June 14, 2021

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Request for Comment on Climate Change Disclosures

Ladies and Gentlemen:

Better Markets, Inc.\(^1\) appreciates the opportunity to comment on climate change disclosures, as requested by Commissioner Lee when she was serving as Acting Chair of the Securities and Exchange Commission (“SEC” or “Commission”).\(^2\) Better Markets commends the SEC, and Commissioner Lee, for taking the initiative to begin the process of addressing climate change disclosures, and for soliciting comments on a wide range of topics relating to a new disclosure framework.

The combination of urgency and care reflected in Commissioner Lee’s request for comment (“Request”) is entirely appropriate. No aspect of society will be spared material impacts from climate change and the effort to combat climate change. Among those facing some of the most profound changes are the issuers required under the law to disclose important information to their investors and the public regarding their business operations and financial condition. Accordingly, the SEC must ensure that disclosures regarding climate change risk are made, and that they are accurate, meaningful, comprehensive, comparable, and effective at promoting accountability.

**BACKGROUND**

Concerns that human-generated carbon dioxide emissions might cause a warming of the Earth’s climate date back to at least the late-19\(^{th}\) century, with Nobel Prize winning chemist Svante

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\(^1\) Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system, one that protects and promotes Americans’ jobs, savings, retirements, and more.

Arrhenius positing the idea of a “greenhouse effect” and the notion that human activities might contribute to this phenomenon. At that time, Arrhenius’s hypothesis, like many others in the then-nascent study of how and why the Earth’s climate changes over time, was speculative. However, in the ensuing decades, as climatology evolved and as scientists became better able to measure and model climatic changes and discern the causes behind them, it became increasingly clear that the broad contours of Arrhenius’s hypothesis were correct—carbon in the atmosphere was increasing, and the result was higher global temperatures. By the 1980s, scientists were increasingly alarmed about the warming of the climate and the potentially catastrophic consequences, with Dr. James Hansen’s congressional testimony in 1988 as a notable example of the increasing visibility of the issue. In 1992, as part of a summit between world leaders to discuss environmental issues, more than 150 countries signed the Framework Convention on Climate Change. They agreed to work to address the issue and to meet periodically, but not much more.

In 1997, those countries met in Kyoto, and the result was the 1998 Kyoto Protocols, which included the first binding commitments to reduce global greenhouse gases. At the same time, as climate change became more visible, and more people, including scientists, began advocating for aggressive policy interventions to address it, the issue also became more politicized. This was in no small part because addressing climate change would necessarily mean imposing costs on certain industries. When he was president, George W. Bush rejected the Kyoto Protocols, contending that adhering to the Kyoto Protocols would harm the U.S. economy. And, as did many climate change deniers at the time, he pointed to supposed uncertainty surrounding (1) whether the climate was warming, (2) whether, if it was, human activity was to blame, and (3) whether, assuming climate change were real and caused by humans, its adverse impact would be serious enough to justify the costs of addressing it.

In the ensuing years, the scientific consensus that climate change was real, caused by humans, and threatened a significant adverse impact, only increased. In 2001, the same year that President Bush withdrew the U.S. from the Kyoto Protocols, the Intergovernmental Panel on Climate Change (“IPCC”) released an assessment stating, among other things, that an “increasing...
body of observations gives a collective picture of a warming world,” that the 90’s were “very likely” the warmest decade on record, that there was “new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities,” and that there would likely be significant adverse impacts as a result of climate change.9 In other words, despite claims that continue to persist from some about significant uncertainty surrounding the reality and impact of climate change, the scientific consensus has for decades been coalescing around the need for urgent action. The IPCC’s 2014 report was even more explicit—it cited unmistakable warming and “confirm[ed] that human influence on the climate is clear and growing, with impacts observed across all continents and oceans.”10

Reflecting the widespread, global consensus regarding the need to combat climate change, in 2015 nearly every country on Earth joined the Paris Climate Agreement, pledging to reduce greenhouse gas emissions so as to limit warming to less than 2 degrees Celsius from pre-industrial levels.11 More recently, the U.S. and other nations have redoubled their commitment to combating climate change, pledging to cut emissions by even more than originally agreed; these new commitments have been described as both aggressive yet potentially insufficient, which underscores the inevitability of dramatic societal transformation in the face of climate change.12

Ultimately, nearly 100% of climate scientists agree that the climate is warming, that humans are a significant driving factor in causing that warming, and that the adverse consequences from this warming will be significant.13 Moreover, even in just the past few years, advances in modeling and other techniques have better enabled scientists to approximate the degree to which extreme events and disasters are being caused by climate change. Accordingly, scientists have

