June 11, 2021

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

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler:

The Structured Finance Association ("SFA") thanks the Securities and Exchange Commission ("SEC") for the opportunity to provide feedback on the March 15, 2021 Request for Comment ("RFC") on climate change disclosures. While the SEC's primary focus is on public registrants broadly, our comments will only be focused on climate change disclosures as they pertain to public securitization issuances.

As an association representing participants across the entire value chain of the securitization market—including lenders, bond issuers, investors, financial intermediaries, credit rating agencies, law firms, accounting firms, technology firms, servicers, and trustees—SFA plays a vital role in the development of consensus solutions that support efficient and stable markets.[1] While our members often have conflicting views and conflicting interests, our governance structure requires consensus from all stakeholder groups before taking an advocacy position on legislative or regulatory matters. As such, when we do provide feedback, we do so in a manner that reflects the view of the entire market ecosystem.

In line with the SEC's observations in the RFC, our members across the securitization industry have expressed a growing desire to develop consistent, comparable, and reliable disclosures and the underlying Environmental, Social, and Governance ("ESG") frameworks for each of the asset class sectors represented in the securitization markets. This includes disclosures related to climate change.

[1] SFA is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFA provides an inclusive network for securitization professionals to collaborate and, as industry leaders, to drive necessary changes, to be advocates for the securitization community, to share best practices and innovative ideas, and to educate industry members through conferences and other programs. Further information can be found at www.structuredfinance.org.

In a survey of market participants across structured finance[2], SFA found that 81% of securitization issuer respondents incorporate ESG into their overall corporate operations(see: *Figure 3*), and 73% do so within their asset origination and underwriting practices (see: *Figure 4*). Moreover, while only 13% of issuer respondents currently sponsor an ESG-focused securitization program, 43% indicated that they are in the process of developing one (see: *Figure 5*).

Fig. 3: ESG Factors in Overall Corporate Operations

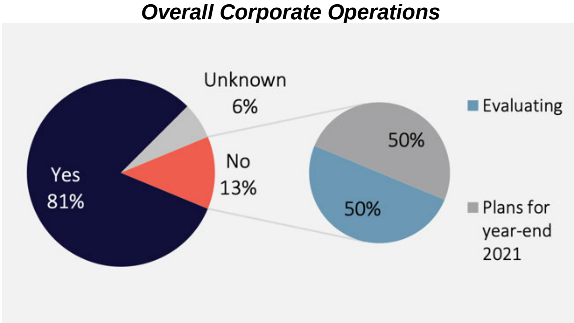


Fig 4: ESG Considerations in Asset Origination and Underwriting Practices

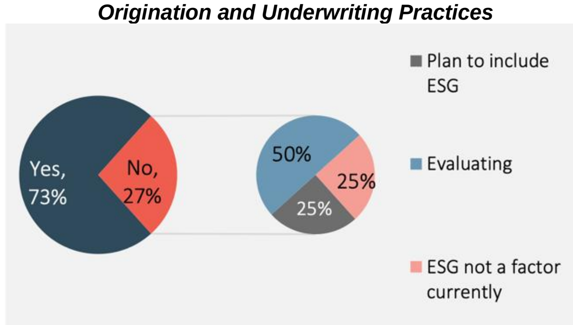
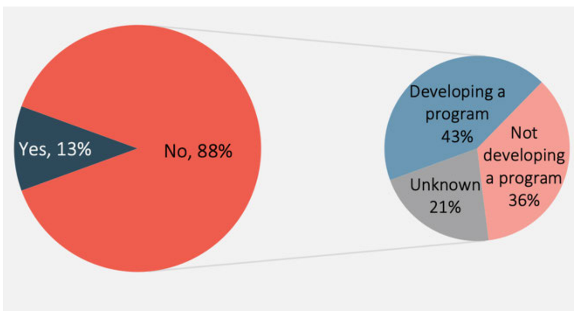


