June 14, 2021

Hon. Gary Gensler
Chair
Securities and Exchange Commission
100 F St. NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler,

On behalf of the Vermont Department of Financial Regulation (the “Department”), thank you for the opportunity to comment on the Securities and Exchange Commission’s (the “Commission”) March 15, 2021 request for public input on climate change disclosures.

Vermont’s climate has changed substantially in the last fifty years. As greenhouse gas emissions drive the planet’s climate warmer, continuing change is certain. Climate change creates material financial risks for key sectors of the Vermont economy. Warmer and shorter winters will adversely affect our ski and tourism industries. Our agriculture sector will be impacted by more frequent droughts, shifts in growing seasons, increasing weather extremes, and reduced productivity of sugar maples and dairy cows. And our energy-intensive manufacturing and transportation sectors will be impacted by transition and regulatory risks from the inevitable shift to a lower-carbon economy. More broadly, Vermont’s river-valley settlement patterns leave many Vermonters and their homes and businesses vulnerable to increased risk of flooding and flood-related erosion, as was famously seen during Tropical Storm Irene in 2011.

As the state regulator of the Securities, Insurance, Captive Insurance and Banking Industries in Vermont, the Department is keenly aware of the risks that climate change poses to the companies and institutions we regulate. We are developing guidance for our regulated insurance companies to address climate-related financial risks, in which we expect to encourage or require such companies to evaluate climate-related financial exposure by conducting stress tests and scenario analyses, incorporate climate change into enterprise risk management processes, and assess and manage climate risk exposure in investments. Standardized, mandatory disclosure of material climate and environmental, social and governance (“ESG”) information by registrants will assist
these entities in fulfilling their statutory and fiduciary obligations to prudently manage risk and make informed investment decisions.

Similarly, Vermont’s public pensions, college endowments, and philanthropic foundations manage billions of dollars of assets that are critical to Vermonters’ well-being and the State’s vitality. These entities also need to assess and manage climate-related risks and opportunities in their portfolios. And many already have a policy of considering ESG factors in their investment decisions. The same is true for a growing number of broker-dealers, investment advisers, and individual Vermont investors. To make informed investment decisions, these investors and securities professionals need comparable, consistent, and decision-useful climate-related information that is relevant to their investments.

The Department encourages the Commission to adopt mandatory disclosure requirements regarding climate-related financial risks. We further encourage the Commission to consider similar disclosure requirements regarding other financially material ESG issues in the future.

This letter sets forth the Department’s views on Questions 1, 2, 4, 5, 9, 11, and 12 in the Commission’s request for Comment.

**Question 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?*

The Commission should require mandatory climate change disclosures by registrants, subject to any applicable tiers based on the size and/or type of registrant (discussed under Question 2 below). Such disclosures should address both risks related to the physical impacts of climate changes and risks related to the transition to a lower-carbon economy.

Climate-related disclosures should be included or otherwise incorporated into an issuer’s registration statement and made at least annually thereafter, primarily in a registrants’ annual report or such other periodic filings as the Commission deems appropriate.

To the extent that the Commission requires disclosures of climate-related governance codes or committee charters, the Department would not object to structuring in a manner similar to the existing disclosure requirements for executive codes of ethics and audit committee charters.

**Question 2:** *What information related to climate risks can be quantified and measured? … 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?

Information regarding Scopes 1, 2, and 3 greenhouse gas emissions and greenhouse gas reduction goals and progress can be quantified and measured. This information provides investors with useful quantitative metrics by which to assess a filer’s climate-related transition risks, as well as the scale and effectiveness of its efforts to manage and mitigate such risks.

The Department would not object if the Commission deems it appropriate for emissions disclosures to be tiered or scaled based on the size and/or type of registrant or phased in over time. A majority of public companies already voluntarily disclose their Scope 1 and 2 emissions using existing emissions frameworks. But calculation and reporting of Scope 3 emissions will likely be more costly and complex. It is appropriate for the Commission to weigh the costs and burdens of Scope 3 reporting requirements against the materiality of the required information, but it should do so based on the size and type of the registrant. For example, for financial firms, Scope 3 emissions include financed emissions, which is particularly material to understanding such firms’ climate-related risks. It may be appropriate to prioritize full emissions disclosure requirements for the largest filers, filers in industries with the highest levels of transition risks, and industries for which Scope 3 emissions data is most material.

**Question 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?

Establishing different climate change reporting standards for different industries may be appropriate. We encourage the Commission to consider and evaluate the frameworks for incorporating industry specific standards, such as those developed by the Task Force on Climate-Related Financial Disclosures (“TCFD”).

**Question 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

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1 Scope 1 refers to direct greenhouse gas (GHG) emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal. Task Force on Climate-Related Financial Disclosures, *Final Report - Recommendations of Task Force on Climate-Related Financial Disclosures*, pg. 63 (June 15, 2017), available at https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf.
(SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

Many filers already voluntarily disclose climate-related information under a variety of existing frameworks and standards. Reporting under varying frameworks and standards is confusing and may render such information less useful to investors. The Commission should standardize reporting requirements. But it should strive to do so in a manner consistent with the existing voluntary frameworks and standards already widely in use, such as TCFD and the Sustainability Accounting Standards Board (“SASB”). We believe this will reduce the regulatory burden on filers and increase the speed with which filers can implement new reporting requirements. More important, it will make the information more useful to the public.

**Question 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? There is a lot of value in global standards. Many public companies have global operations, supply chains, and subcontractors. 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?

We encourage the Commission to continue working and coordinating with regulators through the International Organization of Securities Commissions and other groups to develop global standards. We agree that there is much value in global standards, given the global operations, supply chains, and subcontractors of most large filers. The Commission should seek to maximize compatibility with global standards, to the extent it can do so without unduly delaying the promulgation of standards.

**Question 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?

The Commission should consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures, as it does for other financial disclosures. Management’s annual report on internal control over financial reporting and related requirements should be updated to include climate-related reporting controls and procedures.

We also encourage the Commission to evaluate the costs, benefits, and viability of independent assurance requirements. As implied by our comments above, an independent assurance requirement will likely be easier and less costly to implement if Commission-imposed standards are consistent with other existing regimes or developing international standards.
**Question 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?

Emissions disclosures should ultimately be mandatory, but a “comply or explain” framework may be appropriate during any lengthy transition periods or to the extent the Commission pursues a phased approach based on filer size, for example.

To the extent that the Commission requires disclosures of climate-related governance codes or committee charters, the Department would not object to a “comply or explain” framework similar to the existing disclosure framework for executive codes of ethics.

**CONCLUSION**

As a small state vulnerable to climate risks largely arising from activities outside its borders, Vermont has a critical interest in climate change and climate-related financial risks. Information about registrants’ climate-related financial risk is material to many Vermont investors, and is already being considered in investment decisions. Investors will be able to make more informed investment decisions if provided with comparable, consistent, and decision-useful climate-related information. We applaud and support the Commission’s efforts to develop climate-related disclosure standards, and encourage future efforts regarding other environmental, social, and governance information material to investors.

Thank you for the opportunity to comment on this important initiative.

Sincerely,

Michael S. Pieciak  
Commissioner of Financial Regulation  
State of Vermont