The Honorable Gary Gensler
U.S. Securities and Exchange Commission
100 F Street, N.E. Washington, D.C., 20549

June 14, 2021

Re: Response to Call for Public Input on Climate Change Disclosures

Dear Chair Gensler,

Fossil Fuel Divest Harvard is a coalition of members of the Harvard University community calling for the divestment of Harvard's nearly $42 billion endowment from fossil fuels, as well as for its reinvestment in environmentally sustainable and socially responsible businesses. For a decade, FFDH and the broader fossil fuel divestment movement has argued that if it's wrong to destroy the planet, then it's wrong to invest in that destruction. We believe that the severity of the climate crisis and malfeasance of the fossil fuel industry makes fossil fuel investments an unacceptable financial, moral, and legal risk for investors.

In the years since its founding, the fossil fuel divestment movement has proven among the most impactful forces when it comes to meaningfully advancing a swift and just transition to a fossil fuel-free economy. As leading scientists, economists (and, indeed, fossil fuel companies themselves) agree, divestment works — and even as investors like Harvard fall behind through their inaction, investors worth trillions of dollars (including many of Harvard's peer institutions) have committed to divest from fossil fuel stocks.

Through protest, legal strategies, writing, organizing, and more, our campaign has been a leader in bringing the issues of fossil fuel divestment and reinvestment to the forefront of public consciousness and financial discourse. As a well-established voice on these issues, we seek to use our privilege and expertise wherever an opportunity arises to advance a fossil fuel-free economy that can support our planet and our communities — which is especially important to us as a campaign led by young people who know our futures are uniquely imperiled by climate change. It is for this reason that we are writing to you in response to your request for public input on climate change-related risk disclosure. We know your rulemaking here can play an essential role in empowering investors and compelling companies to fully reckon with the true costs of the climate crisis. With the imperative to divest only growing in urgency as the financial system comes to terms with the reality of the immense risks posed by a reliance on fossil fuels and the reckless behavior of the fossil fuel industry, we are proud to share our perspective and submit the following comments for your consideration.

Recommendations for SEC Protocol on Climate Risk Disclosure

The SEC should require and enforce robust climate change-related risk disclosure, consistent with the widely-recognized recommendations of the Financial Stability Board's Task Force for Climate-related Financial Disclosures. As a signatory on the recent letter addressed to your agency and organized by the nonprofit organization Ceres, which is supported by numerous nonprofit groups, climate organizations, and investors with over $2.7 trillion in assets under management and advisement, we concur with the call to expand the SEC's climate disclosure regime in order to more fully capture the financial risks posed by the climate crisis. We agree that there is an urgent need for increased disclosure of matters such as scope 1, 2, and 3 emissions and for robust and standardized reporting requirements that prevent companies from relying on carbon accounting hacks (such as avoided emissions or offset use) to cover up inaction.

The SEC should require companies to disclose their risk of stranded asset exposure. Meeting the goals of the Paris Agreement and aligning with the science-based recommendations of the Intergovernmental Panel on Climate Change will require leaving significant amounts of proven carbon assets in the ground, with treaties, regulations, increases in social awareness, and market shifts all playing a role in rendering significant amounts of these assets unburnable. In a decarbonizing economy, therefore, fossil fuel assets including but not limited to coal, oil, and gas represent substantial financial liabilities. And so long as market participants fail to fully account for this, present valuations of such assets can only contribute to a carbon bubble.

However, as numerous recent studies reveal, no major fossil fuel company is meaningfully on track to transition its business model in line with the goals of the Paris Agreement. As a result, much of their carbon holdings stand to become stranded assets as the world seeks to scale back fossil fuel extraction. A company with significant direct or indirect exposure to these assets thus puts itself at risk when the carbon bubble pops. The vast financial risks associated with extracting, producing, and investing in fossil fuels is already widely recognized by leading economists, major asset managers, and more — the SEC should recognize this risk as well, and mandate greater disclosure of such exposure.

