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June 15, 2021

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20529-1090

RE: Public Input on Climate Change Disclosures

Honorable Chair Gensler:

We appreciate the opportunity to provide input to the discussion surrounding climate change disclosures. XBRL US is a nonprofit standards organization. Our members include public companies, accounting firms, software, data, and service providers, as well as other nonprofits and standards organizations. The mission of XBRL US is to improve the efficiency and quality of reporting in the U.S. by promoting the adoption of business reporting standards. XBRL US is a jurisdiction of XBRL International, the nonprofit consortium responsible for developing and maintaining the technical XBRL specification, which is a free and open data standard widely used around the world for reporting by public and private companies, as well as government entities.

Climate change will continue to have a significant impact on the economy, affecting companies both private and public. Businesses and markets cannot operate efficiently without information about these impacts to accurately assess the viability of a company in both the short- and long-term. In addition to investors, numerous other audiences such as suppliers, contractors, customers, financial institutions providing financing and potential partners, need information about the companies in which they invest, or with which they do business, including data about the impact of climate change.

Interest in sustainable investing has been on the rise in the U.S., with assets under management using sustainable investing strategies increasing by 42% since 2018, to $17.1 trillion in 2020; today, sustainable investment assets account for 1 in 3 dollars of assets under management[1]. There is increasing demand from investors for Environmental Social Governance (ESG) metrics related to the companies in which they invest. In a recent article[2], CFA Institute's Mohini Singh noted, "Investors are now demanding sustainability information as they see environmental, social

[1] Source: The Forum for Sustainable and Responsible Investment: https://www.ussif.org/blog_home.asp?Display=155
[2] Source: The Reporting Times, "The need for high-quality, globally comparable international sustainability standards": https://reporting-times.com/app/uploads/2021/05/CCR_Reporting_Times_18_CH_11.pdf

and governance (ESG) factors as vital to the evaluation of a company. Investors need the information in order to assess how companies are managing these issues and the impact they have on a company's long-term performance. Regulators are increasingly focusing on material ESG data due to increasing demand from investors and issues like climate change." In short, ESG metrics are critical to efficient capital allocation.

Furthermore, the European Commission's proposed Corporate Sustainability Reporting Directive (CSRD)[3] will establish a set of rules to bring sustainability reporting in line with financial reporting, and will extend sustainability reporting requirements to all large private companies as well as listed companies. The CSRD will require corporate ESG data to be reported in inline XBRL format.

Note that the CSRD measures in the EU link to the broader Sustainable Finance Disclosure Regulation (SFRD) reporting requirements imposed on investment firms and fund managers in that region. As the Commission will be aware, any fund offered to EU investors will be obliged to meet these reporting requirements. Given recent statements by G7 Finance Ministers[4] and IOSCO,[5] it should not be surprising if the EU approach is broadly adopted in many other markets.

Furthermore, a study published in October 2020 by New York University School of Law and the Urban-Brookings Tax Policy Center[6] noted that foreign investment in U.S. stocks had risen to 40% by 2019. Increasing globalization of investing and business means that more and more U.S. companies are called upon for the same kind of data as their non-U.S. counterparts. This should form part of the Commission's approach to climate disclosures.

Given these trends, we recommend the following:

- The SEC should play a key role in the process of standardizing climate-related disclosures, to ensure that standards set globally are suited for U.S. listed companies, as many U.S. companies will be called upon to provide this data to investors regardless of SEC involvement.
- Influencing and participating in global standard setting in this field will lower overall compliance costs and reporting burden for U.S. companies. On current trajectories, it seems clear that around the world, mandated corporate reporting will include significant carbon-related financial disclosures in the near term. This will impact U.S. companies with dual listings directly, but more importantly, is likely to impact all internationally operating U.S. companies and all U.S. issuers with securities offered, directly or indirectly, to international investors. Ensuring that at least the "basic building blocks" of this reporting is globally consistent will materially reduce the costs of sourcing, processing, control, and review/assurance as companies respond to the new requirements. This is particularly true

[3] CSRD: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189

[4] See G7 Communique 5 June 2021: https://www.gov.uk/government/publications/g7-finance-ministers-meeting-june-2021-communique/g7-finance-ministers-and-central-bank-governors-communique

[5] IOSCO Media Release 10 May 2021: https://www.iosco.org/news/pdf/IOSCONEWS603.pdf

[6] NYU School of Law and Urban-Brookings Tax Policy Center, October 27, 2020: "Who's Left to Tax? US Taxation of Corporations and Their Shareholders."
https://www.law.nyu.edu/sites/default/files/Who%E2%80%99s%20Left%20to%20Tax%3F%20US%20Taxation%20of%20Corporations%20and%20Their%20Shareholders-%20Rosenthal%20and%20Burke.pdf

in relation to digital disclosures as aligning data tags and reporting frameworks can significantly reduce preparation costs in this field.

