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June 14, 2021

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
Via email to rule-comments@sec.gov

RE: Response to request for public input on climate-related disclosure

Dear Ms. Countryman:

The Shareholder Commons is a non-profit organization that seeks to shift the paradigm of investing away from its sole focus on individual company value and towards a systems-first approach to investing that better serves investors and their beneficiaries. In particular, we act as a voice for long-term, diversified shareholders. Together with the undersigned, we ask that you consider the following critical factors in addressing climate-related disclosure.

Effective stewardship requires inside-out information

The global economy relies on numerous environmental and social common-pool resources—goods that companies can access for free but are depleted when overused. Carbon sinks—vegetative and oceanic systems that absorb more carbon than they emit—are an example of such a resource, in that they help to prevent the most catastrophic impacts of climate change but are threatened by deforestation, eutrophication, and other impacts of commercial activity. Another example is public health, which constitutes a common social resource because a healthy population provides labor productivity and innovation and limits healthcare costs but is subject to depletion by companies that emit carcinogens or sell products that lead to obesity and other health hazards.

Individual companies financially benefit by externalizing costs and depleting such common goods when the return to the business from that free (to it) consumption outweighs any diluted cost it might share as a participant in the economy. But over time, these decisions to exploit common resources lead to a significant reduction in the value of the portfolios of diversified investors, because the businesses that make up those portfolios rely on these resources. Investors—almost all of whom are diversified—have the potential to resist this corporate "tragedy of the commons"[1] by exercising their corporate governance rights to stop the companies that they own from pursuing this type of profiteering.[2]

But to be effective stewards, investors need sufficient information to understand whether and how companies in their portfolios are threatening the productivity of social and environmental systems. Such information (describing how the activities of a disclosing company will affect society and the environment) is sometimes called "inside-out" disclosure, in order to contrast it with the traditional "outside-in" disclosure that informs shareholders how environmental and social issues will affect the financial return of the disclosing company. Combining the two of these is sometimes called "double materiality."[3]

In order to protect the interests of the vast majority of American investors with diversified portfolios, Commission rule-making, including with respect to climate-related disclosure and other environmental, social, and governance (ESG) matters, must account for investors' financial interests in protecting systems and common resources, not just the interests of a hypothetical shareholder whose sole interest is in the financial performance of a single company.[4] In the case of climate-related disclosure, this means mandating and promoting inside-out disclosure.

We discuss these ideas in greater detail below.

Investors must act as "beta stewards"

The goal of investors is to preserve their capital and earn sufficient returns to satisfy their needs and obligations, from the retirement liabilities of pension plans to the community obligations of endowments and foundations. This requires investors to optimize their returns based on an acceptable level of risk. These returns are the result of three variables:

1. The return of the market overall to the classes of securities within a portfolio ("beta");
2. The performance of the portfolio above or below beta based on the securities selected to be in the portfolio (alpha); and
3. Costs and fees expended to manage the assets.

In recent decades, the Commission has focused on the second and third components and treated beta as a factor not relevant to investor protection, and this treatment is consistent with Modern Portfolio

[1] *See* Elinor Ostrom, GOVERNING THE COMMONS: THE EVOLUTION OF INSTITUTIONS FOR COLLECTIVE ACTION, Cambridge University Press (1990).
[2] *See generally,* Jon Lukomnik & James P. Hawley, MOVING BEYOND MODERN PORTFOLIO THEORY: INVESTING THAT MATTERS, Chapter 5. Routledge (April 2021).
[3] Nora Hahnkamper-Vandenbulcke, *BRIEFING: Implementation Appraisal Non-Financial Reporting Directive,* European Parliamentary Research Service (January 2021), available at https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf. ("This means companies should disclose not only how sustainability issues may affect the company ('outside-in risks'), but also how the company affects society and the environment ('inside-out risks'), the so-called 'double materiality'.")
[4] From the point of view of a single company (or a shareholder invested in just that single company), depleting the commons may be a bargain, because it will reap 100% of the benefit of the "free" resource but only suffer its proportionate share of the damage as an actor in the economy.

