Union of Concerned Scientists

ucsusa.org Two Brattle Square, Cambridge, MA 02138-3780 t 617.547.5552 f 617.864.9405
1825 K Street NW, Suite 800, Washington, DC 20006-1232 t 202.223.6133 f 202.223.6162
500 12th Street, Suite 340, Oakland, CA 94607-4087 t 510.843.1872 f 510.843.3785
One North LaSalle Street, Suite 1904, Chicago, IL 60602-4064 t 312.578.1750 f 312.578.1751

June 14, 2021

Re: Public Statement: Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021

Chair Gensler,

We are writing on behalf of the Union of Concerned Scientists (UCS) to comment on the above referenced Request for Input by the Securities and Exchange Commission (the "SEC" or the "Commission") which rightly identified the urgent need for mandatory climate and environmental, social, and governance (ESG) disclosures. The Commission should move quickly to propose, adopt, implement, and enforce detailed disclosure requirements for all issuers.

With the support of half a million scientists and members, UCS is the leading science-based nonprofit working for a healthy planet and a safer world. We are also an institutional investor. As an active member of several networks of sustainable and responsible investors, UCS provides scientific advice and analysis to shareholder advocates to promote climate action and corporate transparency.

UCS has supported three joint comments in response to this Request for Input: a "Statement of Essential Principles for SEC Climate Change Disclosure Rulemaking," a comment focusing on the need for corporate disclosure of political activities, and a letter led by Americans for Financial Reform Education Fund and Public Citizen. Our organization has also submitted comments on related topics to the Commodity Futures Trading Commission[1] and the Federal Housing Finance Agency[2]. In addition, UCS organized a letter of support for the Climate Risk Disclosure Act of 2021 (introduced by Rep. Sean Casten, D-IL) signed by 82 environmental and social justice groups, faith-based and public interest organizations and socially responsible investors.[3] Given the existential threat posed by climate change, concurrent and complementary administrative, regulatory, and legislative actions to strengthen disclosures are urgently needed.

We strongly believe that to meet investor and issuer needs, the SEC must move swiftly to finalize mandatory disclosure rules for climate risk; stewardship of a just and equitable transition to a low carbon economy; human capital management; racial, economic, environmental, and climate justice; taxes; and political spending to avoid untenable growth of climate and ESG risk within our markets that harms investors, spurs the improper allocation of capital, and may increase the cost of capital for U.S. companies.

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[1] Pinko, N., R. Cleetus, and K. Mulvey. 2020. Union of Concerned Scientists Submission to the Climate-Related Market Risk Subcommittee Under the Market Risk Advisory Committee of the CFTC. Online at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=62482&SearchText=.

[2] Cleetus, R. and S. Udvardy. 2021. Union of Concerned Scientists Response to the FHFA RFI on Climate Risk. Online at https://www.fhfa.gov/AboutUs/Contact/Pages/input-submission-detail.aspx?RFIId=1426.

[3] Letter in support of the Climate Risk Disclosure Act. 2021. Online at https://casten.house.gov/sites/casten.house.gov/files/Climate%20Risk%20Disclosure%20Act%20Support%20051121.pdf.

In addition to endorsing the recommendations in the above-referenced joint comments, UCS emphasizes five reasons for the SEC to mandate consistent, decision-useful, and comparable climate and ESG disclosures in annual and quarterly SEC filings and, to the extent possible, in audited financial statements.

Mandatory Disclosure Will Help Correct Market Failures

Climate change is a systemic and growing risk to our economy, yet is not priced into most market decisions today because of multiple market failures including a lack of information and a mismatch in time horizons for assessing risks considered material. The financial system requires transparent, uniform disclosure of climate risks, based on the best available science, to evaluate which companies are best prepared to weather the physical and transition risks of climate change. Despite efforts by some lawmakers, the White House, and domestic financial bodies, US public companies—particularly those in the fossil fuel industry—currently lack sufficient incentives to disclose accurate, standardized, and comparable metrics regarding their climate risks. Financial institutions are not properly pricing climate risks into financial assets, increasingly creating an unstable financial system with broader implications for the economy and the public. The statement "what is measured is managed" applies here, as the lack of consistent, accurate, and comparable measurement of climate-related financial metrics suggests a lack of management of climate-related financial risks.

