WAYNE STATE

June 11, 2021

Acting Chair Allison Herren Lee
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: Public Input on Climate Change Disclosures

Dear Acting Chair Herren Lee,

Thank you for the opportunity to provide public comment on potential climate change disclosures. The SEC's mission, put simply, is to promote a market environment that is worthy of the public's trust. As more and more Americans and more and more investors begin to fully understand the weight and impact of the climate crisis, we believe it is absolutely essential that the SEC codify and enforce a disclosure framework that helps ensure that investors receive the necessary information to make fact-based choices that encourage appropriate capital formation and inform analysis of the sustainability and durability of underlying registrant business models.

The guiding principal in all SEC decisions related to any climate change disclosures should be an unyielding focus on curbing registrants' carbon emissions. Without hyperbole, the ability of future generations to survive on our planet depends upon our ability to quickly de-carbonize our global economy.

By way of introduction, I am a CPA, I previously served as the Chair of Wayne State's Accounting Department and I now lead faculty innovation and student entrepreneurship at the university. In the past, I have worked in corporate finance and as a financial advisory consultant for PwC and AlixPartners. This submission was co-produced by Wayne State accounting major Samantha Tirakian and myself. Founded in 1868, Wayne State is the State of Michigan's most diverse university. Located in the heart of Detroit, Michigan, we are an R1 Carnegie research institution with 13 colleges and schools and over 27,000 students.

As the entrepreneurial leader of the university, I continually see students who selflessly pursue educational paths and entrepreneurial endeavors aimed at addressing environmental sustainability and climate change. Their efforts and passion are what inspired Ms. Tirakian and me to create this submission.

With that, we respectfully submit our responses to your request for public input from March 15, 2021.

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

   Response:

   We believe that there will be several key factors that investors will be looking for as the Commission addresses disclosures.

   i. Quantity and nature of greenhouse gas (GHG) emissions ("carbon is the new calories") and solid / liquid waste
   ii. Nature and effectiveness of credits used to offset emissions
   iii. Discussion and analysis of strategy, progress and effectiveness of de-carbonization initiatives
   iv. Third party validation or attestation to reliability of a registrant's carbon accounting

Climate change disclosures could be distributed in two distinct categories: Within Industry ratings (WIR's) and General Comparability ratings (GCR's). To complete this, we propose the creation of climate change rating agencies that perform similar functions to general rating agencies like the Big Three (S&P, Moodys, and Fitch). [Please refer to question 6 for more information.] Alternatively, the onus on attesting or verifying the accuracy and reliability of climate change disclosures could fall on the shoulders of the firm's auditors. This would give birth to a new industry, and help address the credibility and comparability issues noted in the SEC's question.

The Commission can review these disclosures by using the data presented by registrants to develop and adjust acceptable and unacceptable climate change ratings on a scale that works universally, which will ultimately guide the agency distributing said ratings. These ratings should be expanded to determine the acceptable WIR's and GCR's for registrants to increase the reliability of these ratings based on the industry.

Climate disclosures for registrants should be measured in terms of scope 1 and 2 emissions (as defined by the Environmental Protection Agency "EPA"), waste generated, and reduction goals achieved. We propose the inclusion of this data in the quarterly (10-Q) and the annual (10-K) MD&A. This should keep data collection relatively constant and improve consistency in reporting across all industries.

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

Response:

All registrants should be required to disclose information regarding:

1. Scope 1 and 2 carbon emissions
2. Solid and liquid waste generated
3. Nature and effectiveness of initiatives aimed at curbing waste or GHGs

All of the listed disclosures should be included in some manner (based on industry) due to their materiality and relevance to voting or investment decisions. These disclosures should be decided upon using industry specific guidance through staff accounting bulletins (SAB's). We propose that these changes should be phased in over a 2-5-year span to allow auditors and registrants time to adapt to the new disclosure requirements.

Markets are currently evaluating and pricing externalities of contributions through the use of carbon credits. Carbon credits are tradable certificates (permits) representing the right to emit one ton of carbon or an equivalent GHG.

We do find that climate change related impacts affect the cost of capital because pension funds and hedge funds are beginning to divest or otherwise put pressure through the capital markets on businesses that are not prepared to shift to a decarbonized economy or otherwise have business models that are reliant on fossil fuels.

Registrants and inventors have identified three main risks associated with climate change.

1. Transition (regulatory) Risk: political initiatives that strive to reduce carbon emissions can force industries relying on fossil fuels to lose their economic value.
2. Litigation Risk: Firms emitting greater levels of CO2 are more susceptible to class-action lawsuits.
3. Physical Risk: Changes in the frequency and location of natural disasters, rising temperatures and rising sea levels.

Investors can engage with registrants that prioritize the reduction of emissions and show a commitment to fighting climate change. Investors can also disinvest in registrants that show a lack of commitment and general disregard for these issues.

