Manulife Investment Management

Filed Electronically

June 11, 2021

Ms. Vanessa Countryman
Secretary
US Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

RE: Public input on climate change disclosures

Dear Ms. Countryman:

As an investment manager with over US$480 billion in institutional assets under management, Manulife Investment Management welcomes the SEC's invitation for comments on climate change disclosures.[1] As an investment manager of both public and private markets, our comments are applicable to both markets. In that context, our use of "issuers" is inclusive of both issuers of public securities and sellers of private market assets. We understand that climate change poses significant physical and transition risks to securities issuers around the globe at an accelerating pace over the coming decades.[2] This is why we were founding members of the Climate Action 100+ investor initiative, are generally supportive of the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainable Accounting Standards Board (SASB) disclosure frameworks, and continue to strive to incorporate climate data and risk projections into our investment processes. Our ability to consider climate risk across our client portfolios, however, is limited by the data available from the issuers in which we invest. Fundamentally, this gap in data and information is why we generally support the SEC's action in this area.

Mandate disclosures

We are currently operating in an environment with multiple standards, inconsistent information, and lack of any information in some instances. To properly evaluate investment options and investment performance, we need information that is comparable, as much as possible, from issuer to issuer and investment opportunity to investment opportunity. A "comply or explain" model may solve the problem of lack of information by encouraging firms to disclose some relevant data, but it would likely not address the issue of comparability across an investment universe, sector, or industry given a high range of variability in these regimes.

Comply or explain frameworks also tend to grant boards of directors wide discretion in terms of what to report, how to report, and whether to comply. These regimes, therefore, add weight to the shareholder

[1] Manulife Investment Management is a global investment manager with a history of over 130 years developing financial solutions for clients, including over 120 years operating in Asia. We are a steward of financial assets across 17 distinct geographies. Assets under management (AUM) from the Manulife statistical information package, as of December 31, 2020. AUM converted from CAD$580 billion as of June 7, 2021. AUM includes assets managed by the institutional asset management arm of Manulife Investment Management on behalf of external clients, the insurance business, and other affiliated businesses, as well as US$274 million (converted from CAD$332 million as of June 7, 2021) of unfunded committed capital of Manulife Investment Management Private Markets (US) LLC. The methodologies used to compile the total AUM are subject to change and may not reflect regulatory AUM as reported on certain affiliates' Form ADV.

[2] *See, e.g.* "Managing Climate Risk in the U.S. Financial System," Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission, 2020. (Climate change will affect multiple sectors, geographies, and assets in the United States, sometimes simultaneously and within a short timeframe.)

burden of evaluating management teams. Shareholders in a comply or explain system must assess whether management is a trustworthy gatekeeper of information and/or engage with an issuer to change practices or improve reporting. Mandated disclosure eliminates this cost on investors by requiring standardized disclosures that are comparable across issuers.

The lack of standardized reporting and large gaps in information has added significant cost for investment managers. Investment managers must either dedicate significant internal resources to aggregating and standardizing information as best as possible, pay various vendors to provide data and assessments, or, in many cases, both. Beyond the cost of data gathering is the fact that the current state of engagement between shareholders and issuers is largely focused on encouraging issuer disclosure of information rather than actual understanding and management of the underlying sustainability risk adjusted return profile of a given issuer.

Mandated reporting would create a comparable, standardized dataset that would enable all investors to assess investment options and investment performance on material sustainability factors across investment universes and portfolios. Simultaneously, mandated reporting eliminates the need for shareholders to assess the trustworthiness of management teams and the costs associated with engaging with issuers to encourage improved disclosure. Finally, a mandated reporting scheme quickly moves the shareholder/issuer engagement from a focus on disclosure to actual management and performance of sustainability factors leading to better, more informed, investment decisions. We recommend, therefore, that as the SEC identifies relevant, financially material, reporting metrics (preferably by sector as we discuss below) that the commission also mandates reporting on those metrics.

Focus on financial materiality

We encourage the SEC to focus on data that is financially material for investors. As an investment manager, we are looking for any information that is decision-useful in our investment processes. Nonfinancial information is decision-useful if it bears significantly on company strategy, business model, revenues, expenses, cost of capital, or general risk profile as these are all factors we review when making investment decisions. While some existing frameworks may consider factors beyond economic or financial connections, we support reporting of data that will aid us as we seek risk adjusted returns for clients in individual investments and portfolios.