Theory (MPT), the paradigm that dominates modern investing.[5] Regulatory provision for only outside-in disclosure accentuates this gap in stewardship by restricting disclosure to information that is "material" to the financial performance of the disclosing companies in isolation. But this is an arbitrary distinction from an investor protection perspective: companies operate in an increasingly complex and interdependent world in which ecological and social thresholds are at risk. The decisions a reporting company makes can have a greater effect on investors through impact on other companies than through the reporting company's own bottom line, particularly where a business model relies on externalizing costs. Consider the effect that tobacco companies have had on the world economy for decades—how might investors have acted differently if companies had been required to disclose the toll their products take on society and—as a result—productivity, the economy, and diversified portfolios? One recent study suggested that listed tobacco companies destroy an amount of social value equal to 70% of their market capitalization *every year.*[6] Diversified investors armed with this information would be better equipped to recognize that the continuation of business-as-usual at these companies is harming their own portfolios, and therefore to take action to protect that value.

A significant body of literature demonstrates the degree to which company conduct that degrades social and environmental systems threatens diversified investors. This literature demonstrates the deep flaw in the Commission's current posture of focusing disclosure solely on reporting company financial performance. Firstly, it has been established that beta, not alpha, is by far the most important element of return for a diversified investor: "[V]irtually all investors have permanent exposure to systematic market risk, which will still determine 75-95% of their return."[7] Second, it has been established that overall economic performance is a critical determinant of beta.[8] Of course, this is really just common sense: To quote the world's most famous investor, total market capitalization to GDP "is probably the best single measure of where valuations stand at any given moment."[9]

So overall economic performance affects beta, which is crucial to returns—but does company behavior affect that performance? Clearly. In a recent study, Schroders determined that publicly listed companies impose social and environmental costs on the economy with a value of $2.2 trillion annually—more than 2.5% of global GDP.[10] Not surprisingly, climate change is one of the critical externalities that companies create. According to Economist Intelligence Unit projections, the world economy will be 3%

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[5] *Compare* Lukomnik & Hawley, *supra n. 2*, 30 ([T]here is no tool under Modern Portfolio Theory to address systematic risks; "the idea of actually dealing with those sources of risk in order to mitigate them is a foreign idea to MPT.") In brief, MPT encourages investors to optimize the amount of risk they take in order to earn their desired return by diversifying their portfolios as widely as possible; it does not incorporate any concept of investors themselves influencing the market return earned by putting capital at risk.

[6] Andrew Howard, *SustainEx: Examining the social value of corporate activities,* Schroders (April 2019), available at https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf

[7] *Id. at 53.*

[8] Richard Mattison et al., *Universal Ownership: Why Environmental Externalities Matter to Institutional Investors, Appendix IV,* UNEP Finance Initiative and PRI (2011), available at https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf. ("[T]he relationship between GDP and the price of the portfolio of a Universal Owner is linear in the long term.")

[9] Warren Buffett and Carol Loomis, *Warren Buffett on The Stock Market,* FORTUNE (December 10, 2001), available at https://archive fortune.com/magazines/fortune/fortune_archive/2001/12/10/314691/index htm.

[10] Andrew Howard, *supra n. 6.*

smaller in 2050 due to lack of climate resilience.[11] Moreover, just 100 companies are responsible for 71% of industrial global greenhouse gas emissions.[12]

Climate change also provides an important illustration of how company activity can reduce the availability of public goods and degrade common resources. Like common resources, public goods are available for anyone to use for free. Unlike common resources, however, such goods are not subject to depletion when used. National defense is a classic example; another example would be global investment in addressing climate change. A recent study by the International Energy Agency estimates that the investment necessary to create a net-zero economy by 2050 would increase global GDP by 4% by 2030,[13] which would benefit diversified investors greatly. Yet in order to increase their own financial returns, many individual companies spend considerable resources trying to convince policymakers and the public that addressing climate change is unnecessary.[14] Diversified shareholders alerted to the cost of such activity could protect their portfolios with stewardship activity that limited the economic damage done by companies seeking to interfere with the establishment of vital public goods.

Climate change is not the only ESG issue where company activity has enormous effects upon global economic performance and beta. For example:

- *Obesity.* The World Health Organization assesses the unpriced social burdens of obesity as equaling almost 3% of global GDP annually.[15] The food and beverage business bears significant responsibility for this issue.[16]

- *Inequality.* It has been estimated that inequality has reduced demand by 2-4% of GDP in recent years.[17] In the United States, corporate depression of wages for low-income workers and exploding executive pay are expanding inequality.[18]

