San Francisco City and County Employees' Retirement System

SFERS
San Francisco Employees' Retirement System

June 12, 2021

VIA ELECTRONIC FILING

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

RE: March 15, 2021 Statement Welcoming Public Input on Climate Change Disclosures

Dear Chair Gensler:

On behalf of the San Francisco Employees' Retirement System ("Retirement System" or "SFERS"), we appreciate the opportunity to submit this letter in response to the March 15, 2021 request for public input on whether current disclosures under the purview of the U.S. Securities and Exchange Commission (the "Commission") adequately inform investors around the risk and opportunities related to climate change.

As the Commission notes in its statement, the need for robust disclosure on this topic is not new, but it has grown considerably since the Commission promulgated its "2010 Climate Change Guidance." More now than ever, investors need robust, market-wide data on the risks and opportunities from climate change faced by the entities in which we invest.

We commend the variety of ongoing efforts the Commission has undertaken related to climate change and other environmental, social, and governance ("ESG") information. We believe this work is in the best interests and protection of long-term investors such as SFERS.

About SFERS

SFERS was established by approval of City voters on November 2, 1920 and the California State Legislature on January 12, 1921. SFERS has over $30 billion in assets and serves nearly 71,000 active and retired employees of the City and County of San Francisco and their survivors.

SFERS is solely dedicated to securing, protecting and prudently investing pension trust assets, administering benefits programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

SFERS believes that certain environmental, social, and governance (ESG) factors can have a material impact on the value of companies and securities, as well as affect the macroeconomic environment more broadly. Consideration of material environmental, social, and governance (ESG) factors alongside traditional financial factors should therefore provide a better understanding of the risk and return characteristics of investments. We believe that ignoring relevant risks, including material environmental, social and governance (ESG) risks would be imprudent.

SFERS, therefore, is committed to incorporating ESG factors into its management of the Trust in a manner that is consistent with the Retirement Board and Staff's fiduciary responsibilities to act in the best interests of the members, retirees, and beneficiaries of the Retirement System and consistent with SFERS' role as a prudent, long-term investor.

SFERS' Views on Climate Change

SFERS recognizes that climate change poses significant risk as well as creates opportunities for long-term investors such as SFERS due to:

- The technological transition from a fossil-fuel based economy to a low-carbon economy;
- The increasingly inevitable regulatory, political, and legal liability responses to climate change; and
- The physical impacts of climate change.

These shifts pose specific/idiosyncratic risks to certain companies, industries, and commodities and are understood by academics, global investors, financial regulators, and others to pose systematic/market risk. Further, macroprudential regulators including the US Federal Reserve also identify the possibility that climate risk may be a systemic risk.

SFERS has taken various actions to mitigate this risk in our investment portfolio. In March 2020, SFERS adopted the ambition to be a net zero greenhouse gas emissions asset owner by 2050 in line with the objectives of the 2015 Paris Agreement.

SFERS' Comments on Climate Change Disclosures

We respectfully submit the following comments. While they do not directly answer every question posed by the Commission, we have indicated which question our comments relate to in order to facilitate a more efficient review.

1. **Investors need climate and ESG disclosures to inform investment decision-making, and current disclosures are inadequate.**
    - **Question 1, Question 7**

The ability for SFERS to integrate climate and other ESG considerations into our investment decision making depends on our ability to understand the related risks and opportunities facing entities and assets in which we invest. A core element of this understanding is informed by data and information that issuers of securities disclose. Currently, because climate and other ESG disclosures are voluntary and nonstandardized, SFERS and other market participants, including the external asset managers to whom we allocate capital, may have an incomplete understanding of climate and other ESG risks in our portfolios.

We, therefore, welcome the SEC's undertaking of this topic and believe that market participants would greatly benefit from standardized, comparable, relevant, and consistent disclosures on climate and other ESG risks.

The Commission has an important role to play in providing guidance to registrants on how to formulate disclosures that meet those criteria, directing registrants where and with what frequency to make such disclosures, and enforcing the quality, accuracy, and timeliness of such disclosure through mechanisms at its disposal.

While we believe that climate and other ESG disclosures may fit within existing disclosure requirements in Regulation S-K and Regulation S-X, we also recognize the dynamic and emerging nature of this space and encourage the Commission to be open to the possibility of new rulemaking.

2. **All registrants should disclose material climate and ESG information, and certain existing frameworks and standards may help to inform minimum, cost-effective disclosures.**
    - **Question 1, Question 2, Question 5, Question 8, Question 13**

SFERS invests in a wide range of companies with a diversity of market capitalizations and free floats, and we have an interest in understanding climate risk across our entire portfolio. We do not believe that a registrant's size is a primary influencer of the climate risk it faces. Instead, we believe that a registrant's climate risk is greatly influenced by its industry of focus, business model, asset base, and geographic footprint, among other variables.

Therefore, we encourage the Commission to require disclosures on climate and other ESG risks regardless of registrant size.