We encourage the commission to build in flexibility to any reporting scheme that will allow amendments to existing requirements and the addition of new reporting requirements in the future. Our understanding of climate risks, opportunities, and impacts continues to develop, and any disclosure framework should, under the proper expertise and guidance, routinely reconsider what information is, and is not, financially material. Indeed, beyond climate risks, we would welcome this type of structure for environmental, social, and governance disclosures generally. Taking gender diversity as an example, while gender composition at issuers was not considered a financially material data point in the past, there is now a growing body of evidence showing a connection between gender diversity and firm outperformance.[3] Any disclosure

[3] *See, e.g.* "Diversity wins: How inclusion matters " Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, McKinsey & Company. 2020. (Our 2019 analysis finds that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability than companies in the fourth quartile—up from 21% in 2017 and 15% in 2014.); "Board gender diversity and firm performance: The UK evidence," Sanjukta Brahma, Chioma Nwafor, Agyenim Boateng, 2020. ("Utilising two measures of firm performance, namely, Tobin's Q and ROA, our results show that gender diversity exerts a positive and significant effect on the financial performance. However, the positive effect on financial performance appears unequivocal and highly significant when three or more female are appointed to the board compared to lower levels of female board representation.")

framework should consider that the consensus and understanding around what information is financially material may change over time and that items that may not be financially material at present can become financially material over time.[4]

Indeed, this is a reason that outside expertise is critical to consider as the SEC builds out the reporting requirements. Climate science, and sustainability issues generally, require more broad expertise than the legal, accounting, and financial professions traditionally provide. We encourage the SEC, therefore, to consult with experts in a given subject area as they pursue disclosures on that matter. Considering climate disclosures as an example, climate scientists, academics, and those who have set existing standards are all stakeholders who would contribute significantly to a new framework.

Focus on climate

Climate change policy is accelerating quickly as more and more sovereign signatories to the Paris Agreement make commitments to a net-zero carbon emissions future and pass legislation and regulations to support those pledges.[5] Many of these commitments involve significantly reducing emissions by 2030.[6] Policies across the globe will proliferate over the next decade that will alter the capital markets landscape and place significant pressure on issuers to curtail emissions either voluntarily or, more likely, through regulatory action. The best metric we currently have to gauge exposure to this changing policy and operating environment is through greenhouse gas (GHG) emissions data and we recommend that the SEC mandate disclosure of scope 1 and scope 2 emissions from issuers for that reason. Scope 1 emissions are an issuer's direct GHG emissions from sources owned or controlled by the company while scope 2 emissions are those generated by energy purchased by an issuer.[7] These emissions are within the direct control of an issuer and an issuer should, therefore, be able to measure them.

Scope 3 emissions are those created from sources not owned or controlled by a firm (i.e., through supplier operations or customer use of issuer products and services) so an issuer's ability to influence those emissions may be diminished as compared to scope 1 and scope 2 emissions.[8] The current environment with patchwork reporting, lack of standards, and audit gaps creates a significant burden for any issuer attempting to take stock of its scope 3 emissions exposure. Scope 3 reporting, however, could be helpful to investors as reporting capabilities grow over the next decade. Scope 3 emissions could provide investors a window into supply chain vulnerabilities and expenses on the upstream side of a given business while providing insight into product demand on the downstream side. Balancing the lack of current emissions reporting structure with the fact that scope 3 data could aid investment analysis, we recommend that the SEC consider a phased-in approach for scope 3 emissions reporting over the next decade.

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[4] *See also,"* How ESG Issues Become Financially Material to Corporations and Their Investors*,"* David Freiberg, Jean Rogers, and George Serafeim, Harvard Business School, 2020. ("[M]ateriality is a dynamic concept evolving over time and as a result scenario analysis, forward looking assessments, alternative, industry specific data sets and new ways of measuring impacts are all helpful tools in identifying emerging issues … because of its dynamic nature we feel that ESG disclosure will be more difficult to regulate compared to financial disclosure. Regulators will need to be ready for a new more flexible, principles-based approach to regulating ESG disclosure and measurement.")

[5] *See* Energy & Climate Intelligence Unit: Net Zero Tracker, 2021. 34 nations have committed to achieve net-zero emissions as articulated through law, proposed regulation or policy while almost 150 are discussion adoption of a net-zero commitment.

[6] *See "*China's net zero future*,"* Hu-Min, Race to Zero, 2021. China's, the world's largest emitter, for example, has committed to achieve peak emissions before 2030 and carbon neutrality before 2060; "Biden commits to cutting U.S. emissions in half by 2030 as part of Paris climate pact " Josh Lederman and Denise Chow, NBC News, 2021. In announcing a commitment to halve emissions by 2030 and achieve net zero by 2050, President Biden noted, "[t]his is the decade we must make decisions that will avoid the worst consequences of the climate crisis."

[7] *See* "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard," Greenhouse Gas Protocol, 2004.