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[11] *Global economy will be 3 percent smaller by 2050 due to lack of climate resilience,* The Economist Intelligence Unit (November 20, 2019), available at https://www.eiu.com/n/global-economy-will-be-3-percent-smaller-by-2050-due-to-lack-of-climate-resilience/; *see also* Kahn, M., Mohaddes, K., Ng, R., Hashem Pesaran, M., Raissi, M, and Yang, J.*, Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis*, IMF Working Paper (2019) (abstract)(" Our counterfactual analysis suggests that a persistent increase in average global temperature by 0.04°C per year, in the absence of mitigation policies, reduces world real GDP per capita by more than 7 percent by 2100. On the other hand, abiding by the Paris Agreement, thereby limiting the temperature increase to 0.01°C per annum, reduces the loss substantially to about 1 percent.")
[12] Swann Bommier & Cécile Renouard, *Corporate Responsibility in the Climate Crisis,* PUBLIC BOOKS and LA VIE DES IDÉES (January 21, 2019), available at https://www.publicbooks.org/corporate-responsibility-in-the-climate-crisis/#:~:text=Although%20states%20are%20largely%20responsible,global%20industrial%20greenhouse%20gas%20emissions
[13] Stéphanie Bouckaert *et al.*, *Net Zero by 2050: A Roadmap for the Global Energy Sector,* International Energy Agency (May 2021), available at https://www.iea.org/reports/net-zero-by-2050.
[14] *See, e.g.,* Hiroko Tabuchi, *How One Firm Drove Influence Campaigns Nationwide for Big Oil,* NEW YORK TIMES (November 11, 2020), available at https://www nytimes.com/2020/11/11/climate/fti-consulting html. (Reporting that FTI Consulting, a publicly traded company, "helped design, staff and run organizations and websites funded by energy companies that can appear to represent grass-roots support for fossil-fuel initiatives.")
[15] *See* Andrew Howard, *supra n. 6.*
[16] *See, e.g.,* https://www hsph.harvard.edu/nutritionsource/healthy-drinks/sugary-drinks/
[17] Josh Bivens, *Inequality is slowing U.S. economic growth: Faster wage growth for low- and middle-wage workers is the solution,* Economic Policy Institute (December 12, 2017), available at https://www.epi.org/publication/secular-stagnation/
[18] Sam Pizzigati, *Putting the Brakes on Corporate America's Inequality Engine,* Inequality.org (November 15, 2019), available at https://inequality.org/great-divide/putting-the-brakes-on-corporate-americas-inequality-engine/#:~:text=Corporations%20are%20contributing%20to%20inequality%20on%20two%20fronts.&text=The%20legislation%20%E2%80%94%20the%20Tax%20Excessive,the%20higher%20the%20tax%20rate. *See generally*, Heather Boushey, UNBOUND: HOW INEQUALITY CONSTRICTS OUR ECONOMY AND WHAT WE CAN DO ABOUT IT, Harvard University Press (October 15, 2019).

- *Racial and gender disparities.* Gender and racial gaps created $2.9 trillion in losses to U.S. GDP in 2019,[19] and racial disparities are projected to cost the U.S. economy $5 trillion over the next five years.[20] The latter report cited in the margin details how corporations can address this issue.

- *Antimicrobial Resistance.* The World Bank projects that antimicrobial resistance will decrease global GDP by as much as 3% by 2030 and almost 4% by 2050; at an intermediate discount rate, this will amount to economic losses by 2050 with a current value of $54 trillion.[21] A study commissioned by the UK government puts the figure at $100 trillion.[22] Scholarship links this increasing resistance in part to commercial pressures in agriculture and consumer packaged goods industries.[23]

These examples clearly demonstrate that, if shareholders have sufficient information to analyze the potential effects of their votes on corporate behaviors that effect the economy, they can—for the price of exercising a vote—make reasonable attempts to protect the financial returns on their portfolios by using their corporate governance rights to preserve and strengthen the critical systems that undergird the economy. Certainly then, ensuring and enabling adequate provision of this type of information is a necessary element of the task of protecting investors.