Third, the SEC should require companies to disclose risk of reputational harm due to climate activism, including, where relevant, any material impacts on their business incurred by the vast and growing movement for fossil fuel divestment. As calls for serious action to address the climate crisis and its disproportionate impact on majority people of color, low-income, and other marginalized communities have increased dramatically, the material impact of such calls on businesses — in particular, companies that extract, produce, and/or otherwise develop fossil fuels — has become more and more apparent.

Fossil fuel companies themselves have acknowledged the effects of investors' decisions to pull their funds and divest from the industry. Prior to its bankruptcy declaration in 2014, for example, Peabody Energy stated in SEC filings "[t]here have also been efforts in recent years affecting the investment community, including investment advisors, sovereign wealth funds, public pension funds, universities and other groups, promoting the divestment of fossil fuel equities and also pressuring lenders to limit funding to companies engaged in the extraction of fossil fuel reserves. The impact of such efforts may adversely affect the demand for and price of securities issued by us, and impact our access to the capital and financial markets." The British-Dutch multinational oil and gas company Royal Dutch Shell, commonly known as Shell, has also acknowledged the fossil fuel divestment movement as a material risk to its business. In its annual strategic report in 2017, the company stated that the divestment movement "could have a material adverse effect on the price of our securities and our ability to access equity capital markets . . . other financial institutions also appear to be considering limiting their exposure to certain fossil fuel projects. Accordingly, our ability to use financing for future projects may be adversely impacted."

Furthermore, major financial management firms BlackRock and Meketa have separately concluded that investment funds experienced no negative financial impacts from fossil fuel divestment and, to the contrary, that such divestment has led to modest increases in fund returns. As explained by an IEEFA analysis of the reports, these conclusions turn in part on fossil fuel stocks' serious underperformance in recent years and an understanding that fossil fuel divestment commitments have continually satisfied the standards of prudence to which fiduciaries are held. A 2018 study found that the New York State Common Retirement Fund — which recently began the process of divestment as part of its broader transition to a decarbonized investment portfolio — would have been an estimated $22.2 billion richer had it divested its fossil fuel stocks a decade earlier.

Every day, more and more companies are recognizing the moral, financial, and in some cases legal risks of investing in fossil fuels and choosing to divest, as well as sever other relationships with the fossil fuel industry. At present over 1,320+ institutions including faith-based organizations, educational institutions, philanthropic foundations, governments, pension funds, for-profit corporations, non-profit organizations, and healthcare institutions holding nearly $14.6 trillion worth of assets in total have either partially or fully committed to divestment from fossil fuels. Prominent recent commitments to divestment by U.S. institutions include the University of California, the state of Maine, New York City pension funds, and more.

Given the imminent need for economy-wide decarbonization in the coming decades, we believe it is likely that the divestment movement will only continue to grow, securing even greater commitments from major funds to cut financial ties to fossil fuels. Institutions who remain invested in fossil fuels, moreover, may risk losing substantial credibility among investors and consumers as it becomes harder and harder to ignore the imperative for divestment.

Conclusion

Ultimately, mandatory disclosure around fossil fuel exposure and the impacts of the divestment movement would help investors make informed decisions and put the U.S. on track to achieve the imminent decarbonization that climate science and justice demand. Additionally, it would help enforcement and regulatory agencies separate prudent from imprudent institutional investors. In recent months, our campaign has helped spearhead a growing legal movement which contends that non-profit institutional investors (including Harvard University) who refuse to divest from fossil fuels are acting not just immorally but *illegally*. By investing in companies that refuse to embrace and in many cases actively work to obstruct a just transition off fossil fuels, we argue, these institutions are failing to fulfill their fiduciary and charitable duties. Enacting the robust reporting requirements of the nature we have recommended would help reveal such risky and improper behavior, thus fulfilling the SEC's mandate to promote a market environment worthy of the public's trust.

We hope you will take these comments under serious consideration and look forward to seeing the SEC's final determination. Thank you for your time.

Sincerely,
Fossil Fuel Divest Harvard
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