LGIM America

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

LGIM America
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Chicago, IL 60606
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Re: Public Input on Climate Change Disclosures

Dear Ms. Countryman,

Legal & General Investment Management America, Inc. ("LGIM America") is a US registered investment advisor with $241 billion in assets under management ("AUM") as of March 31, 2021. We are the US-based affiliate of Legal & General Investment Management Limited ("LGIM"), a subsidiary of Legal & General Group, a multinational financial services company that is the 6th largest institutional global asset manager with over $1.7 trillion in AUM.[1] We manage assets for a wide range of global clients, including pension schemes, sovereign wealth funds and fund distributors. As a significant investor, we share a responsibility to ensure that global markets operate efficiently and uphold the highest level of corporate governance and sustainability standards to protect the integrity of the market over the long term.

LGIM America and LGIM would like to express our appreciation for the opportunity provided by the U.S. Securities and Exchange Commission ("Commission") to comment on the Commission's disclosure rules and guidance as they apply to climate change disclosures. Environmental, social, and governance ("ESG") factors are quickly becoming a significant component to the investment process. It is imperative that as a major U.S. and international based investor, we monitor and manage the ESG exposures and price in the risks they introduce to our portfolios, and ultimately our clients. Unfortunately, the Commission is correct in its understanding that historically ESG disclosures from corporations have been below satisfaction, with inconsistent and sometimes inaccurate disclosures.

In this regard, it is our view that it is imperative that policymakers intervene to change the status quo and ensure that all investors are well-informed in making investment and voting decisions. LGIM continues to recommend that policymakers around the world make it a priority to come together to mandate a harmonized broader set of ESG disclosures that is enforceable in both the private and public markets. This is necessary not only for investors to accurately price in and manage ESG risks and opportunities, but foundational to improving ESG disclosures further up the investment chain, ultimately providing better information to end-investors. Whilst we greatly welcome the Commission's initial focus on climate-related disclosures, we do feel that an expansion to a broader set of ESG disclosures – in the short term – is very much required. Climate change is just one area of a much broader ESG framework. We strongly encourage the Commission to work with and through international partners to ensure global consistency and alignment of an ESG disclosure standard, for example through the work of the International Organization of Securities Commissions ("IOSCO") and International Financial Reporting Standards ("IFRS") Foundation in establishing a Sustainability Standards Board (SSB). Another example is the Sustainability Accounting Standards Board ("SASB"), which allows investors to evaluate financially-material sustainability information. If the Commission wishes to pursue a climate-related disclosure standard as a first step, we again encourage coordination with the IFRS and to align it with the 11 climate-related disclosure recommendations made by the Task Force for

[1] Pensions & Investments (P&I) ranking by total worldwide institutional assets under management, as of December 31, 2020. The AUM disclosed aggregates the assets managed by Legal & General Investment Management (LGIM) in the UK, Legal & General Investment Management America (LGIMA) in the US, and Legal & General Investment Management (LGIM -Asia) in Hong Kong. The AUM includes the value of securities and derivatives positions. Conversion rate: 1 GBP = 1.3657 USD, as of December 31, 2020.

Climate-related Financial Disclosures in the UK (“TCFD”). We further detail our recommendations at the end of this paper.