- The Commission should encourage the use of existing sustainability standards and frameworks which are already widely used by U.S. listed companies, and that are managed by independent nonprofit standards organizations that have expertise in ESG reporting and data use. Some of the more broadly used standards organizations have already begun disciplined collaboration to move towards a more consistent reporting framework. Leveraging existing standards and frameworks will reduce reporting burden on issuers and the efficiency of data collection by investors and others already using these metrics.
- Climate-related disclosures, like financial disclosures, should be made available to data consumers in machine-readable format, by leveraging the XBRL specification which is the global standard for financial data securities reporting[7].
- The Commission should begin the learning process now, by allowing issuers to submit structured climate-related data on a voluntary, furnished (not filed) basis, to limit the liability for those who opt to report; and by leveraging the XBRL Taxonomy developed by the Sustainability Accounting Standards Board (SASB) to render the data in machine-readable format. Those opting in should be allowed to report the XBRL-formatted data and leverage the climate-related reporting standards they deem to be most appropriate, based on their industry and reporting situation.
- While establishing a single global standard for all climate-related disclosures might be optimal, in practice, sustainability factors about companies may differ due to size, industry, or domicile. Factors that are material for one company, may not be material to a company in a different industry or location. The Commission should carefully balance the benefits of comparable disclosure against the costs of reporting. Companies should not be required to report data that is not material. As described above, we support moving towards a common standard for certain baseline metrics that are globally compatible; with localized extensions to accommodate industry and jurisdictional differences where appropriate. A "building block approach" makes sense, based on these foundations to facilitate different levels of additional or specialized reporting requirements in specific situations.
- Furthermore, we support the use of the Legal Entity Identifier (LEI) to help investors and other users of climate-related data better understand corporate impact, not just of a specified company but of the totality of companies related by the global hierarchy of beneficial ownership. Climate-related data is highly supply chain dependent, therefore mechanisms like the LEI should be used to identify the provenance of climate-related issues identified through climate data reported.

In addition to these summary recommendations, we have responded to several of the Commission's specific questions below.

Question 1. *How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors*

[7] XBRL is used in 180+ programs worldwide for programs including capital markets, financial regulatory, business registrar, tax authority, government oversight and government oversight. XBRL Project Directory: https://www.xbrl.org/the-standard/why/xbrl-project-directory/

while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

The Commission should encourage the use of global, widely used climate-related reporting frameworks and standards to reduce stakeholder burden, and increase the efficiency of data consumption. The Commission should also encourage the adoption of a base set of common metrics that apply to all companies worldwide with country-specific metrics allowed for various jurisdictions. Companies should be allowed to use standards most appropriate to their industry. Factors that may be important in one industry may not be material to another industry. The Commission must be sure to balance the benefits and costs of reporting.

The Commission should support the rendering of climate data in XBRL (eXtensible Business Reporting Language) format to improve the usefulness of climate and financial data. XBRL formatting of data encourages greater consistency and provides a structured guide for issuers as to what they should report. The availability of climate-related and financial data in the same format/structure, will further improve the value of both data sets, as shown in this video, "ESG Reporting in iXBRL"[8] produced by idaciti, which demonstrates how such data can be commingled to tell a more complete story about the viability of a company.

Furthermore, consistent global digital reporting "building blocks" (rather than entirely segregated reporting rules) will materially lower the costs of reporting in this field for U.S. companies that operate internationally or whose securities are marketed directly (or indirectly via managed funds) internationally.

In the article[9] referenced earlier, CFA Institute points out, "… investors don't just need more reliable and more comparable information, they need it in an easily consumable format. Currently, since regulators don't require it, companies don't structure their ESG disclosures – which means that they are not machine-readable. Since structuring the information enables it to be more efficiently consumed by investors and other users, data providers have started structuring that data themselves for their investment clients. In doing so they analyze the information provided by the company and provide them an ESG score. If companies take control and structure their own disclosures, they can tell their own story and improve communication with investors."

Question 3. *What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?*

[8] iXBRL for ESG Data - idaciti, https://vimeo.com/546296503

[9] Source: The Reporting Times, "The need for high-quality, globally comparable international sustainability standards": https://reporting-times.com/app/uploads/2021/05/CCR_Reporting_Times_18_CH_11.pdf

Industry-developed standards like SASB and GRI, are widely used, accepted by the marketplace, and should be leveraged. These nonprofit standards organizations have the appropriate expertise and experience to develop good quality standards. The SEC should leverage these industry-led standards, but the Commission should determine the scope and materiality thresholds to which these standards are required. The Commission can help ensure there is a global level playing field by encouraging and participating in international standards setting proposed by the IFRS Trustees in this field by way of the International Sustainability Standards Board (ISSB).

Question 4. *What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?*

One of the key advantages of variable reporting based on industry is that companies in the same industry typically share common metrics to explain their climate-related impact. For example, companies in the health care delivery industry may report percent of medical waste incinerated, which is not relevant (and should not be required to be reported) for most other industries.

Industry-specific metrics allow companies with common issues to be compared at a more granular level. This approach is taken in financial reporting as well -- the US GAAP Financial Reporting Taxonomy has industry-specific disclosures for real estate companies, insurance companies, extractive industries, and other sectors that need to report unique types of information to their constituencies.