A suite of interventions, including but not limited to mandatory and standardized disclosure, is needed to help mitigate climate risks. SEC action requiring all public companies to disclose a standardized set of climate and ESG metrics and the relevant context for those metrics can help us prepare for turbulent times ahead—and will help us encourage investment in the clean energy and climate-resilient economy we need. President Biden's Executive Order on Climate-Related Financial Risk is also an important step forward in this regard.[4]

The Risks of SEC Inaction are Rising

Across the nation, climate-related events have already racked up billions of dollars in economic losses—including a record 22 billion dollar-plus extreme weather and climate-related disasters in 2020 alone, the sixth consecutive year the US has experienced 10 or more such events. Business interruptions and supply chain disruptions are mounting. For example, drought in 2012 caused agricultural losses and a decline in the shipping of goods along the Mississippi River that resulted in an estimated $33 billion in damages (in 2018 dollars). After Puerto Rico was badly damaged by hurricanes Irma and Maria, rebuilding the island's electricity infrastructure cost an estimated $17 billion (in 2017 dollars). As wildfires have intensified, annual federal firefighting costs rose to $2.2 billion in 2020. And rising seas, diminishing snowpack, wildfires, and drought are significantly affecting the traditional subsistence activities, livelihoods, and sacred cultural resources of Indigenous peoples, some of whom have already been forced to relocate.

It's no longer tenable to assume that current and future climate conditions will resemble the recent past: all sectors must prepare for a climate-altered future. Yet many companies don't mention—or downplay—the effects of climate change in their publicly available information, misleading investors into overconfidence about long-term returns, and propping up the oil and gas industries, which operate as though the status quo is sustainable when they are fully aware they should be moving toward a clean-energy business model. Furthermore, companies that are more transparent about climate risks often find their data aren't easily understood by regulators or investors because there is no requirement for such data to be standardized and comparable within or across industries.

[4] Executive Order on Climate-Related Financial Risk. 2021. Online at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/.

Furthermore, accurate disclosure of climate risks is also important to create a level playing field for low and zero-carbon sources of energy, helping to accelerate their deployment to meet global goals of achieving net zero emissions by 2050.

Lack of Disclosure Disproportionately Harms Working People and Communities of Color

Climate change is not just an environmental crisis, but one of social justice, wealth distribution, equity and human rights. Much more is at stake than simply the fiscal well-being of US businesses. The public relies on these companies to grow and manage our savings, investments, pension funds, future energy choices, and other long-term portfolios. As we saw during the economic crisis generated by COVID-19, economic insecurity has a disproportionate, much harsher impact on low-income communities and communities of color, many of whom have been excluded from building generational wealth due to racist policies like mortgage redlining and lack of access to credit. Alongside climate risk disclosure, we must also invest in policies to avoid harms like climate gentrification that reinforce existing disparities. Realigning market incentives to reflect the latest science is necessary but not sufficient; we also need a transformative climate resilience strategy to better protect all communities over the long term.

Standardized Requirements Are Necessary for Climate Accountability

Burning fossil fuels for electricity, heat, and transportation is the largest source of global warming emissions. Scientists can now quantify the global warming emissions, global average temperature increase, sea level rise, and ocean acidification attributable to the product-related emissions of particular fossil fuel companies.[5] Due to the impact of burning its oil, gas, and coal products—and also to its past and ongoing campaigns to deceive the public and policymakers about climate science and solutions[6]—the fossil fuel industry bears an outsize responsibility for climate change.[7]

The fossil fuel industry faces a unique mix of climate-related financial risks, such as potential regulations to reduce emissions, market competition from renewable energy technologies, climate damages lawsuits, and reputational damage for knowingly deceiving[8] the public and shareholders[9] about the climate risks of its products.[10] The industry is also particularly vulnerable to physical damages to infrastructure and disruption of operations due to acute climate impacts.[11]

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[5] Licker, R., B. Ekwurzel, S. C. Doney, S. R. Cooley, I. D. Lima, R. Heede, and P. C. Frumhoff. 2019. Attributing ocean acidification to major carbon producers. Environmental Research Letters 14 124060. https://iopscience.iop.org/article/10.1088/1748-9326/ab5abc. Ekwurzel, B., J. Boneham, M. W. Dalton, R. Heede, R. J. Mera, M. R. Allen, and P. C. Frumhoff. 2017. The rise in global atmospheric CO2, surface temperature, and sea level from emissions traced to major carbon producers. Climatic Change 144(4): 579–590. https://doi.org/10.1007/s10584-017-1978-0.

