measures to ensure reliability?***

*Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?*

**The Commission should leverage the strong systems that already exist through the Sarbanes-Oxley Act to ensure effective financial oversight to incorporate oversight of the integrity of climate reporting, and require annual certification by the CEO in the financial statements of the company's climate disclosures.** Through the adoption of the Sarbanes-Oxley Act, the US has developed a robust oversight and enforcement regime to maintain the integrity of internal controls over financial reporting. This has significantly elevated the attention of top management and boards to proper governance, and positioned the US as a global leader in defining and enforcing rigorous standards. The Commission should seize this opportunity to drive this same level of rigour and global leadership in the area of climate governance and disclosure.

As climate reporting matures, and in the spirit of maintaining a dynamic approach to issuing timely updates to its guidance, the Commission should keep under review the possibility of incorporating oversight of not just climate disclosure, but the overall architecture of climate governance, including a requirement for CEO certification.

***Question 12 – Comply or explain?***

*What are the advantages and disadvantages of a "comply or explain" framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?*

**The Commission should frame its guidance as mandatory, and state unequivocally that it recommends full compliance on grounds this will provide consistency, reliability and improved decision-making.** However, there will inevitably be certain occasions on which a single common disclosure standard may be inapplicable, or produce illogical or misleading information. The Commission should allow the possibility for companies, in very limited circumstances, to present alternative performance measures that deviate from the required standard, provided they are accompanied by a reconciliation to the prescribed disclosure and a fulsome explanation.

***Question 13 - Rules on disclosure of discussion and analysis?***

*How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?*

**The Commission should require companies to produce robust narrative reporting that details their roadmap to carbon neutrality across their entire value chain (Scopes 1, 2 and 3 emissions) by 2050 or earlier.** As noted in our response to Question 2 above, corporate disclosure must include both quantitative and qualitative reporting. The latter should explain clearly the goals companies have set and the specific actions they will take to support their achievement by recasting their business models and positioning them for resilience and success in a zero-carbon economic system. Companies should outline the significant milestones that will be achieved on that pathway, and explain how they are driving change across their organisations by reshaping corporate culture, building new skills, redesigning incentive systems, and engaging with key stakeholders such as suppliers, partners and customers to enlist them in the necessary transformation. Without such narrative disclosure, there is a danger that the data will be presented for their own sake, devoid of proper explanation of their significance in supporting the underlying transformation strategy.

**The Commission should require companies to include such disclosures in the MD&A,** thus ensuring that they will be accorded the same level of scrutiny and quality control as other decision-critical information destined for investors. Some of this content will consist of actions taken and results achieved within the usual near-term reporting cycle, insofar as they specifically address matters related to supporting the early stages of the companies' transformation. However, much of this content will address medium and long-term actions, i.e., extending over three decades, and as such, the nature of the MD&A will necessarily change to reflect the new orientation of companies and their boards towards longer-term planning. As noted in our response to Question 2 on Materiality, the new MD&A should report on actions whose impacts meet an enhanced definition of materiality that extends over a longer time horizon and takes a holistic view of both outside-in and inside-out value drivers as time progresses.

***Question 14 - Private companies?***

*What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?*

**The Commission should, to the extent its mandate permits, seek to apply the same disclosure standards to private companies under its purview as it does to public companies.** Climate change represents an existential challenge of unprecedented historic urgency. It will require the active collaboration of all parties across business, government and civil society to overcome it successfully, and as such, the ownership structure of companies is irrelevant to their responsibility to be transparent, accountable and proactive.

**The Commission should, in the spirit of maximum alignment with other leading jurisdictions, apply reporting requirements** on investment advisors and funds that are consistent with those applied to listed banks, insurers and asset managers, per our response to Question 2 above, irrespective of size. The EU's newly proposed CSRD applies specific disclosure standards to banks, regardless of size, so the Commission should seek to align itself with that standard to the greatest extent possible.



### **Question 15 – Wider ESG disclosures?**

*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?*

**The Commission should begin by prioritising the development of a robust framework for climate change.** Climate issues are rightly at the top of the public agenda, because of the extreme damage that failure to take urgent action will cause, not only to enterprise value and the broader economy, but to the very safety of the planet, its natural ecosystems and its people. It is therefore essential to make swift progress in regulating disclosures in this area. Once this first all-important phase has been completed, the Commission should turn its attention to the broader array of ESG issues that have the potential to drive enterprise value, global economic and financial stability and social cohesion.