Efficiently pricing carbon and establishing deep and liquid markets for credits will be necessary to propel the technological and behavioral innovation needed to limit climate change. Cap and trade emission trading schemes are paramount to the pricing of carbon emissions and allow the cost of carbon to remain low.

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

   Response:

   Advantages of permitting investors/registrants to develop standards:
   - Changes will be more generally accepted
   - Implementation will occur more quickly
   - Adjustments based on industry will work themselves out
   - More flexible standards

   Disadvantages:
   - Levels of disclosures may be insufficient for the needs of investors
   - Firms may succumb to data selection bias
   - May be disorganized
   - Take longer to create guidelines
   - Lack of comparability across industries

   Minimum disclosure requirements:
   - Changes in production/operations
   - Scope 1 and 2 carbon emissions
   - Amount of solid and liquid waste

   We are supportive of efforts to provide some flexibility and allow for reporting distinctions across industry SIC codes.

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

Response:

Advantages of different standards based on industry:
- Data will be more germane to the nature of the business
- Would create better comparability across similar firms in like industries

Disadvantages:
-Difficulty making apples to apples comparison of registrants across different sectors

Implementation steps:
1. Define industry categories.
2. Nominate industry experts to the board.
3. Agree on base requirements for all industries.
4. Specialize requirements based on industry.
5. Perform trials.
6. Compare results within single industries.
7. Compare results across all industries.
8. Tweak/adjust results.
9. Introduction to the outside world.

5. What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?[7] Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

Response:

Task Force on Climate-Related Financial Disclosures (TCFD)

Advantages:
- Utilization of scenario analysis to predict outcomes
- Focuses on both risks and opportunities
- Originated in the business and intends to become mainstream – which should help with implementation

Disadvantages:
- Not comprehensive - focuses only on the impact of the environment on the company, not vice versa

SASB (Sustainability Accounting Standards Board) - Created to help investors collect the most essential information about corporate sustainability.

Advantages:
- Reader friendly
- Relevant
- Comparable within industries

Disadvantages:
- Limited metrics available
- Ignores stakeholder expectations

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- Most management disclosures aren't standardized
- US-centric (non-global)

CDSB (Climate Disclosure Standards Board) - Advances and aligns the global mainstream corporate reporting model to equate natural capital with financial capital.

Advantages:
- International
- Offers companies a framework for voluntary reporting

We propose that if the Commission chose to work with only one existing framework, that the CDSB would be the best option. We feel this way because of the fact that it is already set on a global scale. While the TCFD offers four strong components as well as other attractive features, it focuses only on the environment's impact on the company, not vice versa. This doesn't provide relevant information about the company's impact on the environment itself. SASB, on the other hand, does provide relevant information. However, it falls short due to the fact that the framework is US-centric and isn't currently equipped to exist on a global scale. The CDSB contains some of the useful components of the other two frameworks.

6. 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?

   Response:

   In regards to this question, there could be a domestic role for the SASB. Much like the role the FASB plays for financial accounting, the SASB could become the de facto body here in the U.S. which helps update, improve, augment or otherwise address disclosures over time. This will ensure that augmentations, additions, or subtractions are decided upon in a fully focused environment. If this path is chosen, the SEC should ensure that the SASB has the guidance, resources and support to ensure that regulations and requirements are congruent and useful to the industry in question. The Commission should have a say in governance and leadership decisions at the SASB in order to ensure this mandate is being appropriately carried out.

   As previously mentioned, WIR's and GCR's could present an interesting need for a new agency similar to Moodys, Fitch, and S&P (Big Three). The Big Three are credit rating agencies that assign scores (ratings) based on the measure of a registrant's capability to pay their debts. Subsequently, climate change rating agencies would assign scores based on a registrant's ability to meet climate change quotas, reductions, and goals. A climate change rating agency would act as a secondary means of regulation, and would serve to increase comparability among registrants. Climate change rating agencies present a business opportunity for the emergence of new private companies and/or the diversification of current agencies by adding new branches and/or departments, creating a plethora of new jobs in the sector.

7. 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?

   Response:

Due to the specific technical accounting nature of this question, we do not have a point of view or comment related to these questions.

8. 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?

   Response:

   We propose that registrants should disclose their internal governance and oversight of climate-related issues by including qualitative and quantitative information in their filings. Board certification or otherwise tacit approval of these filings would help show a commitment to accurate and faithful reporting practices.

   Advantages:
   - Transparency between registrants and their investors, creditors, suppliers, and competitors.
   - Relevancy
   - Faithful representation
   - Full-disclosure

   Disadvantages:
   - Question of auditing practices (how can auditors verify that statements and data are accurate if their expertise is in US GAAP and not environmental metrics)

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

   Response:

   Advantages of single global standard:
   - Uniformity
   - Clarity
   - Comparability
   - Consistency
   - Reliability

   Disadvantages:
   - Would take forever to get everyone to agree!
   - Compliance and enforcement of disclosures could vary drastically across jurisdictions.
   - Narrow scope
   - Rigid

   A single global standard, if used, would need to be broad and basic. Specialization based on industry is essential for the reliability of reporting and the usefulness of data. However, a single standard could be used initially as a base and then branch to fit specific industries more snugly. A baseline standard is necessary as a starting point for implementation.