Evolving fiduciary standards buttress the need for inside-out ESG disclosure

1. The role of fiduciaries in investing: the sole benefit rule

Close to 80% of shares of publicly traded stock is held by institutions that owe fiduciary duties to the beneficiaries on whose behalf they invest.[24] As fiduciaries, they are required to manage portfolios for the "sole benefit" of their beneficiaries by optimizing the value of the funds they control.[25] Given that at least 75% of the performance of a portfolio is based on overall market performance,[26] a fiduciary should address the external environmental and social costs created by portfolio companies along with the performance of individual companies against a benchmark. As noted above, a recent study by a major asset manager discerned that 55% of the profits attributed to publicly listed companies globally were consumed by external costs absorbed by the rest of the economy:

> *In total, the earnings listed companies generate for shareholders currently total US$4.1 trillion, which would fall by 55% to US$1.9*

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[19] Shelby R. Buckman et al., *The Economic Gains from Equity,* Federal Reserve Bank of San Francisco (January 19, 2021), available at https://www frbsf.org/our-district/files/economic-gains-from-equity.pdf.
[20] Dana M. Peterson and Catherine L. Mann, *Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.*, Citi GPS (September 2020), available at http://citi.us/3olxWH0.
[21] Drug-Resistant Infections: A Threat to Our Economic Future, World Bank Group (March 2017), available at http://documents1.worldbank.org/curated/en/323311493396993758/pdf/final-report.pdf
[22] *Antimicrobial Resistance: Tackling a crisis for the health and wealth of nations,* UK Government Review on Antimicrobial Resistance (December 2014), available at https://amr-review.org/sites/default/files/AMR%20Review%20Paper%20-%20Tackling%20a%20crisis%20for%20the%20health%20and%20wealth%20of%20nations_1.pdf .
[23] Carolyn Anne Michael, Dale Dominey-Howes, and Maurizio Labbate, *The Antimicrobial Resistance Crisis: Causes, Consequences, and Management,* Frontiers in Public Health vol. 2 145 (September 16, 2014), available at https://www ncbi nlm nih.gov/pmc/articles/PMC4165128/.
[24] https://www.pionline.com/article/20170425/INTERACTIVE/170429926/80-of-equity-market-cap-held-by-institutions
Daniel R. Fischel & John H. Langbein, ERISA's Fundamental Contradiction: The Exclusive Benefit Rule, 55 U. Chi. L. Rev. 1105, 1108 (1998).
[26] *Supra n. 7*

> *trillion if those social and environmental impacts crystallised as financial costs. One third of companies would become loss-making.*[27]

But those costs will crystalize: as the economy absorbs them, growth and productivity fall, leading to decreasing overall market returns. Asset owners and managers are beginning to understand why their responsibilities go beyond managing returns at individual companies and include ESG stewardship. For example, the PRI, an investor initiative whose members have $103.4 trillion in assets under management, recently explained how the pursuit of profit by an individual company can reduce the return of diversified owners even if the company is included in their portfolio:

> A company strengthening its position by externalising costs onto others. *The net result for the [diversified] investor can be negative when the costs across the rest of the portfolio (or market/economy) outweigh the gains to the company;*
>
> A company or sector securing regulation that favours its interests over others. *This can impair broader economic returns when such regulation hinders the development of other, more economic companies or sectors;*
>
> A company or sector successfully exploiting common environmental, social or institutional assets*. Notwithstanding greater harm to societies, economies, and markets on which investment returns depend, the benefits to the company or sector can be large enough to incentivise and enable them to overpower any defence of common assets by others.*[28]

2. New DOL Rules

Evidence of this growing recognition came in the response of the Department of Labor (DOL) to recent comments on proposed regulations. In 2020, after years of shifting guidance, the DOL, which oversees the governance of private pension plans, proposed two rules essentially creating a presumption that ESG considerations were in violation of trustees' duties. After receiving comments, including overwhelming evidence that ESG strategies are largely designed to increase return and/or decrease risk, the DOL finalized the rules but eliminated the presumption. The revised rules largely focused on ESG strategies aimed at increasing the return of a company or particular portfolio, rather than the market itself. However, the following language from the DOL release of the new rules shows that investment strategies—including exercising corporate governance rights with a goal of improving beta—are not under any ERISA cloud.[29]

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[27] Andrew Howard, *supra n. 6.*

[28] *Active Ownership 2.0: The Evolution Stewardship Urgently Needs,* PRI (2019) available at https://www.unpri.org/download?ac=9721. *See also Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators,* Ceres (June 1, 2020), available at https://www.ceres.org/resources/reports/addressing-climate-systemic-risk. ("The SEC should make clear that consideration of material environmental, social and governance (ESG) risk factors, such as climate change, to portfolio value is consistent with investor fiduciary duty.") Ceres is a non-profit organization with a network of investors with more than $29 trillion under management.