Background on LGIM America’s and LGIM’s approach

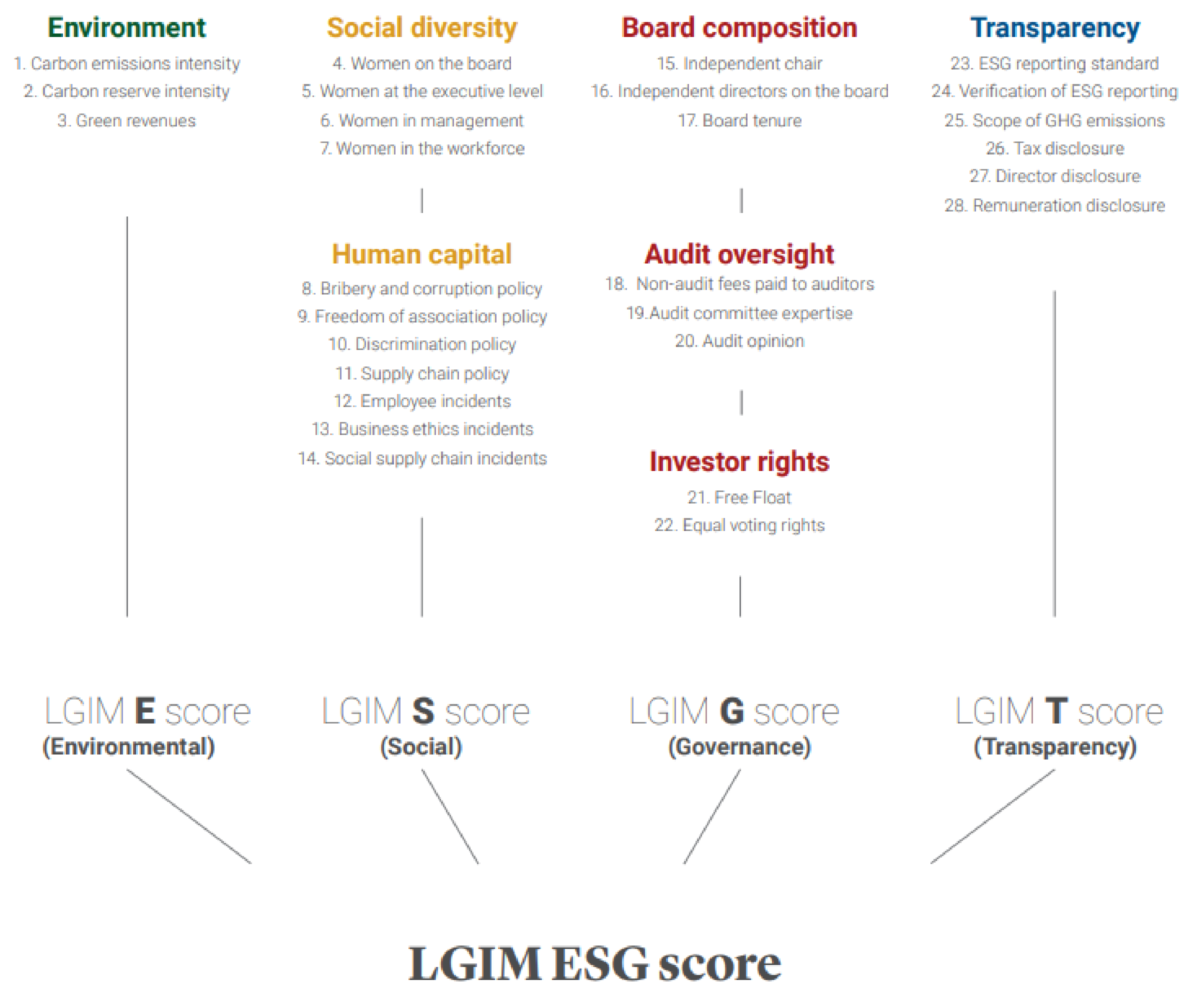
LGIM America and LGIM spend a considerable amount of time and resources establishing a fully integrated framework for responsible investing to strengthen long-term returns for our clients.[2] This integrated framework makes use of both stewardship and active research across asset classes. In 2020 alone, we launched 20 new responsible investment strategies globally, bringing the value of assets managed under such strategies to over $280 billion.[3] In 2016, we launched our Climate Impact Pledge, which identifies companies in climate-critical sectors, using quantitative and qualitative data points, to inform our investing strategies. That initiative started with just 80 companies and has now expanded to cover approximately 1,000 companies worldwide. Part of the reason we started this initiative was to overcome the lack of standardized climate data provided by companies. Instead, we created a system that pulls in relevant indicators from multiple data providers. Below is a list of just some of those data providers and indicators included in our LGIM Climate Impact Pledge score. Note that our score is aligned to the TCFD framework and we try to use indicators that are sector agnostic where possible, but we do have some sector specific indicators. Additionally, we select indicators where there is sufficient coverage. Currently, we only have green revenue data for approximately 27% of companies, less than 45% of companies disclose whether they have board oversight of climate change, and about 1 in 10 companies don’t disclose their emissions intensity and absolute emissions trajectories. These numbers are slowly improving, but we hope regional regulation will accelerate the pace.

