Investor Advocates for Social Justice

June 14, 2021

The following letter is presented by Investor Advocates for Social Justice in response to an [invitation for comment] on climate change disclosures by SEC Acting Chair Allison Herren Lee to be submitted by June 14th, 2021.

Investor Advocates for Social Justice submits this comment letter in support of a rulemaking by the SEC on mandatory climate change disclosures. We believe that there is a moral obligation for timely climate action by all companies, regardless of size or industry. Disclosure of the material and systemic risks of climate change will help companies and investors to understand, price, and manage climate risks and opportunities. These activities are not only at the core of efficient securities markets, but are also essential to ensuring a just and thriving economy that works for all people and communities.

Investor Advocates for Social Justice (IASJ) is a 501(c)(3) tax-exempt non-profit organization representing and supporting long-term institutional investors with faith-based values who seek to promote human rights, climate justice, racial equity, and the common good through their ministry work as well as their investments. Through active ownership activities, we foster meaningful engagement between companies and investors to address material environmental, social, and governance issues. Through our Mission-Aligned Investing program, IASJ supports investment fiduciaries in our community in integrating their values, including their support for the low-carbon transition, into their asset allocation and investment decision-making processes. IASJ's commitment to address the climate crisis is grounded in a commitment to faith values, such as Pope Francis' encyclical, Laudato Si', which discusses integral ecology and the interconnectedness of the planet, water systems, and human well-being. We are also deeply troubled by the fact that the impacts of the climate crisis disproportionately burden communities of color and people who are poor. We urge companies to take a human rights based approach to identifying and mitigating their climate impacts and that they must prioritize environmental justice. An urgent transition to a low-carbon economy, grounded in equity and justice, is essential.

We are a member of the Interfaith Center of Corporate Responsibility (ICCR), a 50-year-old coalition of more than 300 faith- and values-based institutional investors who engage with hundreds of corporations on their environmental and social impacts. IASJ and other ICCR members have been engaging for decades with companies on the risks posed by climate change to encourage effective governance of climate-related risks and robust, time-bound business plans aligned with a 1.5 degree warming scenario. Many members of IASJ's community seek to align their investment portfolios with a 1.5 degree scenario; however, the lack of data and comparability of data from issuers make it nearly impossible for their financial advisors to implement this approach in their company analysis and allocations. This engagement and these challenges inform IASJ's strong support for and deep understanding of the necessity for **comparable, consistent, and reliable** climate-related information.

IASJ's comment will address the following issues in response to the request for comment: (1) mandatory and comparable disclosure is needed for both companies and investors to make informed financial decisions, and (2) existing standards designed with securities filings in mind help better-position companies to adapt to a low-carbon transition.

(1) Mandatory and comparable disclosure is needed for both companies and investors to make informed financial decisions.

The costs of failing to address climate change are significant and estimated to have an average value at risk of $224 billion per year in just the US.[1] Economic losses from natural disasters alone caused $210 billion in damages in 2020 and physical climate costs are projected to increase.[2] Both companies and investors need to be informed of climate-related risks to make sound financial decisions. Disclosure helps investors to better evaluate companies' business plan, strategy as it relates to the low-carbon transition, climate-related expertise, governance of climate-related risks, and how management of climate risks is factored into performance evaluation and compensation. All of this is necessary to understand how robust a company's climate risk management is and how fundamental it is to every-day decision making. This disclosure will enable investors to identify gaps in risk management, as well as identifying opportunities for investments in a low-carbon economy.

Current corporate disclosure is not sufficient, is not readily available in existing financial disclosures, and does not allow investors to make comparable assessments of how companies are evaluating and responding to climate-related risks and opportunities. Scope 3 emissions data, which is one of the most important indicators of the climate impacts of a business, is essential to informing investor decision-making. Scope 3 is not currently clearly defined, understood, and is not widely available from companies, especially those with the highest scope 3 emissions (i.e. fossil fuels, utilities, automotive, financial services). For example, companies who respond to CDP report using a myriad of different methods of monitoring and reporting their greenhouse gas emissions. These disclosure methods vary significantly in quality and usability, as they range from verified programs to legal standards without monitoring guidelines or measurable standards.[3] Moreover, not every company responds to CDP and these disclosures are not audited by an independent third-party. The CDP disclosures may not be accessible and available to all investors and interested users; this reinforces the importance of mandating disclosures in existing, audited, financial statements. Material climate disclosures, including discussion on risk exposure and business opportunities, impacts on strategy and emissions reporting and management, should be included in annual, quarterly, and other appropriate SEC filings.