**As part of this first phase, the Commission should define the climate challenge in a holistic manner, in recognition of the fact that companies’ exposure to, and management of, water security and impacts on forests have a direct bearing on the delivery of climate goals, especially at a systemic level.** As with other areas, companies will be subject to both the impacts *on* their business from water stress and ecosystems degradation – the so-called “outside-in” impacts – and the impacts *from* their business on water systems and forests, a.k.a. “inside-out” impacts. The former lend themselves to being assessed using a conventional definition of materiality; the latter are captured through the application of the Double Materiality standard, insofar as at a cumulative level, they contribute, in many cases substantially, to impacts on the integrity of the broader natural and economic ecosystem.

**With regard to the impacts *felt by* companies, the Commission should require companies in sectors with a high probability of value-chain links to forest loss and degradation to make disclosures that fully explain their exposure to such risks, and the mitigation measures taken to minimise them.** In so doing, companies should ensure that their disclosures regarding climate scenario analyses capture the impacts over time of continued forest loss and degradation. This will be particularly important in sectors using agricultural commodities and timber, which may be affected by local changes to, for example, rainfall, erosion and decreased productivity resulting from local or regional deforestation.

**The Commission should likewise require companies that are vulnerable to water stress, flooding, water pollution, and other water-related impacts caused by climate-induced physical risks, to ensure their disclosures of climate scenario analyses include clear reference to such risks, and the mitigation measures taken to minimise them.** Affected sectors would include, among others, the agri-food value chain, apparel, energy, chemicals, pharmaceuticals, IT hardware and mining.

**With regard to the impacts *caused by* companies on forest loss and degradation, the Commission should require companies that have, or are likely to have, significant such impacts, either directly or via their supply chains, to disclose their management of forest impacts, using a framework based on that used by CDP Forests<sup>18</sup>.** Poor levels of disclosure in these areas result in risks and impacts not being properly understood, much less managed effectively. Conversely, by imposing robust disclosure requirements in this area, the Commission will shine a light on this important component of the fight against climate change, and help ensure that companies make the appropriate investments to minimise the causes and impacts of forest loss and ecosystems degradation. Companies involved in the production and consumption of agricultural commodities, particularly cattle products, palm oil, soy, timber products, natural

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<sup>18</sup> CDP Forests uses 15 KPIs in 6 categories of industry-accepted measures to reduce deforestation. The first four categories map directly onto TCFD pillars:

- Governance – *board-level oversight* of forest-related issues, publicly available company-wide *policy* of no deforestation, and robust public *commitments* to no-deforestation that cover 100% supply and are set to be completed by 2030.
- Strategy – forest issues fully integrated into all parts of long-term strategic business plans
- Risk management – comprehensive forest-related risk assessments
- Measuring and targets – targets, certification, traceability, compliance (control monitor and verify compliance with policies and commitments) and legal compliance.

rubber, cocoa and coffee, as well as industrial activities such as mining, minerals, and pulp and paper, are among those with the greatest such impacts, and should disclose them throughout their value chain<sup>19</sup>.

**The Commission should work with existing actors in the area of forest impact management and reporting to develop appropriate disclosure requirements and to clarify criteria for inclusion in disclosure requirements.** These actors include CDP, the Accountability Framework initiative (AFi)<sup>20</sup>, the New York Declaration on Forests (NYDF) Assessment Partners<sup>21</sup>, and the Roundtable on Sustainable Palm Oil. The CDP Forests reporting framework is based on the TCFD key pillars and we suggest the Commission consider basing its own disclosure requirements on the CDP framework for that reason.

**The Commission should require that disclosure on forests include company policies and practices on the acquisition and conversion of land (whether directly by them or by others in their value chain) prior to carrying out their business activities,** as well as land management practices during the production of such commodities. The Commission should seek to align its standards with the requirements of the forthcoming Deforestation-Free Procurement legislation in the states of New York and California. The Commission should also ensure that disclosures apply to the whole value chain, and specifically cover:

- Corporate policies and targets on the acquisition of land, deforestation and forest degradation;<sup>22</sup>
- The governance procedures in place to ensure oversight and implementation of, and compliance, with these policies;
- The geographic scale at which land acquisition, ownership or management data have been collected and reviewed, and on which this assessment is based;<sup>23</sup>