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confidently concluded that climate change has made devastating wildfires, such as those that have raged in Australia, California, and other places in recent years, more likely to occur and more damaging when they do occur.\textsuperscript{14} Scientists have also pointed to climate change as a likely contributing factor behind 2020’s record-shattering hurricane season, in which there were so many named storms that the World Meteorological Organization’s list of names for the season was exhausted and it had to resort to naming storms using the Greek alphabet.\textsuperscript{15} Ultimately, the number of ecological and climate disasters causing at least $1 billion in damage has increased, with 2020 seeing an astonishing and record-setting 22 such events costing $95 billion in damage and over 250 lives, a trend scientists attribute to climate change.\textsuperscript{16}

All of which is to say, not only is it clear that climate change is occurring and will have a significant impact, it is also clear that we are already living through the impact, and the impact is indeed severe. Ultimately, scientists broadly agree that there needs to be a drastic reduction in greenhouse gas emissions in a short period of time, with the U.N. estimating in 2019 that emissions will need to drop by 7.6\% each year from 2020-2030 to prevent the Earth from warming more than 1.5 to 2 degrees Celsius above pre-industrial levels. Scientists believe this is the essential target we must reach to avoid the worst effects of climate change.\textsuperscript{17}

**COMMENTS**

**A Climate-Related Disclosure Regime Is Critical to Protecting Investor Trust in Our Capital Markets.**

Commissioner Lee’s questions are largely about disclosure of climate risks by public companies. This is entirely appropriate, as accurate disclosure of material information is the lifeblood of a well-functioning capital market—investors, who by definition are being asked to take risks with their money, must have confidence they have sufficient and robust information about those risks to make well-considered investment decisions. Ultimately, if investors trust that companies are giving complete and accurate information about risks and other factors, then investors will feel empowered to invest because they will be able to make investment decisions

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that reflect their own risk appetite and their own perception of value, which will of course vary from investor to investor. If, by contrast, investors do not believe that companies are being forthright about the risks they face and other aspects of their operations, many will simply disinvest from the capital markets; they will not believe they can make informed decisions because they will not have all the information needed to assess the value of any particular company. This dynamic is why trust is “a critical, if not the critical, ingredient to success in the capital markets.”

The SEC’s disclosure regime is, itself, critical to the trust that upholds the U.S. capital markets. As one commentator has pointed out, “[i]nvestor trust is therefore critical for the securities markets to work, and disclosure helps to facilitate that trust. Ultimately, disclosure decreases investor risks and protects the public interest.” In other words, a robust disclosure regime is essential to the proper functioning of the securities markets; investors must know that the law requires meaningful and accurate disclosures and that failure to provide them will result in meaningful enforcement actions to punish and deter wrongdoers.,

**The SEC Should Bear Several Core Principles in Mind Concerning the Enormous Potential Impact of Climate Change.**

As the SEC considers how to ensure that disclosures regarding climate risk are meaningful and facilitate informed investor decision-making, it must keep the following related principles in mind:

**First,** climate change is a global phenomenon that will have a global impact. While the particular nature of the impact will vary in different regions (i.e. some areas may see increased rain, and others more severe drought), likely no place on Earth will be spared some direct impact as a result of climate change.

**Second,** especially in light of vast global interconnectedness, including in commercial markets, even if some areas are spared the more severe, direct impacts of climate change, no aspect of society will escape the indirect consequences of those impacts. On a broad scale, climate change will affect food supplies; supply chains; where people live and work; preferences for housing, clothing, and food; the ailments that afflict people; and more. Put another way, if climate change increases the prevalence and severity of wildfires, that does not just affect the people and businesses in California who happen to be in the path of those wildfires. It threatens a nearly infinite cascade of effects that promise to reach far and wide, from changes in supply or demand for particular types of building material (depending on whether it is more or less resistant to fire),

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to shifting immigration and emigration patterns away from some states to other parts of the U.S. (or even outside of the U.S.), to increasing demand for the treatment of respiratory illnesses.21

**Third.** even if one ignores the direct and indirect consequences of climate change itself, there is undeniably a widespread, global effort to combat climate change already underway, a global effort that, among other things, has seen nearly every country on Earth commit to significant reductions in greenhouse gas emissions. Much like the impact of climate change itself, this effort can be expected to have an impact on every aspect of society, including commerce. Among other things, the fight against climate change—in addition to climate change itself—will involve widespread and transformative changes in many facets of life, including where we live, what we eat, how goods and people move, and many others.22

These fundamental facts explain why, as Commissioner Lee aptly noted, investor demand for climate change disclosure has increased dramatically. The reason is not simply a matter of investor support for an environmentalist agenda. More fundamentally, investors know that how companies respond to the transformative changes that are occurring and will continue to occur as a result of climate change will have a direct bearing on their financial success. Investors are correct: It is difficult to imagine any scenario in which a company is disclosing all material risks that a reasonable investor would want to know without making any disclosures related to climate risk.