[6] Mulvey, K., and S. Shulman. 2015. The climate deception dossiers: Internal fossil fuel industry memos reveal decades of corporate misinformation. Cambridge, MA: Union of Concerned Scientists. Online at http://www.ucsusa.org/global-warming/fight-misinformation/climate-deception-dossiers-fossil-fuel-industry-memos.

[7] Shue, H. 2017. Responsible for what? Carbon producer CO2 contributions and the energy transition. Climatic Change 144(4): 591–596. https://link.springer.com/article/10.1007/s10584-017-2042-9. Frumhoff, P., R. Heede, and N. Oreskes. 2015. The climate responsibilities of industrial carbon producers. Climatic Change 132:157. https://link.springer.com/article/10.1007/s10584-015-1472-5.

[8] Brief of Amici Curiae Robert Brulle, Center for Climate Integrity, Justin Farrell, Benjamin Franta, Stephan Lewandowsky, Naomi Oreskes, Geoffrey Supran, and the Union of Concerned Scientists in Support of Plaintiff-Appellee and Affirmance, State of Rhode Island v. Shell Oil, LLC, Case No. 19-1818. 2020. Online at http://climatecasechart.com/climate-change-litigation/wp-content/uploads/sites/16/case-documents/2020/20200102_docket-19-1818_amicus-brief-3.pdf.

[9] Commonwealth of Massachusetts v. ExxonMobil Corporation, No. 19-3333, Mass Super. Ct. Online at https://www.mass.gov/doc/october-24-2019-massachusetts-complaint-exxon/download.

[10] Pinko, N., K. Mulvey, B. Ekwurzel, and P. Frumhoff. 2018. *The 2018 Climate Accountability Scorecard: Insufficient Progress from Major Fossil Fuel Companies.* Cambridge, MA: Union of Concerned Scientists. Online at https://www.ucsusa.org/resources/climate-accountability-scorecard-0#ucs-report-downloads.

[11] Carlson, C., G. Goldman, and K. Dahl. 2015. *Stormy Seas, Rising Risks: What Investors Should Know About Climate Change Impacts at Oil Refineries.* Cambridge, MA: Union of Concerned Scientists. Online at https://www.ucsusa.org/resources/stormy-seas-rising-risks#ucs-report-downloads.

In recent years, several shareholder proposals calling for publicly listed oil and gas companies to disclose how they are managing the risks and opportunities of climate change and the energy transition have won majority support. In response to investor pressure, companies such as ExxonMobil and Chevron now publish annual climate risk reports. But the woeful inadequacy of these voluntary (and unaudited) climate risk disclosures has contributed to shareholder rebellions by asset owners and managers dissatisfied with how both companies are aligning their business models and policy advocacy with the goals of the Paris Agreement. If climate risk reporting is to have any value to investors, it must be connected to companies' financial reports and subject to an auditor's review.

Understanding Corporate Political Activity Is Essential to Understanding Corporate Climate Risk

Corporate disclosure of total global warming emissions (Scopes 1, 2, and 3 as defined by the Greenhouse Gas Protocol) is necessary but not sufficient. The SEC should also mandate disclosure of political activity, including direct and indirect election spending and lobbying (including payments to trade associations, politically active nonprofits, and party committees).

UCS has long called on companies to ensure that the climate advocacy of their trade associations and industry groups supports the companies' own stated positions. We joined with 11 other science and environmental organizations to put forward the Advocate, Align, and Allocate Framework for Climate Policy Leadership.[12] Today, mainstream investors increasingly recognize political activity and contributions as a matter of corporate governance. Yet too many companies still pay lip service to climate action while funneling money to groups that oppose the very policies the company claims to support. When revealed, these inconsistencies pose reputational risks and may even create legal liability. Timely, comprehensive, and reliable disclosures of direct and indirect political and lobbying spending and the internal procedures to oversee and govern it would strengthen accountability to shareholders and help ensure that corporate funds are used to advance stated corporate values on climate change, racial justice, voting rights, and other ESG issues.

We thank the SEC for seeking public input on this important issue, and we look forward to engaging with any forthcoming rulemakings to implement a robust mandatory climate and ESG disclosure regime for the U.S. markets.

Sincerely,

Rachel Cleetus
Policy Director, Climate and Energy Program
Union of Concerned Scientists

Kathy Mulvey
Accountability Campaign Director, Climate and Energy Program
Union of Concerned Scientists

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[12] "An Open Letter to America's CEOs from Environmental Leaders." 2021. Online at https://www.aaaclimateleadership.org/an-open-letter-to-americas-ceos/.