TCFD	Theme	Sector	Data provider	Indicator
Governance	Climate governance	All	CDP	Board members with responsibility for climate-related issues
		All	CDP	Integration of climate issues into governance mechanisms
	Disclosure - TCFD reporting and sector relevant scope 3	All	CDP	CDP letter score
		Apparel, Food	CDP	Disclosure of scope 3 emissions from purchased goods and services
		Autos, Mining, Oil & Gas	CDP	Disclosure of scope 3 emissions from use of sold products
		Banks, Insurance	CDP	Disclosure of scope 3 emissions from use of sold products
		REITs	CDP	Disclosure of scope 3 emissions from leased assets
		Apparel, Food	CDP	CDP Forest questionnaire letter score
Strategy	Company policies	All	Sustainalytics	Environmental Policy
		All	Sustainalytics	GHG reduction programme
		Food	Sustainalytics	Sustainable Agriculture Programmes
		Food	Sustainalytics	Supplier Environmental Programmes
		Food	Sustainalytics	Deforestation Policy
		Food	Sustainalytics	Deforestation Programme
		Insurance	Sustainalytics	Underwriting Standards
		Insurance	Sustainalytics	Responsible Investment Programme
		Banks	Sustainalytics	Credit & Loan Standards
		Banks	Sustainalytics	Corporate Finance - ESG Integration
		Apparel	Sustainalytics	Eco-Design
		REITs	Sustainalytics	Real Estate LCA
		REITs	Sustainalytics	Customer Eco-Efficiency Programmes
	Climate Lobbying	All	InfluenceMap	Total Organisational score
		Banks, Insurance	Sustainalytics	UNEPFI Signatory
		REITs	Sustainalytics	Green Building Memberships
		Food	Sustainalytics	Food & Beverage Sustainability Initiatives
Risks & Opportunities	Climate Value-at-Risk and Green Opportunities	All	Destination@Risk	Climate Value-at-Risk
		All	HSBC	Green revenues
		REITs	Sustainalytics	Share of Green Buildings
		Banks, Insurance	Sustainalytics	Sustainable Financial Initiatives
		Apparel, Food	Sustainalytics	Sustainable Products & Services
Scenario Analysis	Paris-alignment	All	Destination@Risk	Implied temperature alignment by 2030
		All	TPI	Carbon Performance alignment
Metrics & Targets	Net Zero ambition	All	CDP	Science-based Target for Absolute emissions
		All	CDP	Science-based Target for emissions intensity
	Emissions intensity	All	Sustainalytics	Carbon emissions intensity
		All	TruCost	Absolute emissions trajectory in past 3 years
		All	TruCost	Emissions intensity trajectory in past 3 years

[2] https://www.lgima.com/landg-assets/lgima/insights/esg/active-ownership-report-2020.pdf

[3] As of December 31, 2020. Includes responsible investment strategies explicitly linked to ESG criteria, across both pooled funds and segregated accounts globally.

Going beyond climate, we developed a proprietary, rules-based approach in 2018, called the LGIM ESG Score,[4] to assess companies from an ESG perspective using 28 data points that measure companies against what we believe are global minimum standards, giving extra weight to those that provide good transparency.[5]



We integrate the LGIM Climate Impact Pledge score and the LGIM ESG score directly into index strategies through exclusion, optimization, and tilting. All of this only scratches the surface of the potential we see in the future of integrating ESG metrics into our investment strategies as we continue to explore how to protect our clients' assets and achieve their investment objectives through responsible investing.

We do all of this because, as part of our fiduciary duty, we believe we have a responsibility to ensure our investments are adequately prepared for the transition to the low carbon economy and broader ESG risks that could potentially affect them. To effectively tackle this problem, we need reliable, consistent, and comparable disclosures from the companies that we invest in. There is a plethora of voluntary disclosure standards, which have resulted in confusion and an "alphabet soup" of ESG reporting, leaving investors to deal with inconsistent and unreliable data from different companies. Giving companies the freedom to dictate what's worth disclosing has only exacerbated this problem. Oddly enough, this patchwork of data sources rewards large asset managers such as ourselves, who have the wherewithal to

[4] https://esgscores.lgim.com/uk/en/
[5] https://esgscores.lgim.com/srp/documents-id/dc2ca5ef-933d-4748-b221-7085515bfa04/Methodologyforratingcompanies.pdf

purchase rich data sets from various sources and exploit market inefficiencies. For example, LGIM has relied on over 40 data sources for our Climate Impact Pledge alone.

In short, we would describe ourselves as a super user of climate and ESG data alike. Despite the benefits our clients reap from it, we do not wish to prolong this asymmetric access to ESG data. Transparency begets accountability and our stance as an active, universal owner is to raise market standards and lift the tide so that the markets operate more efficiently, which will benefit a range of stakeholders – including regulators, our clients, and the broader society.