**Climate Risk Disclosure Requirements Will Provide Numerous Benefits.**

Because it is so clear that climate risk will have a material impact on the performance of companies, the SEC should mandate and standardize comprehensive climate risk disclosures. The justifications are clear: (1) it will establish a “duty to disclose” that will ensure companies can be held liable for failing to provide full and accurate climate risk disclosures;23 (2) it will help

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21 See Jeremy M. Bellavia, *What Does Climate Justice Look Like for the Environmentally Displaced in A Post Paris Agreement Environment? Political Questions and Court Deference to Climate Science in the Urgenda Decision*, 44 DENV. J. INT’L L. & POL’Y 453, 471–72 (2016) (“The impact of climate change is not limited to the most vulnerable people who live in low lying costal zones or who directly depend on natural resources for livelihoods. Climate change has a widespread impact globally, and disrupts agricultural production, forces people from their homes, and compounds civil and political strife. These conditions affect the price of food and threaten global peace and security.”).


23 As Commissioner Lee points out, there is no explicit requirement that companies disclose all material information, absent a duty to disclose. Commissioner Lee, *Living in a Material World: Myths and Misconceptions about “Materiality”*, Keynote Remarks at the 2021 ESG Disclosure Priorities Event Hosted by the American Institute of CPAs & the Chartered Institute of Management Accountants, Sustainability Accounting Standards Board, and the Center for Audit Quality (May 24, 2021), [https://www.sec.gov/news/speech/lee-living-material-world-052421](https://www.sec.gov/news/speech/lee-living-material-world-052421).
backstop the investor trust that makes the securities markets function, because investors will know that the securities markets are informed by accounting-backed disclosures; (3) it will provide more regulatory certainty for companies; (4) it will insulate companies from the politically motivated criticism that by making voluntary disclosures, they are catering to various interest groups; and (5) it will enable the SEC to standardize climate disclosures, to the extent appropriate, allowing investors to make meaningful comparisons between companies based on their individual climate-related risks.

**The SEC Should Strive for Uniformity and Comparability, Subject to Unavoidable Limits.**

The disclosure requirements should to the extent possible strive for uniformity, comparability, comprehensiveness, and clarity. There may of course be some limits on the extent to which the SEC can standardize disclosures given the variability of climate risks any company might face depending on a variety of factors. The climate-related risk profile of a bank is different from that of a fossil fuel company, which is different from that of a retailer that primarily operates brick and mortar stores, which is different from a retailer that primarily operates online. However, it would seem that for any climate risk disclosure to be meaningful for investors, it would have to include, at a minimum:

- The company’s best assessment of the direct and indirect risks it faces as a result of climate change, with relevant supporting data, and the steps it is taking to mitigate those risks;
- The company’s best assessment of how much it presently contributes to climate change (or in some cases, its best assessment of how much it mitigates climate change), and relatedly how climate change mitigation efforts might impact its operations.

**The SEC Can and Should Dismiss Accusations that It Is Venturing Beyond Its Mission.**

Finally, it is important to note that, were it to mandate and standardize climate change disclosures, the SEC is not wading into environmental policy. It is not requiring that companies take any particular steps to mitigate their contribution to climate change. It is not requiring that companies take any particular steps to mitigate the risk that climate change poses to their operations. Rather, the SEC will be requiring companies to disclose their exposure to a variety of risks that could have an impact on their bottom lines, and accordingly that would be material to profit-seeking investors. In other words, mandating climate change disclosures would not constitute “mission creep” on the part of the SEC. It is instead well within the fundamental mission of the SEC to protect investors and markets by ensuring that companies do not deceive or defraud investors by failing to disclose all material risks.

**Responses to Specific Questions.**

With these general principles in mind, below we respond to some of the specific questions in the request for comment.
**Question 3: What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them?**

Allowing the industry to develop the required disclosures would be a mistake. Industry participants will have an incentive to develop weak disclosures that fail to meaningfully inform investors about climate risks, undermining investor protection and decreasing transparency and accountability. Obviously, the SEC should solicit and consider input from a variety of stakeholders, including various industry participants, about the best approach to climate change disclosures. However, it is ultimately the power and duty of the SEC to ensure that companies fulfill their obligations to make meaningful, accurate, and usable climate change disclosures. Crafting these requirements cannot be outsourced to industry. Otherwise, the requirements will be developed to serve the bottom line of industry interests, not the investors and the public interest that the SEC is obligated to protect.

