Zeo Capital Advisors [redacted]

The Honorable Gary Gensler, Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosure

Dear Chairman Gensler:

We appreciate the opportunity to contribute our perspective in response to the request for public input on climate change disclosure issued by the Securities and Exchange Commission (the "Commission").

Zeo Capital Advisors ("Zeo") is an investment manager that offers fundamental corporate credit strategies with an integrated analysis of environmental, social and governance ("ESG") factors native to our investment process. We strongly believe that ESG factors are credit factors, and companies which do not prioritize their long-term sustainability do not meet our high standards for creditworthiness.

Zeo is also a member of the Credit Roundtable (the "CRT"), an industry association which includes many of the largest institutional credit investment managers in the country, and is the lead member on the organization's ESG Working Group. The CRT will be submitting a separate letter to the Commission, and we start our own comments by giving our full support to the CRT's position regarding climate change disclosure. In addition, we share below our independent comments most relevant to the matter now before the Commission.[1]

<u>Regulatory oversight of disclosure is necessary.</u>[2] There will be many opinions, both differing and aligned with our own in this letter, on how best to accomplish the goals of the Commission during this process. However, there is no doubt in our minds that those goals are essential and in the best interest of investors. There is a crucial role to be played by regulators in ESG-related information being provided by companies to investors.

At present, it is our experience that many companies view ESG-related reporting as subjective marketing rather than objective disclosure. As a result, investors cannot currently rely on the

[1] Each area of discussion in this letter will be footnoted by the questions listed for consideration in the Commission's request for public input which are at least partially addressed by that section.
[2] Questions 3, 7, 10, 11

accuracy, verifiability or completeness of published reports. That is not to say this data is always inaccurate, unverifiable or incomplete. However, it will come as no surprise that many companies are selective in what information they share. In some cases, the data provided may be estimated, with little opportunity for investors to verify accuracy. Lastly, while some companies might look to peers in determining what information to provide, there is little standardization across companies within the same industry.

However, it is precisely this lack of standardization that calls for the Commission not only to set ESG-related disclosure requirements but to be the organization primarily responsible for enforcement. Ceding oversight to external and potentially interested or conflicted parties is suboptimal. The infrastructure for a third-party assurance framework is not sufficiently developed to protect investors if this were the case. Current auditing capabilities may be able to verify a subset of available information, but without an authority like the Commission defining the reporting requirements, the risk of inaccuracy and potential abuse becomes much too high.

We expect the capacity of the ESG ecosystem will allow requirements to expand over time, but at this stage, regulatory oversight with a manageable scope is most likely to elicit meaningful change for investors. The increased potential consequences of releasing misleading information and the requirement to disclose about less-favorable topics (even if qualitatively through a risk discussion) alone would lead companies to behave differently. In our view, it is preferable to establish an ESG-related disclosure framework to require filings with the Commission and to be enforceable alongside financial reporting requirements and not as some lesser or different risk to investors.

We recognize that these comments point to a narrower initial mandate with more qualitative information and a simpler liability-based assurance framework (e.g. executive certifications). Despite the more deliberate pace, however, such an effort would go a long way to serving investors by altering companies' incentives from the subjective and selective to the objective and informative in a way that is uniquely achievable by the Commission.

Climate change is one issue among many ESG factors important to investors.[3] The request for public input issued by the Commission specifically solicits input on climate change disclosure. In our capacity as credit investors, our focus on creditworthiness cuts across the ESG spectrum. The Commission has correctly identified a problem facing investors, and the effort being undertaken by the Commission is worthy and difficult. However, taking an approach which considers climate

[3] Questions 1, 6, 12, 15

[redacted]

change as just one component of a broader framework may allow for a more consistent and comprehensive long-term solution.

We will note that the universe of quantitative measures regarding environmental issues is more developed than for issues that fall under the social and governance pillars. However, with a larger menu of potentially measurable data may come a tendency to require more. We believe such a situation calls for prudence and caution and presents an opportunity. There is a higher likelihood that the Commission can identify a more optimal subset of quantitative data requirements which are broadly applicable from a larger list of potential metrics. We urge the Commission to focus this first stage of disclosure on information which is accessible to the most companies and which can be more easily verified by investors, auditors or other industry groups. While we appreciate the "comply or explain" approach to disclosure which could be viewed as a counterpoint to this difficulty, a lack of consistency and standardization in the rapidly evolving ESG landscape leaves the door open for opportunistic organizations seeking to define standards and a more damaging long-term conflict between competing standards. In our view, the competition should be between service providers who use the Commission's standards, not the standards themselves, which should be in the public domain.

In addition, the decision to prioritize one issue within just one of the three ESG pillars is investor-specific and strategy-specific and may not be an appropriate choice of scope for the Commission. Some investors align their portfolio goals and values with issues that would fall under the social or governance categories (e.g. compensation disparity or board diversity). Others, like Zeo, place equal priority on all three categories while focusing on the most material issues to a company within each ESG pillar. These investors would not be well-served by a focus on more voluminous data requirements for climate change to the exclusion of other topics. While the universe of metrics in these other areas may not be as large, it is sufficient to identify a broad set of accessible metrics at this early stage.

