14 June 2021

Re: Climate Change Disclosures

Dear Chair Gensler,

The Ellen MacArthur Foundation welcomes the opportunity to respond to the Securities and Exchange Commission's (SEC's) request for public input on climate-related financial disclosure issued by Acting Chair Allison Herren Lee on March 15, 2021. We support the SEC's increased interest in this area, given the clear need for a global set of sustainability reporting standards which are consistent with the scale and urgency of the global challenges we face today.

To avoid further fragmentation of the non-financial reporting landscape, we believe it will be **crucial to work with existing global initiatives in this space, build upon their work and harmonise efforts**, such as the ongoing work in the EU (including the development of EU sustainability reporting standards by EFRAG, the Corporate Sustainability Reporting Directive, and the Taxonomy regulation), IFRS and TCFD. The SEC could use its authority and mandate to shape and back the most comprehensive existing efforts, whilst helping to bridge any competing interests or viewpoints between existing initiatives.

We believe it is **important that due consideration is given to the connection between climate change and other global challenges, such as biodiversity loss and waste and pollution** to help create a holistic understanding and maximise the positive impact of efforts on our economy, society and environment. While it is reasonable to focus on climate-related financial disclosures given the tight time frame required for addressing this urgent issue, we are concerned that this may reinforce some of the limitations in existing frameworks. Focusing too narrowly on one challenge risks neglecting the interconnectedness of different environmental objectives, and thus limiting the opportunity space for achieving those goals most effectively.

We **recommend taking an integrated approach to sustainability reporting which includes relevant disclosures for the transformation of production and consumption systems** as a necessary complement to the energy transition. Relying solely on energy efficiency and switching to renewable energy will only address 55% of global greenhouse gas (GHG) emissions.[1] To reduce a significant proportion of the remaining 45% GHG emissions, we have to change how we make and use products, and how we produce food and manage land. In order to decarbonise these production and consumption systems, we need to transform how we design, make, and use those goods, and the systems they exist in, whilst making more effective use of materials, adopting regenerative practices and eliminating extractive ones. This implies shifting away from our current take-make-waste 'linear' economic model towards a low-carbon, circular economy. The circular economy offers a delivery mechanism for addressing hard-to-abate emissions, and as such plays a critical role in meeting the goals of the Paris Agreement. For example, research suggests that if a circular approach were adopted in just five sectors (steel, aluminium, cement,

[1] Ellen MacArthur Foundation, *Completing the Picture: How the Circular Economy Tackles Climate Change* (2019); www.ellenmacarthurfoundation.org/publications

plastic, and food), annual GHG emissions would fall by 9.3 billion tonnes of CO2e in 2050, equivalent to the reduction that could be achieved by eliminating all transport emissions globally.

Relevant technical expertise on circular economy, and an assessment of where gaps remain in existing standards, will be essential to ensuring that the resulting climate-related and sustainability reporting standards are future-proof, comprehensive and capture all material sustainability considerations. These include areas that are not covered, or not adequately covered, by existing initiatives, but are important for (double) materiality reasons, such as the transformation of manufacturing sectors beyond the energy transition.

Enhancing transparency by mandating disclosure and standardising definitions and metrics for circular activities can enable investors and financial institutions to integrate circular concepts into financial decision making, risk assessments and modelling, as part of a transition pathway to net zero. Better data will be required to underpin the shift. If capital is to be reoriented at scale, more transparent and consistent data on circularity performance (both historical and forward-looking) will be crucial. In addition to scaling dedicated circularity measurement tools such as the Ellen MacArthur Foundation's Circulytics,[2] **integration of circularity metrics in leading existing frameworks will be needed**.

In order to be credible, **non-financial information to be disclosed should be auditable or subject to external assurance/third-party verification**. Ultimately, once the required skills and expertise exist in the profession, an integrated audit of both financial and sustainability information could be carried out by accountants.

In summary, we would like to reinforce the **importance of taking a systems approach to the development of sustainability standards, as offered by the circular economy framework.** This approach helps tackle different connected global challenges at once by eliminating waste and pollution, keeping products and materials - and their embodied energy - in the economy, and regenerating natural systems. In addition, we would like to stress the **importance of including disclosures related to the transformation of production and consumption systems needed to meet climate goals**, completing the energy transition.

We look forward to the next steps in this process and welcome further engagement on these and other relevant topics.

Sincerely,

Emily Healy
Finance Initiative Project Manager

Michiel De Smet
Finance Initiative Lead

On behalf of the Ellen MacArthur Foundation

[2] Ellen MacArthur Foundation, *Circulytics*

About the Ellen MacArthur Foundation
The Ellen MacArthur Foundation is an international charity, committed to the creation of a circular economy that tackles some of the biggest challenges of our time, such as climate change and biodiversity loss. Driven by design, a circular economy eliminates waste and pollution, keeps products and materials in use, and regenerates natural systems, creating benefits for society, the environment, and the economy. The Foundation collaborates with businesses; governments, institutions, and cities; designers; universities; and emerging innovators to drive collaboration, explore opportunities, and develop circular business initiatives.

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