A baseline standard ensures comparability across all industries, but specialization makes industry-based data more reliable and useful.

Questions to be considered:
- Does mandatory compliance entail faithful representation or is there a risk of fudging data to protect company image?
- Are there penalties for producing augmented information?
- How do we ensure accuracy and incentivize faithful representation?

Advantages of mandatory compliance:
- Faster implementation/acceptance
- Surge of available data
- Unveiling of necessary changes/tweaks

Disadvantages of mandatory compliance:
- Question of accuracy
- Surge of available data (over-saturation)
- Lack of public understanding
- General confusion
- Potential pushback

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

Response:

On some level, ultimate enforcement will likely land in the lap of CPA firms. It could become a necessary portion or area of the financial audit. Although we have encountered various arguments that ESG or carbon accounting is not financial information per se, we disagree with this argument as SEC mandated information in and registrant reporting very often includes information which could be considered non-financial in nature, requiring auditors, consultants and other professionals to opine on said data.

Advantages of adding disclosures to the audit:
- Tests of accuracy
- Accelerated implementation
- Greater understanding
- Surge of available data

Disadvantages:
- CPA firms may need to designate teams
- Lack of understanding by the firms - firms would need to develop competencies around measuring and testing CO2 / greenhouse gas emissions and solid / liquid waste
- Potential mistakes during the audit
- Surge of available data
- Auditors may be reluctant to take-on additional liability for emerging field of reporting

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11. 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?

    Response:

    We propose that registrants should be required to disclose their internal governance and oversight of climate-related issues. This disclosure would highlight not only the company's commitment to promoting sustainability, but the board's as well. Without a sing-off from an executive or governance in the company, there is a question of merit regarding the information presented. The lack of major accounting scandals in the last 18 years (post Sarbanes-Oxley) speaks to the value of registrant executives certifying to the veracity of disclosures.

12. 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?

    Response:

    Advantages of comply or explain policy:
    - Companies that comply actually care because they have a choice.
    - Less pushback.
    - Reliability.
    - Faithful representation.

    Disadvantages:
    - Cop-out
    - Hiding suspicious or disparaging activity.
    - Possible lack of data.
    - Lack of comparability.

    A study done in the UK showed that the majority of firms met the requirements set forth by the regulation by either disclosing all requested information or by explaining omissions in the information reported. The study found that registrants were less likely to report on environmental matters where the requirements were dependent on relevancy and/or materiality. Many registrants didn't want their financial statements to appear cluttered by this (possibly extraneous) information.

13. 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?

    Response:

    Advantages:
    - Forces registrants to consider the risks of climate-change and engage in scenario analysis
    - Informs investors of what could happen to companies they invest in if climate change continues
    - Informs suppliers of potential needs based on scenario analysis projections.
    - Informs competitors of risks that may not have been considered in the past.

Disadvantages:
- Highlights potential flaws within companies to predict/manage climate-related risks
- Hard to get everyone on board to implement these additions
- Question of comparability among industries
- Question of relevancy among industries

It seems like this question could be answered in part through the utilization of TCFD guidelines, as they focus primarily on how changes in the environment impact businesses (registrants). As one of the key components in their framework, "guidelines disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where information is material." Additionally, TCFD uses scenario analysis to make predictions which improves transparency between registrants and their investors, creditors, suppliers, and competitors.

14. 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?

    Response:

    Due to our lack of information related to private company disclosures, we declined to provide comment for these questions.

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

    Response:

    It is unquestionable that climate-related disclosures fit nicely into the broader ESG movement. We, as investors ourselves, are also very interested in matters of diversity, inclusion, equity and transparent governance – especially governance related to the lobbying of elected officials. While we don't see any issue with the Commission making climate-related disclosures part of a broader ESG framework, we would highlight that if given the choice between a slower, more drawn out effort to build a broader, comprehensive ESG framework and having the Commission focus specifically and decisively on climate, we choose climate.

    Climate change disclosures fit nicely into the broader conversation around disclosure issues. There is arguably no more powerful force in the world right now than capital markets – especially as it relates to changing the behavior of companies. And we do believe that the SEC and equivalent bodies have a role to play in making sure capital markets have all the information required, so that investors can allocate capital to companies that not only generate economic returns, but also align with their individual values.

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It is our pleasure to furnish the Commission with these comments. Should you have any other questions related to this matter, please feel free to contact me.

Best regards,

Matthew X. Roling
Executive Director and former Chair of the Wayne State Accounting Department
Office of Business Innovation

Samantha Tirakian
Senior (expected graduation May 2022)
Accounting Major