Fig. 5: Issuers Currently Sponsoring ESG-Focused Securitization Program

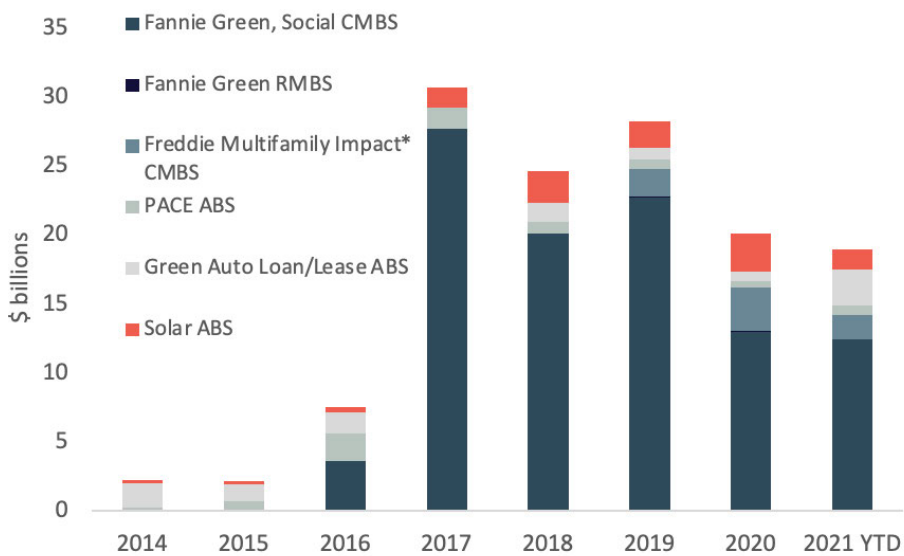


Source: Structured Finance Association

As shown in the chart below, the Government Agencies are leading the way in ESG securitizations with a marked increase in total volume and diversification of issuance programs in recent years. Although Agency CMBS Green deals, the largest category of ESG Securitization issuance at present, declined in 2020 following a revision their regulator made in how green lending was accounted for in their lending limits, we expect to see new ESG securitization programs from a variety of new participants brought to market in 2021 and 2022 as SFA members continue to make progress on our ongoing initiative to establish standard ESG disclosure frameworks starting with the largest asset classes in the securitization market, as discussed further below.

[2] Survey participants voluntarily responded. Thus, there may be a self-selection bias in the results leading to the potential that those that responded to the survey may differ from the overall market as a whole.

Figure 4: ESG Securitizations
2014 to 2021 YTD: $135 billion



**Includes Green, Social and Sustainability*
Source Fannie Mae, Freddie Mac, SFA Market Compilation

To-date, securitization industry participants have frequently created their own frameworks for establishing, measuring, disclosing, and reporting data regarding ESG objectives. While these efforts reflect positively on the industry's willingness to meet rapidly growing demand, we have observed a lack of uniformity and standardization that risks hampering the ultimate goals represented by such efforts. While ESG disclosures—particularly disclosure related to climate change and the environment—have gained traction in recent years, such disclosures in the securitization industry are not yet as widespread as they are in the corporate debt or equities markets. This is evident in, among other things, the work done by third-party ESG validator firms, which have made substantial progress in establishing frameworks to evaluate corporate offerings, but which have only recently begun the important work of establishing similar frameworks for securitization offerings. Nevertheless, we are observing issuance of ESG securitizations with assets originated in accordance with self-certified parameters related climate change. Indeed, investor demand for green deals backed by newly-originated green assets so far outpaces supply that legacy deals backed by green assets are seeing increased demand.

The reasons why ESG-transactions within the securitization markets have lagged corporate debt and equities markets reflect the differing nature of the issuance and the structure of the issuing entities. In the case of corporate debt or equity issuance that does not designate proceeds from issuance to specific uses, ESG factors can be assessed by looking holistically at the issuer across various data points to evaluate ESG objectives or grant an ESG 'score' or 'rating' based on available inputs. In these cases, issuers are actively led by boards and executives making decisions on an ongoing basis, which include decisions and policies related to climate change. By comparison, issuers in securitizations are bankruptcy-remote special purpose entities that perform only those activities specified in the governing documents for their transactions. It is important to note that it is precisely this structure of securitizations that makes it such an attractive source of fixed income investment, and climate disclosures should seek to work within this existing market framework.

Additionally, the kind of analysis that measures ESG objectives within corporate issuance is different than the measures for securitization issuance, which will include an assessment of the assets as well as the origination and/or servicing practices for the assets. Moreover, such ratings will vary from asset class to asset class, as the relevant assets will be subjected to different ESG analyses. Finally, an ESG rating of a securitization may factor in the ESG rating of a sponsor or servicer, thereby necessitating that an ESG rating for an institution come before an ESG rating for a securitization rating sponsored or serviced by that institution.

Within the securitization markets, nascent developments in ESG standardization are beginning to emerge, but substantial work remains to be done before an effective ESG regulatory regime can be successfully implemented. While ESG and climate disclosure frameworks for corporate debt and equity markets can inform the development of ESG and climate disclosure frameworks for securitization markets, care must be taken to recognize that these are different markets with different investors, and thus requires an approach tailored to securitization markets. Much as Regulation AB mandates disclosures tailored for different asset classes, a similarly customized approach for ESG and climate disclosure by asset-class may be appropriate for the securitization markets.

