



June 14, 2021

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

## **Request for Comment on Climate Change Disclosures**

Dear Ms. Countryman,

Thank you for the opportunity to participate in this important discussion on climate change disclosures. We are excited by the Commission's consideration of this topic and applaud your thoughtful approach to researching current disclosure rules and opportunities to enhance investors' ability to integrate ESG considerations into financial analysis.

Acadian Asset Management LLC is a U.S. Securities and Exchange Commission-registered investment adviser and Boston-headquartered investment management firm. We specialize in the active management of systematic investment strategies and invest on behalf of pension funds, endowments, foundations, governments, and other institutions globally.

We fully support efforts that promote disclosure and transparency on ESG considerations, particularly those influencing material drivers of return.

### **SUMMARY**

For 35 years, Acadian has been investing capital on behalf of our clients. Our investment process is grounded in the systematic application of fundamental and economic principles in a disciplined, risk-managed framework. Acadian evaluates a large set of investment opportunities using a data-driven process grounded in empirical research. Our robust technology and data platforms allow us to estimate expected returns, risk, and transaction costs for 43,000 stocks globally.

Acadian believes that environmental, social, and governance (ESG) considerations go hand-in-hand with traditional investment issues, having implemented ESG criteria into our investment process as early as the 1990s. In addition, we were the first quantitative firm to sign the UN PRI (Principles for Responsible Investment) in 2009 and continue to be recognized for our commitment to responsible investment.

Data is the lifeblood of systematic investing, and ESG is no exception. At Acadian, we source ESG-related data directly from financial statements using our own text-based analysis of company reporting and systematic assessment of management communication through natural language processing (NLP). We acquire this data from third-party vendors, and we impute it where information is missing.

In our view, some data providers employ subjectivity in ESG assessments, which may influence selection and relative weightings of signals. As a result, we tend to favor objective, granular data. We strive internally and through collaborative work with investee companies and ESG industry organizations to expand and improve ESG information available for use in our investment process.

A primary objective of our direct engagement program has been to promote and encourage data disclosure, in line with Principle 3 of Acadian's commitments to the PRI. We have also participated in collaborative efforts to support

development and enhancement of disclosure efforts, such as providing extensive feedback on the CFA ESG disclosure standards.

## CONSIDERATIONS

ESG is integral to Acadian's investment process as part of our fiduciary duty to clients. In our view, climate change and transition risk are material considerations in the prediction of risk-adjusted returns. A significant challenge we have encountered in evaluating stocks in our 43,000+ investment universe is that these data are not reported consistently across regions, industries, or companies, and consequently have to be imputed. The format for reporting varies significantly as does interpretation of metrics – causing an “apples-to-apples” comparison across investment opportunities to be problematic.

For example, we identified that an ESG data vendor had published a poor environmental score for a company. During our engagement with the company we learned, however, that it had published extensive commentary and documentation supporting their decarbonization efforts. This information was not captured by the data vendor and formally accounted. We often find that many of our target engagements are willing to disclose, but they are often confused as to what and how to report. On occasion they look to us for direction and guidance on approved frameworks.

Similarly, we believe there are often discrepancies between companies' self-reported and third-party vendor reported data. Our research findings suggest that there is a size bias associated with ESG data. Larger market capitalization firms with greater resources, on average, have higher ESG ratings. Significant resources – both human and financial – are required to obtain and scrutinize information gathered from the various, disparate data sources. To this end, we have undertaken a machine learning project to identify potential greenwashing.

### *Format / Location*

In our view, standard required disclosures can significantly improve this process. The Commission can best regulate, monitor, review, and guide climate change disclosures by requiring standard disclosures to be included with 10-K and 10-Q filings. We believe there should be a minimum disclosure requirement across all industries, as well as industry-led disclosures in order to highlight components that are most material to industry-specific operations.

### *Frameworks*

From our observations, extensive work has already been done to establish well thought-out and practical frameworks. According to industry organizations, many companies have undertaken due diligence to implement these frameworks into their processes. In our view, one of the biggest challenges facing ESG investors is the lack of standardization across disclosure frameworks. We believe it would be helpful to have the regulatory bodies promote and adopt one framework or a combined implementation of primary frameworks already utilized.

The Task Force on Climate-related Financial Disclosures (TCFD) framework aligns with our belief that climate change is a strategic business issue that can impact long-term financial performance. Prior to formally joining the TCFD initiative, we had already been following TCFD recommendations, using their methodology to calculate carbon metrics across our portfolios, engaging with companies on carbon-related disclosures and publicly declaring support for the TCFD recommendations. Climate Action 100+ is also an important organization from which to gather expertise and further guidance. We believe it would be beneficial to develop a single set of global standards to alleviate the burden of filing different information across various jurisdictions. This, in theory, will increase the willingness to disclose. More information can be provided in one disclosure if leveraged across jurisdictions. We feel it would be valuable to select a familiar framework — one which has already been extensively vetted — to increase adoption, adherence, and ultimately, comprehensiveness of data submissions.



### *Metrics*

Acadian accounts for climate change and environmental considerations in a variety of ways. One example includes adjusting company valuations for an implicit carbon tax. Key metrics we utilize include total and weighted carbon emissions (scope 1 and 2) and carbon intensity exposures by industry and region. Beyond the metrics, we observe exposure to climate change-related risks and the strategies being used to manage these risks. During our engagements, we encourage management to employ strategies that decarbonize business operations and set clear and accountable targets.

We recommend disclosed metrics should be accompanied by a sustainability disclosure similar to the *Management's Discussion and Analysis of Financial Condition and Results of Operations*. This information should be included as notes to the financial statements. While this creates a burden of additional reporting on the filing party, it is important to understand the assumptions and context behind the information being disclosed.

### **CONCLUSION**

Thank you again for the opportunity to submit feedback. We are encouraged by and appreciative of, the Commission's thoughtful approach to these important considerations. From a priority, framework maturity, and data availability perspective, we are requesting standardized climate disclosures to be implemented now.

As the data for environmental targets and disclosure frameworks has reached an ideal maturation point and allows for more metrics and reporting of numerical targets, we expect the facets of Social and Governance factors to develop in a similar fashion over time.

We look forward to monitoring how this process will evolve and welcome further discussions and collaboration with the Commission on this topic.

Kind regards,

Acadian Asset Management LLC

cc. The Honorable Gary Gensler, Chair  
The Honorable Hester M. Peirce, Commissioner  
The Honorable Elad L. Roisman, Commissioner  
The Honorable Allison Herren Lee, Commissioner  
The Honorable Caroline A. Crenshaw, Commissioner