[29] The DOL has suspended enforcement of the new rules based on concerns expressed by many stakeholders that the rules will have a chilling effect on the incorporation of ESG standards into investment and voting decisions by plan fiduciaries. *See U.S. DEPARTMENT OF LABOR STATEMENT REGARDING ENFORCEMENT OF ITS FINAL RULES ON ESG INVESTMENTS AND PROXY VOTING BY EMPLOYEE BENEFIT PLAN* (March 10, 2021), available at

- *"The ERISA fiduciary duty of prudence requires* ***portfolio-level attention*** *to risk and return objectives… The proposal was not intended to suggest that these principles apply other than neutrally to all investment decisions by a trustee or other fiduciary…"*[30]

- *"Commenters . . . expressed the view that the roles that proxy voting and shareholder voices play in current portfolio risk management practices should be evaluated in the context of the long-term and* ***portfolio-wide strategy****, with consideration of the aggregate effects of shareholder votes and voices. After considering these comments, the Department has modified paragraph (e)(2)(ii)(A) and (B).*

  ". . . In the Department's view, the final rule provides sufficient flexibility for fiduciaries to consider longer-term consequences and ***potential economic impacts****…"*[31]

The recognition of the need for portfolio-wide attention to risk and return and potential economic impacts indicates an acceptance that ESG factors' influence on beta is a legitimate investor concern.

3. Legal Scholarship

Legal scholarship has long focused on ESG issues from the point of view of directors of individual companies, but there is now a growing focus on the need for trustees to use ESG strategies that increase systemic health and thus portfolio-wide performance—even where such strategies may decrease the value of individual holdings within a portfolio. The following quotes from three recent articles support this expanded view:

- *"A rational owner would use his power to internalize* ***externalities so long as its share of the cost to the externality-causing firms are lower than the benefits that accrue to the entire portfolio from the elimination of the externality****."*[32]

- *"[I]t becomes rational and predictable that these institutional investors will make both investment and voting decisions on a portfolio-wide basis (rather than simply trying to maximize the value of individual stocks). This, in turn, permits* ***the netting of gains and losses across the portfolio****, and the implications of this transition are sweeping."*[33]

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https://www.dol.gov/sites/dolgov/files/ebsa/laws-and-regulations/laws/erisa/statement-on-enforcement-of-final-rules-on-esg-investments-and-proxy-voting.pdf. However, the concern expressed in the announcement of the suspension was that the new rules did not go far enough in endorsing the use of ESG considerations. Thus, the fact that rules that are considered chilling nevertheless accommodate beta stewardship (as shown in the text) is a strong indicator that fiduciaries can and should engage in it where they believe it can improve portfolio outcomes.

[30] Financial Factors in Selecting Plan Investments, 85 Fed. Reg. 72,846 (November 13, 2020), available at https://www federalregister.gov/documents/2020/11/13/2020-24515/financial-factors-in-selecting-plan-investments. [emphasis added]

[31] Fiduciary Duties Regarding Proxy Voting and Shareholder Rights, 85 Fed. Reg. 81,658 (December 16, 2020), available at https://www federalregister.gov/documents/2020/12/16/2020-27465/fiduciary-duties-regarding-proxy-voting-and-shareholder-rights. [emphasis added]

[32] Condon, Madison, *Externalities and the Common Owner* (April 26, 2019). 95 Washington Law Review 1 (2020), NYU Law and Economics Research Paper No. 19-07, Available at SSRN: https://ssrn.com/abstract=3378783

[33] Coffee, John C., *The Future of Disclosure: ESG, Common Ownership, and Systematic Risk* (March 16, 2021). European Corporate Governance Institute - Law Working Paper 541/2020, Available at SSRN: https://ssrn.com/abstract=3678197 or http://dx.doi.org/10.2139/ssrn.3678197

- *"A salient form of systematic risk is climate change risk. The disruptions associated with various realizations of climate change risk will ramify across the entire economy and thus across a diversified stock portfolio; climate change risk is systematic.* ***Failure to mitigate climate change risks will thus reduce risk-adjusted returns for an index fund investor.*** *Here is the importance in bringing a portfolio theory perspective: Many arguments for a climate-sensitive engagement entail a trade-off between expected returns and the social value of avoiding the potential for severe climate change harms, "socially responsible investing." Systematic stewardship grounds engagement to reduce climate change risk in the economics of investor welfare. The goal of such engagement is lower systematic risk and thus to improve risk-adjusted returns for portfolio investors. There is no trade-off of investor welfare for social welfare."*[34]

The bolded language from these scholars clarifies the need for fiduciaries to understand the effect that their portfolio companies will have on social welfare and their portfolios as a whole. Any "trade-off" at a single-company level must be netted against gains the portfolio receives from the decrease in systemic risk.