**The Commission should work with CDP, CEO Water Mandate, GRI (Global Reporting Initiative) and other actors working on corporate water management and reporting to develop appropriate disclosure requirements, and to arrive at a common definition of the criteria for determining which companies or industries should be covered by more detailed disclosure requirements.** We would expect this to lead to the Commission requiring further detailed disclosures from those companies with exposure to significant water-related risks, whether directly or in their value chain. This would include companies in agri-food and beverage production and processing, apparel, chemicals, mining and metals, and semiconductors industries, and those in turn that depend on these sectors for their own supply chains, e.g. food retailers, hospitality, clothing retailers, households products, automotive and others that are heavily reliant on water as a key input into their production processes. We would expect the Commission to require these companies to disclose their interactions with water as a shared resource, and how they are managing impacts related to water discharge, and suggest that these disclosures are based on the approach developed by GRI<sup>24</sup>.

**The Commission should take a building block approach to developing its new reporting standards. Once a robust and comprehensive climate disclosure framework has been established that captures the above-noted interdependencies between Climate, Water and Forests, the Commission should develop a wider set of reporting standards that encompass the full range of environmental, social and governance matters.** When boards and other users of the information endeavour to make decisions, information that provides only a single focused perspective is not adequate and can be misleading. In particular, if the full range of sustainability factors is not considered in a holistic and integrated manner, there

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<sup>19</sup> Almost a quarter of global carbon emissions are generated from agriculture, deforestation and other forms of land use, with the global loss of tropical forests contributing 10% of annual emissions. Agricultural commodities and timber are the leading drivers of forest loss and degradation; more than half of all global forest loss associated with agriculture between 2001 to 2015 was due to the production and consumption of just seven commodities - cattle products, palm oil, soy, timber products, natural rubber, cocoa and coffee. Over 72 million hectares of forests were lost to make way for their production. WRI. (2020). Global Forests Review. <https://research.wri.org/gfr/forest-extent-indicators/deforestation-agriculture>

<sup>20</sup> The Accountability Framework initiative (AFi) is a collaborative effort to build and scale up ethical supply chains for agricultural and forestry products. <https://accountability-framework.org/>

<sup>21</sup> The NYDF is a voluntary initiative that brings together governments, companies, civil society and other stakeholders to work collaboratively towards ending deforestation by 2030. NYDF Progress Assessment Partners is an independent monitoring effort undertaken by a group of NGOs and research institutions that annually assess progress toward the NYDF.

<sup>22</sup> Using definitions set out by the Afi available at <https://accountability-framework.org/the-framework/contents/definitions/>

<sup>23</sup> Compliance with the proposed Deforestation-free Procurement legislation in California and New York states will require traceability of forest-risk supply chains "to the smallest administrative unit" (the ranch or plantation)

<sup>24</sup> GRI's disclosure framework 303: Water and Effluents 2018 covers the management of water sourcing, consumption and discharge, identification of impacts, goals, stakeholder engagement and the wider water context, in both geographic and public policy terms. It also covers water discharges, including effluent quality and standards and again the wider water context for these operations. Available at <https://www.globalreporting.org/how-to-use-the-gri-standards/resource-center/>

is the potential for blind spots, and therefore for decisions to be made that fail to achieve the right balance between all affected stakeholders, and have negative impacts on other parts of the planet, its people and/or profit.

**The Commission should require companies in specific sectors to report on a set of indicators related to Human Capital.** A key determinant of the efficiency and effectiveness of a company's transition to a low-carbon business model will be how impact on people, including employees, communities and suppliers, are managed. Transparency around such climate-related social indicators, and specifically the measures taken to reskill and redeploy employees, is paramount, and will impact enterprise value and broader systemic social stability. Companies should therefore disclose figures detailing:

- The number of new recruits, in absolute terms and relative to total workforce, who bring in new skillsets to reposition the company for a successful transition;
- The number of current employees, both absolute and relative, who are undergoing retraining and reskilling;
- The number of employees, absolute and relative, who have been transitioned into early retirement;
- The number of employees who have been made redundant.

The costs and investments associated with each of these measures should also be disclosed, along with a forward-looking statement about how this will benefit the company's transition process.

**As with climate reporting, the Commission should promote a comprehensive approach that emphasises a holistic, strategic consideration of sustainability matters and considers the full impact of business on the planet, its people and biodiversity in the medium to long term.**

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