[8] *Id.*

While emissions data will help investors assess issuer risks and opportunities associated with a changing policy environment, investors also need better data covering exposure to physical risks associated with climate change. The physical risks of climate change, which include among other events extreme weather, infrastructure failures, crop yields, and sea level rise, are expected to manifest more frequently and on a more severe basis over the coming decade.[9] Information from issuers both qualitative and quantitative covering exposure to these physical risks in operations and through the supply chain will help investors evaluate the strength and resilience of a given issuer in the face of extreme events that become more probable over a longer investment horizon.

There is already a framework that helps issuers and investors think through both transition and physical risks associated with climate change in the reporting standards created by the TCFD. Indeed, the TCFD framework not only encourages disclosure of quantitative metrics and targets, but also reporting on governance, strategy, and risk management related to climate change risks and opportunities.[10] Perhaps the most innovative component of this framework is scenario analysis, which encourages issuers and investors to consider, "a set of scenarios (not just one) that covers a reasonable variety of future outcomes, both favorable and unfavorable."[11] The TCFD suggests issuers use scenarios that include operations in a policy environment focused on keeping warming below 2°C as compared to preindustrial levels and physical climate risk scenarios.[12] As an investment manager, we have found TCFD reports very helpful in evaluating climate risk and opportunity exposure and management at issuers we evaluate for our portfolios. We are also not alone in finding value in the TCFD model—the TCFD has over 2,000 supporters across 78 countries, representing almost $20 trillion in collective market capitalization and $175 trillion worth of managed assets at financial institutions.[13,14] Adopting a mandated reporting model in the United States similar to the TCFD would allow for quick action by the SEC, reduce costs associated with the development of a new framework, is already used by some U.S. issuers, and has demonstrated its value to investors.

Focus on human capital

Manulife Investment Management also encourages the SEC to review some high-level human capital reporting requirements. There is a growing body of evidence that firms with greater gender, racial, and ethnic diversity within leadership and management outperform their less diverse peers.[15] While the U.S. Equal Employment Opportunity Commission (EEOC) collects gender, racial, and ethnic workforce diversity data from many issuers using EE0-1 reports, those forms are only disclosed at the discretion of the issuer.[16] Most firms in the Russell 1000 Index, as a sample, do not disclose their EE0-1 reports to the market. A simple starting point for the SEC would be to collaborate with the EEOC to make these reports publicly available in a centralized database.

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[9] "Climate risk and response: Physical hazards and socioeconomic impacts " Jonathan Woetzel, Dickon Pinner, Hamid Samandari, Hauke Engel, Mekala Krishnan, Brodie Boland, and Carter Powis, McKinsey Global Institute, 2020.

[10] *See,* "Recommendations of the Task Force on Climate-related Financial Disclosures," TCFD, 2017.

[11] *Id.*

[12] *Id.* Also, we have seen some confusion in the market as to the purpose of scenario analysis–it is not intended as a predictive model, but as a risk analysis framework that facilitates strategic risk management evaluation and planning.

[13] *See,* TCFD Supporter Snapshot, Task Force on Climate-related Financial Disclosures, 2021.

[14] "Measuring what matters: the scramble to set standards for sustainable business," Sarah Murray, *Financial Times*, 2021. ("So far, more than 2,000 organisations have expressed their support for the TCFD's recommendations, including companies with a collective market capitalization of almost $20tn and financial institutions responsible for $175tn worth of assets.")

[15] *See* note 2 supra.

[16] https://www.eeoc.gov/employers/eeo-data-collections.

Manulife Investment Management generally supports disclosure of information using the SASB standards and framework. SASB has developed several human capital metrics that corporate professionals, investors, and subject matter experts determined were, "reasonably likely to materially impact financial performance of the typical company in [a given] industry."[17] SASB has determined that monetary losses from labor law violations or discrimination, accident and near-miss frequency rates, and gender/racial/ethnic representation for management, among other matters, can be financially material for a given industry.[18] We encourage the SEC to look at these standards when considering human capital disclosures.

Consider rolling out reporting standards by sector over time

Indeed, SASB provides a strong existing framework to potentially emulate as the SEC roles out additional nonfinancial reporting requirements in the future. While climate and human capital risks will generally touch all issuers in some way, the SASB standards wisely acknowledge that some significant nonfinancial risks and opportunities are unique to certain asset classes, sectors, and industries. Revenue generated from products marketed to promote health and well-being, for example, is a highly relevant data point in the food retail space that would allow investors to assess issuer exposure to a growing opportunity in that industry. That data point, however, is likely not financially relevant to most other sectors to a growing opportunity in the food retail space, while such data would not be relevant in most other sectors and industries outside food sales and distribution. In creating any framework, we suggest that the SEC also identify those industry-specific nonfinancial data points that are decision-useful for investors. We believe that SASB has already completed exemplary work in this regard.