<u>*Principles for inside-out ESG disclosure*</u>

Thus, economic logic and developing legal standards make clear that inside-out ESG information is necessary for investors to protect their own interests or those of their beneficiaries. To effectively satisfy its investor protection mandate, the Commission must ensure that disclosure rules around climate and other ESG matters address inside-out metrics and other information. In its application of this concept, the Commission should follow five important guideposts:

1. *Inside-out disclosure must be related to relevant boundaries.* To be effective, inside-out information must be measurable against planetary or societal boundaries; that is, shareholders should be provided information that helps them determine whether a company is using a common resource or contributing to a social problem at a rate that challenges the productivity or viability of important systems, and thus poses a threat to the economy and other companies.

   For example, requiring reporting against a science-based target for greenhouse gas emissions would satisfy this test; in contrast, measuring emissions reduction in a company's manufacturing processes against a base year would not, both because the base year is not relevant to planetary boundaries and because it ignores important elements of the life cycle of the manufactured product, and thus does not tell the full story of the company's contribution to the earth's limited carbon budget.

2. *Regulations should enable investors as a complement to establishing standards.* Investors, who rely on diversified portfolios to satisfy long-term liabilities and goals, are themselves well-positioned to determine disclosure standards that will provide the information that they need to protect their portfolios. Moreover, due to the global nature of capital markets,

[34] Gordon, Jeffrey N., *Systematic Stewardship* at 3 (February 14, 2021). Columbia Law and Economics Working Paper No. 640, European Corporate Governance Institute - Law Working Paper No. 566/2021, Available at SSRN: https://ssrn.com/abstract=3782814 or http://dx.doi.org/10.2139/ssrn.3782814

institutional investors can work to create cross-border standardization. Although there will be many instances in which the Commission is able to determine useful inside-out disclosure standards, it should also enable complementary private ordering by investors who may have better opportunities than the Commission to catalyze disclosure in some circumstances. This means ensuring that investors can effectively use Rule 14a-8 to propose such disclosure, and that "proxy plumbing" is adequate to the task of affording shareholders the ability to fully exercise their franchise when companies fail to heed shareholder voice on these issues.

For example, a 14a-8 proposal that addresses an inside-out concern may have significant implications for the economy and thus investor returns, even if the practice in question has a limited nexus to the company engaging in the practice. Shareholders should not be denied a voice on such matters since, as discussed above, significantly more of their return is based on market performance than on individual company performance.

3. *Inside-out ESG information must be treated as equal in importance to financial information.* Inside-out disclosure informs investors whether a company that they collectively control is acting in a manner that threatens the value of their entire portfolio. This information is no less important than the highly regulated financial information that is subject to strict audit, certification, and absolute mandates. Thus, Commission-mandated disclosures around inside-out disclosure should impose similar assurance and certification requirements and should not offer explanation as an alternative to compliance.

4. *Disclosure requirements around inside-out ESG information should not distinguish between publicly traded and privately held companies.* The rationale for distinguishing between publicly traded and privately held companies with respect to financial reporting is based on the nature and sophistication of the company shareholders whom the information is intended to protect. That rationale does not exist for inside-out ESG information, which is relevant to all investors, as well as other stakeholders. It is well within the Commission's statutory mandate to require that such information be provided by all companies over which it has jurisdiction.

5. *The need for inside-out information applies across the ESG landscape.* The logic for mandating and enabling inside-out disclosure on climate applies equally to other social and environmental issues including inequality, biodiversity loss, antimicrobial resistance, and other threats to the health of our economy. To properly protect investors in an era when almost all investors are diversified, and when an interdependent global economy is subject to multiple social and environmental threats, it is incumbent upon the Commission to ensure that investors are receiving sufficient information to exercise their corporate governance rights in stewarding the companies that they own.

Conclusion

The mission of the Commission is to protect investors. Its rules should evolve to reflect the demands of an increasingly complex and interdependent economy that is exceeding multiple planetary and societal boundaries. Greenhouse gas emissions and other costs externalized by private industry pose a greater threat to investor portfolios than any threat to be found in information that is material solely to the performance of any single company. We urge the Commission to draft rules that reflect this new and dangerous reality.

If you have any questions, please contact Rick Alexander at [redacted] or [redacted]

Sincerely,

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