June 14, 2021Re: Climate Change Disclosures

Dear Chair Gensler,

We appreciate the opportunity to respond to the U.S. Security and Exchange Commission's request for comments on climate change disclosures within the context of the SEC's integrated disclosure system. We applaud the SEC exploring this critical set of issues. Below, we provide our perspective on the question regarding how to think of climate disclosures as part of a holistic ESG framework. First, though, a short description of JUST Capital.

Background On JUST Capital

JUST Capital is a nonprofit, co-founded and chaired by Paul Tudor Jones, that exists at the intersection of business, finance, and civil society to build a market that works for all Americans. To drive change at scale, JUST Capital uses a combination of data-driven research and strategic engagement to shift norms and practices in corporate America and the financial markets. Each year, JUST Capital surveys thousands of Americans to identify the key issues that matter to business behavior, and then tracks and measures how publicly-traded companies (currently the Russell 1000) perform on these criteria, identifying the tangible steps each company can take to create greater value and support for all of their stakeholders, including investors. We engage all market participants, including policymakers, investors and the general public, to drive change at scale on society's biggest challenges. Specifically:

- We've spent over 80,000 hours collecting ESG data, including over 500,000 individual data points across companies within the Russell 1000.
- We've polled over 110,000 Americans, across all demographic groups, in partnership with the Harris poll, on what is most important for companies to prioritize. We then rank the Russell 1000 companies across five stakeholder categories: Workers, Communities, Customers, Shareholders, and the Environment.
- JUST has established partnerships with asset managers to launch 10 investment products totaling over $320 million in assets under influence.
- We have relationships with hundreds of Russell 1000 companies, with an engagement strategy focused, in part, on driving ESG disclosure.
- We continue to promote the investor case for ESG investing through our product and index partnerships, data licensing, and thought leadership.

Request for Comment: *In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?*

JUST Capital believes that the SEC has a critical role to play in addressing ESG disclosure. According to Morningstar, asset flows into U.S. sustainable open-end and exchange traded funds have reached a record $51.1 billion in 2020, up from $21.4 billion in 2019 and nearly 10 times higher than the 2018 flows of $5.4 billion.[1] As an organization responsible for tracking ESG data disclosure, we have seen a significant acceleration both in disclosure and in demand for it. However, the lack of standardization and consistency means that there is only so much investors, researchers, and workers can understand from the publicly available data.

Climate requirements should be one part of a broader ESG disclosure framework. JUST Capital believes that it is in both the public's and the market's best interest for company behavior to be aligned with the public's priorities. Therefore, since 2015, JUST Capital has surveyed more than 110,000 Americans on what they believe U.S. companies should prioritize most when it comes to just business behavior, including pay, training, health, equity, and climate policy, with issues relating to workers and communities consistently ranking among the public's highest priorities.[2]

From six years of data, it is clear that the public believes that corporate performance is based upon a company's impact across all of its stakeholders, supporting a holistic view that cannot consider, for example, impact on workers and the environment in isolation. ESG measurements increasingly give stakeholders a much fuller picture of how companies create value and assess risk across their workforce, communities they operate in, and their environmental impact. We have no doubt that ESG data are financial metrics – they are simply non-traditional ones.

As the American public's opinion prioritizes just business behavior across all stakeholders, it is clear there is interconnectivity between these ESG risks. While the United States has recently rejoined the 2015 Paris Climate Accord to limit global warming to under 2 degrees Celsius, a large aspect of the Accord is that we cannot reach that goal without a just transition.[3] In it, all 196 parties agree to, "Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities." Failing to consider the social dimensions in ESG disclosure will increase the risk of delaying, diluting, or abandoning climate policy.

JUST Capital researchers take a comprehensive approach in assessing corporate performance. We consistently see correlations between financial outperformance from companies that score highly. We found in February, for example, that companies in the Russell 1000 with the most workers making a living wage had higher returns on assets over a three-year period than those that had the fewest.[4] We also found that companies in the top quintile of Workforce Investment and Training scores outperformed the bottom quintile by 5.01% from March 2020 to March 2021.[5] On a broader level over that same period, the average of our 100 highest ranked companies outperformed the average Russell 1000 by 8.7 percentage points.[6]

Looking at the Exchange Traded Fund (ETFs) industry as another example, many of the largest ESG ETFs (over $1 billion in assets under management) take a number of ESG metrics into consideration, whether they are using the UN Global Compact Principles or other standards. Examples include Xtrackers MSCI USA ESG Leaders Equity ETF (USSG), a $3.6 billion fund; and Vanguard ESG US Stock ETF (ESGV), a $4.2 billion fund.

