

June 14, 2021

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

Dear Chair Gensler,

We are grateful for the opportunity to comment on the regulation of climate and other ESG disclosures in the Commission's integrated disclosure system.

Future Nexus is a new consultancy established to support learning and coordination between public and private sector institutions who incorporate the public interest into investment strategy. Our organization also signed letters submitted by Americans for Financial Reform Education Fund, Public Citizen, and Ceres. In addition to expressing our support for their comments, we would like to offer a few observations. Many of these are drawn from our founder's experience in global investment management and sustainable investment, including as former chief economist for an asset manager with \$70 billion in assets and a global client base.

Clear, consistent, accurate, and comparable data is the backbone of institutional investors' efforts to actively pursue more sustainable investment outcomes. For example, the proliferation of net-zero commitments among companies, investors, and financial intermediaries represents a broad global movement to mitigate the dangers of climate change and the risks it poses to investment portfolios. This effort has the conceptual clarity sufficient to lead, in conjunction with public policy, a low-carbon transition, and its corollary benefits of technological development, productivity growth, human capital growth, and employment. But the effort depends on clear, consistent, accurate, and comparable data.

Many institutional investors have highly diversified portfolios with substantial exposure to systemic and systematic risk. Systemic and systematic risks pose a challenge to voluntary disclosure regimes for two primary reasons. First, even where assessments of financial materiality are made in good faith, they are likely to assess vulnerability to sustainability risks, rather than contribution to those risks. Second, individual issuers are unlikely to view vulnerability to these risks through a systemic or systematic lens, but rather through an idiosyncratic lens, relative to sector comparators for example. Taken together these two facts mean that there is a pervasive bias not to disclose data that is indeed material for allocators of large diversified portfolios. Removing these blind spots through mandatory disclosure could provide investors a basis not only to better map and mitigate systemic risk, but also to undertake investment strategies aimed at reducing systematic risk. Where climate and other ESG data are financially material at

the portfolio or systemic level, their disclosure should be required of all issuers, even where idiosyncratic materiality is not apparent. Inconsistent and incomplete disclosure is an obstacle to efficient capital markets.

It can also be an obstacle to competitive markets in cases where access to the required data is available, but not universally—for instance, only through paid data providers including alternative data providers, or under foreign disclosure regimes including the EU's SFDR.

Climate and other ESG disclosures which fall short of the highest global standards can also hinder capital formation where they prejudice US companies in access to global capital. As an example, the EU has pioneered investment benchmark methodologies based on alignment with emissions reduction goals in the Paris Agreement. These benchmarks depend on issuers' climate-related disclosures, such that failure to disclose climate data may imply exclusion from these benchmarks and portfolios which track them, and therefore a passive bias against US companies in global capital markets.

The EU's disclosure regime has relied on a clear conceptual distinction between financial materiality and social/environmental materiality ("double materiality"), and requires disclosure in both senses, though with differing standards. This can be an important reference point for the SEC's work, though it is also worth noting the distinction can be blurred, and the SEC should not confine the scope of its mandatory disclosures to financially material information alone. As illustrated through the concept of systemic risk above, 'principal adverse impacts' of individual issuers on social and environmental conditions can easily become financially material to diversified portfolios. Perhaps more importantly, principal adverse impacts often become directly financially material through mechanisms of investor, consumer, or other stakeholder behavior. Improving the disclosure of these negative social and environmental impacts is a way to protect investors from latent risks, and to arm a wider range of investors with more accurate and consistent information, in support of more competitive markets.

A number of other respondents have recommended bringing privately-held companies at least partially into the scope of mandatory disclosures. Recent years have seen increased use of financial processes and vehicles including special purpose acquisition companies which partially blur the distinction between public and private companies. We believe the SEC's disclosure system should mandate climate and ESG disclosures from a broad set of companies, including public and large private companies, primarily to support investors in understanding and mitigating systemic and systematic risk, and to avoid large informational discontinuities during changes in corporate status.

Thank you for your consideration of this important topic, and for carefully attending to the much-needed update of the US disclosure regime.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Cantrell'.

Aaron Cantrell
Founder, General Director
Future Nexus

A handwritten signature in black ink, appearing to read 'Amangul Hydyrova'.

Amangul Hydyrova
Research Assistant
Future Nexus