**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?**

This question implicitly recognizes that climate change is a global phenomenon, and that addressing it requires a global solution. To that end, it would certainly be appropriate for the SEC to look to other jurisdictions that have already begun to address these issues, including the European Union, which recently implemented its Sustainable Finance Disclosure Regulation imposing requirements relating to sustainability and other environmental, social, and governance (“ESG”) factors. Incorporating the elements of approaches in other jurisdictions that have worked well to ensure robust and meaningful disclosures on climate risks, and improving those elements that have not worked as well, is a sound approach to rulemaking. It would also have the ancillary benefit of making it less burdensome for issuers to comply with the requirements of multiple jurisdictions.

However, the SEC must not let the pursuit of “consistent” global standards weaken its own approach to climate risk disclosures. The SEC’s primary mandate is to protect the integrity of the U.S. securities markets and investors in those markets, in accordance with the U.S. securities laws as interpreted by the courts, not to ensure cross-border regulatory uniformity or comity with foreign regulators. In other words, the SEC must not allow any desire for uniformity in disclosure requirements to trigger a “race-to-the-bottom” that would result in investors around the world, including investors in U.S. securities markets, receiving ineffective, meaningless, incomplete, or inaccurate disclosures related to climate risk.

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Question 10: How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance?

Even the most robust regulatory requirements are only as good as a regulator’s willingness and ability to both monitor for compliance and sanction noncompliance. Any climate change disclosure rule must require that top executives at issuers, such as the CEO or CFO, certify the accuracy and completeness of the climate disclosures, and that an independent accounting firm has audited and signed off on the disclosures, to ensure adequate accountability. Moreover, the SEC must ensure that it has the resources and capacity to evaluate climate risk disclosures. Moreover, the SEC must have the will to impose meaningful sanctions on those who make materially inaccurate and incomplete climate disclosures. Those enforcement actions must focus not only on the companies themselves but also on their accounting firms and the executives who certified the accuracy and completeness of those disclosures.

Question 14: What climate-related information is available with respect to private companies, and how should the Commission’s rules address private companies’ climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?

A two-tiered approach to climate risk disclosure, in which public companies are required to make robust, meaningful, and accurate disclosures, and face significant risk of liability for failing to do so, but private companies are largely spared those requirements, would be untenable. It would represent a literal half-measure, undermining investor protection and causing a further flight to risky private markets at the expense of public markets. This is an alarming trend that has been exacerbated by the SEC’s recent efforts to make it easier for companies to raise capital through exempt offerings and to remain non-public companies.26 Leaving private companies out of the climate disclosure framework would only make matters worse. Climate risk disclosures are too important, for investors, for the integrity of the markets, and for the public interest, to allow private companies to essentially opt out of making them. Accordingly, any climate risk disclosure rule must impose requirements on private companies that are comparable to those applicable to public companies.

Question 15: In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework?

This question implicitly recognizes that, just as investors are increasingly demanding climate-change related disclosures, they are also demanding disclosures on a host of other ESG-related issues, including diversity, employee treatment, pay equity, and others. And as with climate change, investor focus on these issues is not just a result of investors pushing a social agenda, but an increasing recognition among investors that these issues impact the financial

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performance of companies. For example, as we have previously pointed out, a May 2020 report by McKinsey & Company demonstrated that companies with more diversity experience higher profitability. Relatedly, consumers and potential customers are factoring corporate policies surrounding diversity into their spending decisions. Consumers and investors also recognize that social unrest is bad for companies, communities, and the economy at large; and we know that the mistreatment of Black people and other marginalized groups leads to social unrest, as evidenced by the widespread protests in response to the George Floyd murder.

In other words, how companies address various ESG issues affects their bottom line, and accordingly would be material to a profit-seeking investor. Accordingly, addressing climate risk disclosures should be the beginning, not the end, of a broader SEC initiative to ensure that investors are provided with meaningful, accurate, and usable disclosures on all ESG issues.

CONCLUSION

We hope you find these comments helpful.

Sincerely,

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Stephen Hall

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29 S&P Global Ratings, Why Corporations’ Responses to George Floyd Protests Matter (Jul. 23, 2020) (“Companies are increasingly aware that failure to maintain stakeholder buy-in can lead to a loss of market share, which can affect credit quality in the long term. For example, a DeVries Global survey (published June 2, 2020) of 1,000 Americans found that more than 62% of respondents under the age of 35 said they will be "doing more research on brands and their inclusivity practices before purchasing." This implies companies that publicly demonstrate such practices may benefit from satisfying their customer base. To illustrate, after sportswear giant Nike launched its 2018 campaign featuring NFL quarterback Colin Kaepernick, its sales increased and its stock price reached an all-time high. Kaepernick controversially knelt during the national anthem before a 2016 game to protest against police brutality, and became a free agent the following season.”), https://www.spglobal.com/ratings/en/research/articles/200723-environmental-social-and-governance-why-corporations-responses-to-george-floyd-protests-matter-11568216.