Despite investor demand for ESG performance, there continues to be a lack of consistency in company reporting of ESG data.

We recently saw this disconnect in our assessment of the largest publicly traded American companies' pay equity data. Only 31 of the 100 largest companies, by workforce size, acknowledged ever having conducted a pay equity analysis by race and ethnicity.[7] And only 14 of these 31 companies (45%) ever disclosed the results of their analysis. Of the 928 companies we ranked in 2020, 21.3% acknowledged conducting a pay equity analysis by gender, and less than 60% of that subsection publicly disclosed the results.[8] Further complicating an assessment of this data is the varied reporting formats companies use. This example gets to the heart of the two-fold problem: a lack of both transparency and standardization.

Because there is a wide variety of DEI, climate, and human capital metrics that the SEC will consider, there is also a lack of consistency in what and how companies report across the range of ESG factors. This should be concretely addressed.

We supported the actions the SEC took on human capital principles in 2019, but early indications on human capital disclosure from this year show that requiring only a principles-based approach is insufficient to have comparable data on companies (additional analysis on this topic from JUST Capital is forthcoming).

Accordingly, we recommend that the SEC create a universal set of standardized ESG metrics that includes but is not limited to climate-related disclosures, which are applicable to every company, using additional principles-based disclosures depending on individual business or industry.

We are happy to share further data insights with the SEC and applaud your work on climate metrics and other ESG disclosures. We believe this represents a tremendous opportunity for investors, the market, and the country at large.

Thank you again for providing the opportunity to comment on such an important and impactful issue.

Sincerely,

Martin Whittaker
CEO, JUST Capital

Endnotes

1. Hale, Jon. “A Broken Record.” *Morningstar*, 28 Jan. 2021, https://www.morningstar.com/articles/1019195/a-broken-record-flows-for-us-sustainable-funds-again-reach-new-heights
2. “Amidst Crisis, What Americans Want From Corporate America: JUST Capital’s 2020 Survey Results.” *JUST Capital*, 2020, https://justcapital.com/reports/just-capital-2020-survey-results/
3. United Nations/Framework Convention on Climate Change. “Adoption of the Paris Agreement.” *21st Conference of the Parties*, 2015.
4. Bixby, Steffen and Mahoney, Charlie. “Companies That Have the Most Workers Earning a Living Wage Have Higher Returns on Assets.” *JUST Capital*, 11 Feb. 2021, https://justcapital.com/news/companies-that-have-the-most-workers-earning-a-living-wage-have-higher-returns-on-assets/
5. Mahoney, Charlie and Schrager, Sam. “Companies That Prioritize Workforce Investment and Training Outpeform Those That Don’t.” *JUST Capital*, 3 Mar. 2021,

https://justcapital.com/news/companies-that-prioritize-workforce-investment-and-training-outperform-those-that-dont/

6. Mahoney, Charlie. “JUST 100 Companies Continue to Exemplify Strong Leadership While Achieving Alpha.” *JUST Capital*, 29 April 2021, https://justcapital.com/news/chart-of-the-week-just-100-companies-continue-to-exemplify-strong-leadership-while-achieving-alpha/
7. Stutzman, Molly; Radeva, Aleksandra; and Ira, Kim. “Pay Equity Analysis Is a Critical Step to Advancing Racial Equity in America.” *JUST Capital*, 2021, https://justcapital.com/reports/pay-equity-analysis-is-a-critical-step-to-advancing-racial-equity-in-corporate-america/
8. Ira, Kim; Keating, Amanda; Radeva, Aleksandra; Stutzman, Molly; and Vaghul, Kavya. “Equal Pay Day 2021: Just 21% of Companies Report Conducting a Pay Equity Analysis in 2021, but More Disclose the Results.” *JUST Capital*, 2021, https://justcapital.com/news/equal-pay-day-2021-just-21-of-companies-report-conducting-a-pay-equity-analysis-in-2021-but-more-disclose-the-results/