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Schroder Investment Management North America
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[redacted]

June 14, 2021

Gary Gensler, Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Public Input on Climate Change Disclosures

Dear Chairman Gensler:

We write in response to Acting Chair Lee's March 15, 2021 public statement requesting input on climate change disclosures. At Schroders, asset management is our main business and our goals are aligned with those of our clients - the creation of long-term value to assist them in meeting their future financial requirements. We manage US$785.1 billion (£574.4 billion/€641.7 billion as of December 31, 2020) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of active strategies across equities, fixed income, multi-asset, alternatives and real estate.

As an active fund manager with a belief in the benefits of fundamental research, Schroders has been integrating ESG considerations into investment processes since 1998. Over the years our approach to integrating responsible investment principles has evolved and we have enhanced our processes. We seek to integrate ESG considerations across all of equity, fixed-income, multi-asset and private assets globally. Our integrated approach spans the breadth of the ownership lifecycle, from identifying trends and analyzing companies through engagement, voting and reporting. We have developed and continue to develop proprietary tools to assess ESG (including climate) risk and opportunity in our investments. As fiduciaries to our clients we assess a variety of risks and opportunities – including those related to climate change -- in order to maximize our clients' risk-adjusted returns. We believe that having sufficient information from issuers is essential for us to help our clients meet their long-term financial objectives.

Schroders welcomes the SEC's interest in mandating useful, comparable and verifiable climate change disclosures; however, we encourage the SEC to broaden the spectrum of mandated financially material ESG disclosure and that these mandated disclosures be addressed as soon as reasonably possible.

In its current state, public company disclosure simply isn't granular enough, let alone private company or asset disclosure. We think it is therefore inevitable that without minimum mandatory disclosure the necessary data will be estimated, likely by third party ESG rating agencies, given the task will be too great for any one fund management house to do itself.

Schroders is supportive of mandatory disclosures and recommends alignment with global initiatives. Witnessing the speed and volume of regulatory efforts aiming to reach a common goal, we stress the importance of working to achieve global consistency and reduce complexity. We therefore suggest that the SEC, where possible, align with other global regulatory initiatives, including the European Commission's Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), and Sustainable Finance Taxonomy. The pace at which different groups and regions are moving in this space also heightens the importance for the SEC to collaborate and benefit from existing work and expertise, particularly those of the European Union and the Sustainability Accounting Standards Board (SASB).

There are a wide range of initiatives the SEC may build upon for both climate as well as social disclosure. We suggest mandatory disclosure of a core set of metrics that can be reliably and consistently measured, and those that are most relevant and material to entity assessment, complemented by industry specific information. Sustainable investment is a large but still-growing field, in which innovation and new ideas must be encouraged, rather than choked by an overly-expansive framework that risks restraining rather than promoting the innovation this industry needs.

We recommend that the number of required indicators be focused on those that can be reliably and consistently measured, and those that are most relevant and material to entity assessment. In our view, the core metrics are:

- Carbon emissions (broken down by scope 1, 2 and 3 carbon emissions - including agriculture, forestry and other land use (AFOLU) emissions - and in total)
- Carbon footprint
- Weighted average carbon intensity
- Biodiversity and ecosystem preservation practices
- Does the company have emission reduction policy or statements?
- Who is the most senior person in the firm with stated climate responsibilities?
- Workforce turnover
- Total workforce compensation costs
- Labor force full vs. part-time vs. contracted breakdown
- Number/rate of accidents, injuries, fatalities, frequency
- Gender pay gap
- Who is the most senior person in the firm with stated accountability for human capital management
- Anti-corruption and anti-bribery policies

In terms of industry specific disclosures, we note in particular the Science-Based Target Initiative (SBTi), the Task Force on Climate-related Financial Disclosures (TCFD) for climate disclosure, Human Capital Management Coalition (HCMC) and SASB/the alliance of standard-setters for broader disclosures due to the following reasons:

The Science-Based Target Initiative (SBTi) appears to be the most common one adopted by corporates to limit warming to 1.5°C which means net zero by 2050. Aligning to SBTi will be useful so that corporate issuers can refer to the sector guidance as and when SBTi develops them. In addition, other relevant pathway initiatives for consideration are UNFCCC's Climate Action Pathways and Transition Pathway initiatives.

The UK government announced its intention to make **TCFD**-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. This is the first region to make TCFD reporting mandatory but it is likely that over time other regions will follow suit. TCFD is one of the most established climate-related disclosure frameworks and could significantly benefit the International Financial Reporting Standards (IFRS) Foundation's proposed climate-first approach.

The **Sustainability Accounting Standards Board (SASB)** is a well-established global organization with a strong history and expertise in sustainability reporting. The IFRS Foundation may benefit from its existing work such as the SASB materiality map and reporting standards, as well as its network of sustainability-focused stakeholders, such as the Investor Advisory Group.

In 2020 SASB formed an alliance with CDP, CDSB, GRI and IIRC, and in June completed a merger with the IIRC to form the Value Reporting Foundation. This alliance forms a powerful knowledge-base with potential to catalyze efforts towards a global standard for sustainability disclosures. As such, we recommend that the SEC engage closely and regularly with the alliance.

The **Human Capital Management Coalition (HCMC)** is a cooperative effort among a diverse group of influential institutional investors to further elevate human capital management as a critical component in company performance. The HCMC engages companies with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value. The HCMC views Human Capital Management as encompassing a broad range of corporate practices related to the management of employees, including, but not limited to, hiring and retention, employee engagement, training, compensation, fair labor practices, health and safety, responsible contracting, ethics, desired company culture, and diversity, both with respect to a company's direct employees and to the employees of vendors throughout the company's supply chain.

At this time we don't have a strong preference for the location of mandated disclosure as we expect most asset management organizations to use ESG data aggregators to source the data required, rather than gathering data directly from companies' reporting. We believe Refinitiv and Bloomberg are the two most widely used sources of aggregated company level data.

However, we have also suggested in the EU to create or support a central "clearing house" which would compute the metrics from holding information provided by each asset management firm. In addition to mitigating the inefficiency of every organization developing parallel processes, it would also ensure more consistency and comparability in the resulting measures thereby avoiding market confusion. The model and extent of involvement and cooperation amongst the data providers can be further explored.

Although overtime we are supportive of third party assurance, at this point in time there are limited providers that offer independent examination for ESG investing and those that do can be costly, which would be particularly burdensome for smaller issuers. Imposing independent examination as a requirement may be unfair for companies that wish to apply the standard but do not have the resources to seek independent examination.

That being said, our experience with our proprietary tools that rely on reported data is that there are still many errors, even with the leading data providers. In many cases climate data is estimated or inaccurate. In addition to issues around estimation, the methodology used to evaluate social issues are even more subjective and need to be standardized.

We believe that independent examination should be recommended as best practice, however we think it is premature for it to be made compulsory.

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In conclusion, Schroders believes that it is vital that end-investors are provided with clear, financially material, comparable information on which to base comparisons and investment decisions. We support the SEC's efforts to ensure markets have access to consistent, comparable, reliable information on financially material ESG risks and opportunities. We welcome further engagement on the topic.

Yours sincerely,

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