Project-specific disclosure for fixed income

We review project-specific data when evaluating investment opportunities in fixed-income securities as the funds are often raised for distinct capital expenditures at an issuer with repayment tied to performance of that undertaking. For that reason, we strive to understand not just the sustainability risks and opportunities associated with a given issuer, but the unique sustainability profile of a given project as we evaluate the risk adjusted return profile on behalf of our clients. Projected GHG emissions at bond issuance, and then regular reporting on emissions through a given project lifecycle, for example, would help us evaluate the full risk profile associated with repayment of a fixed-income security. We encourage the SEC to consider project-specific disclosure for fixed-income issuances where applicable.

Require reporting through EDGAR in easily ingestible format

Manulife Investment Management is generally filing agnostic as to where sustainability information is reported provided that the information is available through a common database (e.g., EDGAR) and is in a format that is easily ingestible by existing systems and databases. We would like to avoid a reporting regime that permits issuers to report solely through sustainability reports or other documents on their individual websites. This type of fragmentation adds cost either in additional internal resources to find relevant information and ingest it or it requires outsourcing those tasks to a vendor and thereby incur associated service fees and costs. We would prefer reporting of relevant sustainability information by either requiring additional information in existing filings (e.g., 10-K, 10-Q, or DEF 14A) or through a new filing form as long as the data is available in a common location that is easily searchable by the market.

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[17] "Proposed Changes to the SASB Conceptual Framework & Rules of Procedure," Sustainability Accounting Standards Board, 2020.

[18] *See, e.g.* The SASB Materiality Map Sustainable Accounting Standards Board, 2021. (This matrix identifies the metrics by sector and industry across five dimensions (environment, social capital, human capital, business model & innovation, and leadership and governance) that are likely financially material to firm performance.)

Manulife Investment Management

Phase in reporting liability and audit requirements

Manulife Investment Management recognizes that many issuers are already disclosing climate data that is financially material for investors. While this is applauded and encouraged, we also recognized that other issuers will need a reasonable period of time to build measurement processes, controls, and databases as many issuers have not yet built functionality around nonfinancial reporting into their operations. For that reason, any additional reporting requirement should have a phase-in period of at least several years during which issuers are both allowed to correct any misreported data without penalty and are also exempted from liability for those reporting errors.

While an ideal future state would also require an auditor's review and opinion regarding any reported nonfinancial data, we recognize that the audit experience and expertise required to evaluate such data sets needs time to mature and develop. We recommend that the SEC revisit such a requirement at a later date as issuers and auditors become more familiar with new nonfinancial data reporting requirements.

Exempt smaller companies from reporting requirements

The SEC should consider exemptions from reporting material nonfinancial information for smaller issuers in order to alleviate the reporting burden and cost of a newly public company and so as not to discourage private companies from going public to avoid reporting burden. Indeed, the SEC already has some exemptions in place for issuers with a public float of up to $700 million that permit scaled disclosure.[19] In 2016, when expanding the scope of issuers to which exemptions would apply, the SEC noted that those exemptions were intended to "promote capital formation and reduce compliance costs for specified registrants by expanding the number of registrants that are eligible to provide scaled disclosure while maintaining appropriate investor protections."[20] Likewise, an exemption for smaller companies from reporting on financially material nonfinancial data and performance would promote capital formation and reduce compliance costs. To maintain "appropriate investor protections," however, we suggest narrative disclosure discussing material sustainability risks associated with a given issuer's business as well as a phased-in approach to reporting as the issuer matures.

Manulife Investment Management again thanks the SEC for its consideration regarding development of a framework for consistent, reliable, and comparable nonfinancial data across issuers. Standardized reporting of financially material sustainability data will help the market better evaluate issuer risk and opportunity profiles, performance, and overall competitive positioning. We support the commission's efforts and look forward to a state of enhanced reporting that will enhance our ability to drive risk adjusted returns across our investment portfolios on behalf of our clients.

Sincerely,

/S/ Peter Mennie

Peter Mennie
Global Head of *Public Markets* ESG Research

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[19] *See, e.g.* 17 CFR 229.1(f)(1) which defines "smaller reporting companies" as, in part, an issuer with a public float of less than $250 million or revenues of less than $100 million and … a public float of less than $700 million. These issuers are exempted from disclosing certain information required of larger public issuers. Smaller reporting companies need not, for example, include a year-over-year performance graph (17 CFR 229.201(e)(6)) or material quarterly changes (17 CFR 229.302(a)(3)) in their filings.

[20] *See* RIN 3235-AL90.

[redacted]