By including factors across the environmental, social and governance spectrum from the start, the Commission can simultaneously serve the largest subset of investors, avoid questions of scope and take a more deliberate approach to ESG disclosures that minimizes the chances of having to reverse or change course.

A focus on materiality addresses key scope questions.[4] We believe it would make sense for the Commission to focus an issuer's required disclosures on those ESG factors which are material to the company and industry. There are several positive consequences to doing so:

[4] Questions 1, 4, 5

First, materiality reduces the risk that issuers are asked to allocate time and cost to reporting which may not be relevant to investor outcomes. This is especially true for those companies that are time- and resource-constrained, as highlighted in the CRT letter. Such a focus would allow even the early stages of a regulatory disclosure framework to include the largest set of companies and investors possible. Even among smaller issuers, it is our experience that most track ESG data which are material to their businesses, and often, this information is relatively consistent across peers precisely because of its materiality. More expansive requirements risk undermining the apples-to-apples comparisons which most benefit investors.

Second, materiality does not preclude investors from seeking information related to topics outside of the Commission's mandated disclosures. This also does not prevent the Commission from requiring disclosures regarding risk areas which are common or accessible to all companies in a verifiable manner. Such an approach would also address the challenges that might arise in determining materiality. While we would argue that it is important for the regulatory framework to be managed internally, there is a role for external parties and existing frameworks in proposing certain guidance. One obvious place for input is materiality, as this will vary by industry and asset class (e.g. credit and equity can have different material factors).

Third, we urge the Commission to be cautious when defining its scope within the ESG landscape. We look forward to seeing it take measures to appropriately protect investors from misleading information and champion objectivity, standardization and transparency. The credibility of the Commission in this effort is essential to its success. We believe the simplest way to avoid inadvertently sending a message that one issue within the ESG landscape should be more important than others is by focusing on materiality.

It is also important to recognize that materiality will change over time. Topics may become material for a variety of reasons, including as a result of a critical mass of investor interest. We would expect enhancements to the Commission's disclosure requirements to be made as expectations change. By taking this approach, the regulatory framework is more likely to be customized to the prevailing circumstances of companies and investors and therefore most effective while retaining objectivity and credibility.

Balancing quantitative and qualitative disclosures may have more impact.[5] As credit investors, we engage with many companies which have smaller market capitalizations or are privately held. Many are currently developing their strategies to address ESG risks, but the process that starts

[5] Questions 1, 6, 13

with identifying risk factors and ends with quantifiable metrics across multiple categories which are tracked and reported over time is neither simple nor straightforward. Just the initial step of identifying risk factors can be iterative and have many sources, including learning from peers and investor feedback. Progressing from that point to periodically measuring and reporting metrics in a repeatable and consistent way also has many steps.

We believe it is critical for the Commission to design a regulatory reporting framework which allows for maximum available information. However, to do so, it is necessary to accommodate disclosure which may only be available in qualitative form, not unlike the Risk Factors and Management's Discussion and Analysis sections required now. As is currently the case, companies can choose to discuss quantitative metrics not explicitly required in such discussions and should be encouraged to do so.

Taking this approach allows the Commission to identify when certain metrics reach a critical mass across companies within a particular industry for consideration as an explicit data requirement. Meanwhile, it also allows investors to compare qualitative disclosures across companies for the purpose of holding companies accountable for what they are not discussing or quantifying. Lastly, it allows the Commission to include more ESG risks in its mandated disclosures, even those without well-accepted and verifiable quantitative metrics. We urge the Commission to ensure that qualitative disclosure is considered as important as quantitative disclosure so as not to relegate the priority of harder-to-quantify risks to a secondary status.

We believe there is value in mandatory disclosures pertaining to ESG issues which are either broadly applicable to all companies, deemed necessary for investors to make informed investment decisions or are financially material to the company, its peers and/or its industry. A balance of quantitative and qualitative disclosure mandates enables the Commission to focus data-based requirements as those which are accessible and verifiable across issuers or material within a given industry. ESG-related risk discussions can then give companies the opportunity to address specific inquiries from investors related to risk topics and provide insight to the Commission on how best to evolve quantitative requirements. In the meantime, investors (and the Commission) can continue to hold companies accountable for their statements.

In conclusion, it is our view that the spirit of regulatory involvement should be in aiming to identify and hold companies accountable for information they report which misleads investors about their actions. Within the ESG landscape, this is best achieved by designing a regulatory framework which captures as many companies and investors as possible; incorporates processes which can evolve requirements without wholesale changes; leaves room for investors to make their own assessments of what they consider acceptable; and still holds companies liable for intentionally misrepresenting their progress related to ESG issues.

We applaud the Commission for opening this dialogue with the investor community, and we look forward to continuing to engage as these efforts mature. Though the ESG ecosystem has gained significant momentum in recent years, we believe this initiative will almost surely be more successful if viewed as a marathon rather than a sprint.

Sincerely,

Venk Reddy
Manager & Chief Investment Officer
Zeo Capital Advisors, LLC
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