The disadvantage of industry-specific metrics is that the differences between industries increases the complexity of the standards and the data reported, however the additional refinement aids in user understanding of the reporting entity. Fortunately, these standards have already been developed. For example, the SASB has created 77 industry standard sets, ranging from Consumer Goods to Transportation. And by reporting this data in digitized (machine-readable) format, despite the greater complexity and detail of the data, querying and extraction can be performed with ease.

Question 5. *What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?*

Adopting standards that are already in widespread use around the world will ease implementation of climate-related reporting for issuers and for data consumers. SASB and GRI have already initiated the building of XBRL taxonomies which could both be leveraged through a single XBRL Taxonomy entry point for those entities that report using one or both standards. In addition, in September 2020, five ESG standards organizations (GRI, SASB, CDP, IIRC and CDSB) published a [statement of intent](#)[10] to collaborate on standing up an interoperable framework. The proposed ISSB is expected to include the creation of XBRL taxonomies into its standards making processes, as it works together to bring these major frameworks (where relevant) together. On June 9, 2021, SASB and IIRC announced the completion of their merger into a new entity, the Value Reporting Foundation[11].

Question 7. What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?

Given the significance of this change, the Commission should establish requirements through a new rulemaking process, rather than attempt to combine climate-related disclosure requirements into an existing rule. A new regulation must be fine-tuned to best meet the needs of issuers who will be required to identify climate data sources and establish new collection processes; and of data aggregators and analysts who will need to adapt their collection procedures, as well as reporting and querying applications. The SEC EDGAR System will need to support climate-related public taxonomies. Requirements should be implemented through a phased approach to leverage learnings from early phase filers.

In addition, the program should be initiated through a voluntary filing program where digitized sustainability data reported is furnished, potentially as a separate exhibit rather than included in an existing filing, and with climate-related data not required to be reported coincident with financial data. This would facilitate the reporting of climate-related data without deeper integration with reporting taxonomies in current use, and would give regulators, issuers, and data users the opportunity to learn, to identify potential challenges, and to refine reporting requirements in the taxonomy, as well as the submission process.

Any disclosures to be reported, should be submitted in the same digitized format that is used for financial reporting, which will further ease the implementation as issuers, the SEC, and data consumers can leverage the same tools they use for financial reporting, collection, and analysis, with climate-related disclosures.

Question 9. *What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual*

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[10] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, September 2020: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf
[11] SASB announcement: https://www.valuereportingfoundation.org/news/iirc-and-sasb-form-the-value-reportingfoundation-providing-comprehensive-suite-oftools-to-assess-manage-and-communicate-value/?utm_medium=email&_hsmi=132648974&_hsenc=p2ANqtz-_CHCeHvuCWfqi_5tflVX81WGolWqQNoTf633m82Newm9ZiO4W--1mOpuWXkYvLEjolK08wvmPeVweM108ihzLjlZzSGA&utm_content=132648974&utm_source=hs_email

jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

The advantage of establishing a single set of global standards applicable to all companies worldwide is that reported data would be consistent and comparable. Given the increasing level of cross-border investment and business, the ability to easily compare climate-related disclosures regardless of company jurisdiction would be beneficial to all stakeholders.

The disadvantage of a single set of global standards, is that climate-related factors about companies may differ due to size, industry, or domicile. We support moving towards a minimum set of global standards for certain baseline metrics that are globally compatible, that individual jurisdictions can build on.

The advantage of mandatory compliance is that data reported will be more consistent, easily comparable, and more useful for the investment community. The disadvantage of immediate mandatory compliance is that many issuers today do not have the processes in place to collect and report climate-related data. These issuers need time to establish the appropriate processes to manage this kind of reporting. The Commission should initially allow voluntary submission of climate-related disclosures, to give issuers and the Commission the opportunity to learn from the process, and then eventually move to a mandatory framework when issues that may have been identified with the reporting process have been resolved.

Question 10. *How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?*

Inline XBRL submissions made to the SEC today are subject to Disclosure Controls and Procedures. If climate change disclosures are required to be disclosed in the U.S., and if they are tagged, companies need to establish effective process and controls around the collection and reporting of these disclosures.

The CSRD proposal[12] includes audit requirements in addition to requirements for reporting in Inline XBRL. We encourage the Commission to consider whether a third party, independent review should be required to increase investor confidence in the quality of reported data. That said, given that climate-related reporting is still in its infancy, there should be limited liabilities for both auditors and companies reporting until such reporting has had time to mature. Financial data

[12] Corporate Sustainability Reporting Directive: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_1806.

has been collected for decades. Collecting and reporting climate-related data will likely require significant process change for both companies and their auditors, including the identification of the proper source for various types of climate-related data, and new processes put in place to report, collect, and store needed information.

We appreciate the opportunity to comment on the SEC proposal regarding climate-related disclosures. We would welcome the opportunity to discuss this issue further. Please feel free to contact us if you have any follow up questions or would like to discuss. We can be reached by emailing info@xbrl us.

Respectfully,

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