Domini

June 14, 2021

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via email to rule-comments@sec.gov

Re: Comment in Response to RFI on Climate-Related and other ESG Disclosures

Dear Ms. Countryman,

I am writing on behalf of Domini Impact Investments LLC ("Domini"), an investment adviser and sponsor of a proprietary family of mutual funds, to offer our perspective on critical climate related and other environmental, social and governance ("ESG") corporate disclosures in response to Commissioner Lee's request for information.

Materiality

The financial risks faced by reasonable investors are not limited to company specific risks but rather include systemic risks. Systemic risks, or non-diversifiable risks, like climate change, biodiversity loss, and inequality are largely overlooked by Modern Portfolio Theory ("MPT"). MPT, which is the basis of much contemporary investing, focuses instead on reducing risk through diversification. Yet more recent research demonstrates that these systemic issues are both highly financially material[1] and can be affected by investor action.[2]

The practice of ESG investing has begun to address these risks and opportunities but has been hindered by a lack of robust, consistent, and comparable data. Disclosure requirements should capture corporate policies, practice and performance related to these systemic risks in addition to company specific ESG risks and opportunities. Doing so is vital to support the Securities and

[1] See, for example: Dasgupta, Partha, *The Economics of Biodiversity: The Dasgupta Review*, HM Treasury (February 21), available at: https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review and Lydenberg, Musuraca, Burkart and Clark, *Why and How Investors Can Respond to Income Inequality*, UNPRI (2018), available at: https://www.unpri.org/download?ac=5599.
[2] See, for example: Lukomnik and Hawley, *Moving Beyond Modern Portfolio Theory: 1st Edition,* Routledge (April 2021), and Burkart and Lydenberg, *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change,* Berrett-Koehler Publishers (April 2021).

Exchange Commission's ("SEC" or "Commission") mission to protect investors, and support capital formation and fair and efficient markets.

Where and How [Questions #10, 11, 12]

Eventually, much ESG data should be audited and filed with certification by senior management. Yet because disclosure ESG data has not previously been required of corporate issuers, there are not presently universally accepted standards and methodologies for reporting ESG data. At the same time, the significant systemic risks facing our markets – and climate change in particular – demand that the Commission require disclosure before such standards and methodologies can be fully developed.

Delaying meaningful corporate disclosure on climate and biodiversity risks will also delay investors' ability to address those risks and will likely greatly increase the cost of addressing those risks. Strong action on climate risk 30 years ago could have made our "net zero" ambitions far less costly to attain and avoided or reduced the expenses already incurred due to the physical risks of climate change.[3]

For these reasons we support a phased approach that provides industries on ramps and trial periods to disclose information that rachets up in accountability and specificity over the next several years.

Metrics [#2]

Domini has previously commented on and supported comments and petitions regarding ESG disclosures, including the 2017 Petition for Rulemaking on Human Capital Management Disclosure[4], 2018 Petition for Rulemaking on ESG Disclosure[5], our 2019 Comment on the Modernization of S-K[6]**,** among others. In addition to the issues identified in those comments, we would like to highlight some key ESG metrics here.

<u>Carbon and Greenhouse Gas ("GHG") Accounting</u>

Mandatory corporate disclosure of Scope 1, 2 and 3 emissions as defined by the GHG Corporate Reporting Protocol is essential for investors seeking to understand and address climate risk, and is especially critical for any investors committed to GHG emissions goals (e.g. net zero by 2050 or sooner). These disclosures should include an inventory of direct and indirect emissions as well as time bound targets for emissions reductions and progress towards those targets. While offsets will play a role in net emissions, it is critical that disclosures show positive and negative

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[3] Sanderson, B.M., O'Neill, B.C. Assessing the costs of historical inaction on climate change. *Sci Rep* **10,** 9173 (2020). https://doi.org/10.1038/s41598-020-66275-4

[4] "Petition for Rulemaking on Human Capital Management Disclosure" (2017). Available at: https://www.sec.gov/rules/petitions/2017/petn4-711.pdf

[5] "Petition for Rulemaking on ESG Disclosure" (2018). Available at: https://www.sec.gov/rules/petitions/2018/petn4-730.pdf

[6] "Domini Comment on the Modernization of S-K" (2019). Available at: https://www.sec.gov/comments/s7-11-19/s71119-6322234-194449.pdf

emissions separately to understand shifting practices within the reporting company. Additionally, emissions data should be disaggregated to the zip code level both for the purposes of future auditing and to understand community, racial and climate justice impacts.