We do acknowledge, however, that there is a cost associated with providing robust disclosure of climate risks and opportunities. Therefore, SFERS encourages the Commission to focus on a minimum "floor" of information that all registrants should disclose. The Commission may find it valuable to consider the SASB Standards promulgated by the Value Reporting Foundation ("VRF"). The SASB Standards include 13 recommended metrics, on average, for each industry that they cover, which SFERS believes to be a reasonable starting point for registrants of various sizes[1].

Specific to climate disclosures, the Commission may find it valuable to consider the Taskforce on Climate-related Financial Disclosures ("TCFD"). The core elements described in the TCFD Framework – governance, strategy, risk management, along with metric and targets – address a comprehensive set of areas to guide companies in disclosing on climate risk. Included within this framework is a focus on scenario analysis and disclosure of Scope 1 and Scope 2, and if appropriate Scope 3, greenhouse gas emissions data. Having reviewed numerous such disclosures we are confident that companies can provide investors with disclosures that are concise and decision-useful but still protect confidential business information.

[1] https://www.sasb.org/implementation-primer/understanding-sasb-standards/

Taken together, the TCFD Framework and the SASB Standards are complementary and recommend disclosure on what we believe to be an appropriate mix of quantitative and qualitative information. Investors need to understand qualitative elements such as the context of each registrant's unique operating environment, governance structures around managing and overseeing climate risks, and future strategy around climate risk and other ESG topics. At the same time, there is a need for quantitate data, such as carbon emissions to assess performance, monitor progress, benchmark registrants, and inform financial models.

SFERS recommends that the SEC engage with and leverage the VRF and TCFD's perspectives in developing its guidance. Where climate-related disclosures more directly intersect with financial accounting standards, such as through asset impairment tests, accounting for carbon credits, or asset depreciation, the Commission should ensure coordination with appropriate entities that oversee financial accounting standards.

3. **Climate and ESG disclosures should be as reliable as financial information for investment decision making, and the Commission should enforce them as such.**
    - **Question 10, Question 11**

There is a need for oversight and enforcement by the Commission of climate-related and other ESG disclosures. Since the data and information contained in these disclosures are considered to be material to investors such as SFERS and inform investment decision making, we should be confident in the quality and accuracy of such information. Registrants should have appropriate controls over the data and information and produce climate and other ESG disclosures that have similar or the same reliability as financial disclosures. It seems appropriate that accounting firms that audit financial statements should apply similar principles to give reasonable assurance over the accuracy of the climate and ESG information. It also seems appropriate that the Commission inspect and enforce climate and other ESG-related disclosures.

4. **Investors should be able to access timely climate and other ESG information in regulated filings, but we find value in supplemental detailed, disclosures in other dedicated climate and/or ESG reports.**
    - **Question 1**

We believe that climate and ESG information should be included in filings easily accessible to investors such as the 10-K, Proxy Statement, and other periodic filings as appropriate. We also recognize the dynamic and evolving manner in which companies communicate to investors, so we are comfortable if we are able to access climate and other ESG information outside of regulated filings. However, we do find that some current ESG information disclosed by registrants outside of regulated filing is prepared and presented in a format likely intended for stakeholders other than investors. Information that is overly promotional, narrative heavy, mixed with information that is less material to investment decision making, and disclosed in formats difficult to access by investors and the financial data providers we rely on (e.g. interactive webpages) can impede investor use of climate and other ESG information. At the same time, supplemental, detailed disclosures on climate and other ESG risks in standalone "climate risk", "climate scenario", and ESG reports are highly valuable.

At minimum, we believe that climate and ESG information disclosed in regulated and non-regulated filings should not be contradictory. Ideally disclosures are harmonized and build upon one other, with a minimum set of material information found in regulated filings. In other to facilitate investment decision making, climate and ESG information should be reported at least annually and within the same timeframe that registrants report financial information.

5. **While better disclosure on climate risk should be a priority, the Commissions should consider rulemaking and/or guidance on the full range of material environmental, social, and governance risks**
    - **Question 15**

While we believe that climate risk is an urgent issue, it is one of a mix of ESG issues that may be material to investors. We encourage the Commission to promote guidance that addresses a full range of ESG topics that may be material to registrants' financial positions and results of operations. If the Commission intends to begin its oversight with the climate change topic, then we recommend it design disclosure guidance in such a manner that it could be seamlessly expanded to address other ESG topics in the future.

If the Commission is open to addressing other ESG topics, human capital management is a logical starting point. In the same way that climate change affects every enterprise to one degree or another, every company is reliant on human capital for value creation. At the same time, investors lack comparable, quantitative, robust information on how companies are accessing, retaining, and protecting human capital resources.

Conclusion

Our duty is to act solely in the best long-term interests of our beneficiaries. We believe that potential Commission action on Climate Change Disclosures will benefit long-term institutional investors and our beneficiaries.

Sincerely,

Andrew Collins
Director of ESG Investing
San Francisco Employees Retirement System (SFERS)