Following the Paris Agreement, there has been a race to achieve net-zero emissions and companies announcing notable goals. According to our metrics, the number of companies expressing public support for the Paris Agreement on climate has grown by 94% since 2017, yet only 18% of our Climate Impact Pledge companies have targets to procure 100% clean energy, 13% of companies have set science-based targets for their operations, and 16% have set emissions targets that include their products or supply chains – i.e., Scope 3 emissions.[6] The pace of change is not fast enough, but access to data can help allocate capital to accelerate the movement. We have also seen the highest year-on-year improvements in average climate scores for companies in Australia, Japan, and South Korea.[4] We believe the Commission has the opportunity to act and provide guidance that would greatly mitigate risks and create a more transparent environment for market participants to operate in.

Specific recommendations

- **Consistent Global Disclosure Requirements**

  International consistency

  As the Commission is currently focusing on climate-related disclosures, we strongly recommend that any regulation be consistent with the internationally supported TCFD framework, specifically the 11 recommended disclosures. It is crucial that to the extent possible, given the global nature of the climate crisis and investment word, climate-related disclosure requirements be aligned.

  We also recommend the Commission work with international partners such as IOSCO, the IFRS SSB, and the International Platform on Sustainable Finance, and help to deliver a globally aligned ESG disclosure standard for corporates in the public and private markets. A “building blocks” approach that is cognizant of specific market policy that has been highlighted by IOSCO and the IFRS may be a helpful approach for the Commission to explore further.

  Domestic consistency

  For domestic consistency on climate-related disclosures, we encourage the Commission to learn from the steps the UK Government (and its regulators) has taken to introduce TCFD-aligned disclosures across the market, from corporates to asset owners. Her Majesty’s Treasury produced a helpful implementation roadmap that gave clarity to the market as to when TCFD disclosure requirements would become enforceable.[7]

- **Broader Set of ESG Disclosures**

  Whilst the Commission’s initial focus on climate-related disclosure is welcome, we believe it is just one aspect of a much broader ESG framework. We strongly recommend the Commission expand its focus to a broader set of ESG disclosures, if not initially, then as the next step on the Commission’s disclosure agenda.

  As the Commission will be aware, the IFRS SSB will be building-off existing and widely supported voluntary standards and frameworks for sustainability reporting. We recommend the Commission mirror this approach, specifically building from the TCFD, SASB, the Global Reporting Initiative (“GRI”), CDP, and CDSB.

  As with climate-related disclosures, a broader ESG disclosure standard must align with other ESG or ‘sustainable finance’ regulation that will be introduced right across the investment chain. This has been an area

[6] https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu.pdf
[7] https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap

of concern in Europe over recent years, particularly now with regard to the revision of Corporate Sustainability Reporting Directive and its alignment with the EU Taxonomy and the Sustainable Finance Disclosure Regulation (including the Regulatory Technical Standards). We encourage the Commission to work across government to ensure that disclosure requirements are aligned and therefore of a high-quality.

- **Mandatory vs. Comply or Explain**
  As we have already alluded to, we cannot proceed with a "comply or explain" approach. We believe this approach results in more noise than substance via boilerplate disclosures, and would also delay the disclosure of key facts, something we strongly believe cannot be put off any further. Mandating disclosures will provide clarity for both corporations and investors and ensure consistent information is available to all, not just large asset managers willing to seek out data.

  Due to the highly diversified nature of our portfolio, we would also like to see the Commission consider the need for mandatory standards spanning all asset classes and security types.

- **Monitoring, Enforcement, and Assurance**
  We believe that investors must have confidence in the accuracy and quality of disclosed ESG information, to the same extent they must have assurance in the accuracy and quality of financial information. We therefore recommend that the Commission require such information be included in a company's Annual Report. This is essential to ensuring that companies' ESG disclosures are reliable for investment decisions.

  We also encourage the Commission not to overlook the monitoring and enforcement aspects of ESG, or climate-related, disclosures. We do not want this to become a 'box-ticking' exercise and therefore suggest the Commission provide guidance to help corporates produce high-quality disclosures.

Once again, we appreciate the opportunity to comment on this consultation and more broadly the Commission's growing focus on sustainably / ESG related disclosures. It is an area that is foundational to encouraging sustainable economic growth, supporting a well-functioning market, protecting investor rights, and facilitating capital formation. As ever, we would happily discuss these topics in more detail with you or answer any follow-up questions or clarifications.

Yours Sincerely,

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