Nature Risk

While the accounting of nature related risks is less developed, the systemic risks related to nature loss are arguably far greater than those posed by climate change alone. The stability of the global food system and risks related to infectious disease are just two examples of major systemic risks related to nature loss. Nature loss is also deeply intertwined with climate change – the continued loss of forests and the disruption of ocean ecosystems will affect nature's ability to store carbon and therefore our pathway to a 1.5 degree or 2 degree scenario.

The CDP (formerly the Carbon Disclosure Project) has collected survey data from companies on forest and water risks and impacts, which offer a sound starting point for corporate disclosures on nature risks. For example, forest risk commodities – soft commodities that are responsible for large percentage of industry-driven deforestation – generally include cattle, palm oil, and soy. Issuers should disclose the total volume of forest risk commodities sourced and trace that sourcing back to the farm level. Point of origin data is essential for assessing an issuer's exposure to and contribution to biodiversity risks.

We note also the emergent work on biodiversity and nature disclosures by the Partnership for Biodiversity Accounting Financials, the Task Force on Nature Related Disclosures ("TNFD"), the Natural Capital Finance Alliance, the World Benchmarking Alliance and others. These efforts will support rapidly growing investor concern on biodiversity and nature loss as well as corporate disclosures in this area.

Taskforce on Climate Related Financial Disclosures ("TCFD") [#13]

The information generated by a TCFD report provides valuable insight into how an issuer understands climate risks to their ongoing business. TCFD reports should be mandated in such a way that includes nature related risks, in anticipation of global goals set at the 2021 Convention on Biological Diversity and the expectations set by the forthcoming TNFD. These disclosures requirements should include the underlying assumptions used in the scenario analysis and should discourage boilerplate language.

Nature Positive

Domini has spent the last several years working deeply on the intersection of deforestation and systemic risk. Through the project we have identified companies that both impact forests while depending on forests for key services or inputs. Companies that drive deforestation while relying on forests are inherently unsustainable and also contribute to significant systemic risks for our portfolios. This problem holds true for other natural capital assets as well.

One key takeaway from this work has been that companies, particularly those that depend on natural capital assets, should contribute positively to the health and restoration of those assets.

Accordingly, it would be beneficial to require narrative disclosure on how issuers, particularly those that depend on natural capital assets, support the systems on which they rely. More generally, as investors we need insight into how a company's business model is adapting to align with a sustainable future or alternatively, how it is failing to adapt.

Other ESG Disclosures

As mentioned above, Domini has supported many other forms of ESG disclosure over the years. Specifically, we believe that the Commission should at this time mandate disclosure of:

- Line-item human capital metrics including workforce composition (e.g. fulltime, part time, contractor, seasonal, etc.), workforce cost, and workforce turnover rates, all disaggregated by workforce demographics;
- Principles-based human capital disclosures including workforce health and safety, workforce skills and capabilities, workforce culture, engagement and empowerment, human and labor rights, and workforce pay and incentives;
- Country-by-country tax reporting;
- Political spending; and
- Human rights due diligence, including racial justice audits and policies and practices surrounding digital rights.

Existing Frameworks [#5]

The Commission should draw on the considerable investment by issuers, investors and civil society in voluntary reporting frameworks. These frameworks include, but are not limited to the Sustainability Accounting Standards Board, the TCFD, the Carbon Disclosure Standards Board, the Principles on Carbon Accounting Financials, the Global Reporting Initiative, the CDP, the Workforce Disclosure Initiative, and the Accountability Framework Initiative as well as the emerging TNFD and Principles for Biodiversity Accounting Financials. While no framework is complete in itself, there is much to be gleaned from each of them.

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We thank you for the opportunity to comment and for your attention to his important matter.

Sincerely,

Carole Laible
Chief Executive Officer
Domini Impact Investments LLC