It will be important for the climate-related disclosures to be integrated into broader, improved ESG disclosure standards. However, given the urgency of the climate crisis, this disclosure standard should not be delayed as a more extensive standard that addresses issues such as human rights, racial justice, water stewardship, and responsible supply chains, is developed.

(2) Existing reporting standards designed with securities filings in mind help better-position companies to adapt to a low-carbon transition.

Investors need consistent, comparable, and reliable information at scale that will support both companies and investors in comprehensive risk exposure assessments to navigate the path to a net zero future. Corporate climate disclosure should be mandatory for all companies and cover scope 1, 2, and 3 emissions. The standards should be updated regularly to incorporate the latest scientific evidence.

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[1] https://yaleclimateconnections.org/2019/04/climate-change-could-cost-u-s-economy-billions/

[2] https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2021/2020-natural-disasters-balance.html

[3] https://www.cdsb.net/sites/default/files/the-case-for-consistency-in-climate-change-related-reporting.pdf

IASJ recommends the adoption of existing standards, specifically the Task Force on Climate-related Financial Data (TCFD) to address companies' climate risk exposure, governance, strategies, and metrics and targets. TCFD has guidelines and recommendations for voluntary climate-related disclosures that are consistent, comparable, reliable, clear, and efficient, and provide useful information to lenders, insurers, and investors. TCFD recommendations include disclosure of climate-related metrics and targets, risk management, strategy, and governance- all of which help investors make more informed financial decisions. There may be opportunities to strengthen the existing standards by better aligning with community-based stakeholders around equity and justice priorities such as environmental justice, just transition, rights of indigenous peoples, collecting and analyzing race disaggregated data to inform decision-making, meaningful stakeholder consultation, and remedy. Corporate contributions to climate change impacts communities' way of life, access to resources, public health, and their physical safety. The climate crisis is predicted to cause 38,000 additional deaths per year as of 2030, and nearly 100,000 additional deaths per year as of 2050.[4] Those most vulnerable to climate impacts as a result of factors like discrimination, age, income, geography, and disability are among the first to face direct consequences, and are often least able to adapt. Alignment with stakeholders on the frontlines of climate impacts may strengthen disclosure standards, and also ensure that they are rigorous and aligned to the latest scientific findings. Nonetheless, companies that align their disclosure with TCFD are likely in a better position to communicate on their climate scenarios and plans to adapt and thrive in the transition to a low-carbon economy.

IASJ supports the development of industry-specific reporting standards to help investors assess and compare company performance. The implications of the climate crisis on the need for urgent transformation of certain sectors, such as those that extract and refine fossil fuels, and the automotive industry, is clear. Therefore, this will require a mandate for disclosure around business model transformation, climate related expertise on the Board of Directors, and capital expenditures to transform the business model at the appropriate pace. This can expand upon the existing TCFD supplemental recommendations for sectors that face heightened climate-related risks. For example, for industries with high energy consumption, metrics related to emission intensity may be an additional data point relevant to the company's disclosure. Sectors with unique risks and opportunities, such as the financial sector, may require additional disclosure as well on factors such as metrics used to assess climate-related risks and opportunities in individual investment strategies. This must include emissions attributable to the lending, investing, and underwriting activities of financial institutions, often referred to as "financed emissions", which contribute substantially to the systemic risk of climate change faced by the financial sector.

The climate crisis requires immediate action to mitigate the growing threats to financial markets and the economy, as well as to the people and communities that exist within them; therefore, we ask the SEC to act urgently in its climate disclosure rulemaking process. We appreciate the opportunity to participate in the SEC's request for information and thank you for your consideration of IASJ's comments.

Sincerely,

Mary Beth Gallagher
Executive Director
Investor Advocates for Social Justice

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[4] https://www.ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=23691&LangID=E