Resolving these questions and issues are central to establishing a workable ESG framework for securitization markets. For this reason and to meet the market participant's demand for standard, comparable disclosure for climate and other ESG-related securitization investments, SFA established an ESG initiative with asset-class task forces designed to proactively develop these frameworks through our industry-wide membership and consensus-driven governance. In doing so, we are meeting the market's demand for originations of these kinds of assets and securities, and in deepening investors' understanding and analysis of assets and securities with a climate-positive impact.

Importantly, we seek to avoid - on the one hand - the risk of lax standards which may result in "greenwashing", and - on the other hand - overly rigid standards which risk undermining the development of this nascent market. Somewhere between these extremes, we believe a clear, consistent, and standardized framework for climate disclosure used in securitization offerings is possible, and given the progress made by SFA and our members, we believe that we can develop such a framework over the next 18-24 months.

In response to the RFC, SFA makes the following recommendations to the SEC.

1) Establish a principles-based approach to the goals of climate disclosure.

Before establishing metrics or criteria or reporting standards, the SEC should first establish the overarching objectives of climate disclosure, doing so in consultation with market participants and taking into account comments received in any formal rulemaking. These objectives should be enumerated as principles which will inform how market participants determine which specific data or other disclosures should be provided in connection with any new issuance. This is especially important as climate change-related data is often complex and evolving. Moreover, for securitization transactions some climate-related data is not currently collected at the time of asset origination—or may not yet exist— so establishing principles will help inform market participants on the kinds of data they should collect and report.

2) Leverage existing standards, while tailoring them to the securitization markets.

Since some climate-related disclosure standards and frameworks exist for corporate debt and equity securities, the availability of such data in a standardized format may serve as a natural starting point for what similar standards might look like for securitization. However, rather than simply taking a wholesale approach to adopting other disclosure regimes, it is imperative to tailor the requirements to the unique structures and underlying assets of a securitization issuance. Accordingly, the SEC should work with securitization market participants to establish any new rules or guidance so that they reflect how securitization markets operate.

In the case of securitization, any such new rules or guidance must consider the unique structure of asset-backed securities where the investor is insulated from the corporate credit risk of the sponsor that originated or acquired the underlying assets that are the primary source of repayment to the investors. Therefore, climate risk must be evaluated at both the transaction level and the collateral level. For example, at the transaction level investors may evaluate the purpose of the investment (Green CMBS or Electric Auto ABS) whereas at the collateral level investors may evaluate energy efficiency levels, GHG emissions or the source of power generation (solar-powered vs electric home or auto).

Also, the securitization market is comprised of a diverse set of asset classes where the applicability of certain climate data will vary greatly between asset classes – similar to certain Reg AB disclosure requirement across different asset classes. ESG and climate change standards should appropriately reflect aspects unique to each asset class. For instance, specific climate-change related disclosure requirements for an auto securitization should be different from those for a solar securitization. Furthermore, a credit card securitization may find minimal climate change-related data that is material or useful to investors.

Therefore, the SEC should account for the variances that exists between the corporate and securitization markets as well as the variances that exists between securitization asset classes to tailor an approach that works for the securitization markets so that these markets can continue to provide a crucial source of financing for homeowners, businesses, students, and consumers.

3) Create a phased-in approach over time.

Although the securitization market has a quickly growing demand for climate-related investment opportunities, the market for such issuances is still in a nascent stage with volumes constituting a small fraction of the corporate debt and equity markets. As discussed above, this is in large part due to the inherent structure of a securitization investment that requires a framework that not only addresses material climate disclosure related to the issuing entity but, very importantly, also disclosure related to the underlying assets backing the investment and potentially disclosure related to other material transaction parties such as the servicer. As a result, establishing a securitization ESG framework is far more involved and a natural extension of the ESG disclosure frameworks developing for the equity and corporate debt and equity markets.

Accordingly, we believe it is premature to scope in securitization issuers to provide corporate climate disclosure requirements at this stage, and instead would recommend that the SEC allow SFA and the securitization industry an 18–24 month timeframe to develop market consensus disclosure frameworks for securitization.

While objective standards in reporting and disclosure should be the goal, the process by which policymakers arrive at that goal is just as important. Overly prescriptive rules that come into existence before the securitization industry coalesces around them risks hampering the development of the green securitization market to the point where there is no issuance at all. SFA looks forward to being part of that process to promote the development of robust green and other ESG securitization markets and appreciates the opportunity to provide the foregoing comments. Should you wish to discuss any matters addressed in this letter further, please contact me at [redacted] or at [redacted].

Respectfully submitted,

Michael Bright
CEO
Structured Finance Association