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Re: Comments Regarding "Public Input Welcomed on Climate Change Disclosures"

IHS Markit is pleased to have the opportunity to comment on Acting Chair Allison Herren Lee's "Public Input Welcomed on Climate Change Disclosures" request for comment ("RFC").[1]

IHS Markit is a global information and services company that provides data, insight, and solutions across 17 industries, including financial services[2] IHS Markit is a NYSE-listed public company under the ticker "INFO." IHS Markit has approximately 15,000 employees in 35 countries, including over 5,000 employees in the United States with offices in 21 states and the District of Columbia.[3]

IHS Markit is a leader in Environmental, Social, and Governance ("ESG") data and solutions,[4] leveraging its extensive networks and data sets in all industries, with particular strengths in the financial services,[5] agricultural[6], automotive,[7] energy,[8] and maritime and trade[9] sectors. To highlight a few of our relevant products:

- IHS Markit's ESG solutions include, among other things, Strategic ESG Advisory Services that provide a holistic view on the ESG profile of any clients' status in terms of their development on the ESG knowledge curve.[10] Our experts support clients in setting up ESG

[1] Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021, https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

[2] For more information regarding IHS Markit's solution offerings for these 17 industries, please see https://ihsmarkit.com/products.html.

[3] See https://ihsmarkit.com/about/locations.html.

[4] See https://ihsmarkit.com/products/ESG-Solutions.html.

[5] See https://ihsmarkit.com/industry/financial-markets.html.

[6] See https://ihsmarkit.com/industry/agriculture.html.

[7] See https://ihsmarkit.com/industry/automotive.html.

[8] See https://ihsmarkit.com/industry/energy.html.

[9] See https://ihsmarkit.com/industry/maritime.html.

[10] See https://ihsmarkit.com/products/our-ESG-corporate-governance-MA-solutions.html.

programs or help diagnose any gaps in existing disclosure, communication, reporting or capital market engagement.[11] Our ESG & analytics assesses the current ESG & sustainability related ownership of the client and compare it with its peer group, sector and industry. The quantitative approach will allow an assessment of the ESG-related investment levels and its over-/underweighted status of client vs. peers, also addressing new and additional capital pools based on the clients' ESG profile, climate change and energy transition status which can and should be addressed through proactive engagement by the client.

- IHS Markit ESG metrics cover 8,900 global public companies representing over $39 trillion in market capitalization, including over 2900 US issuers, and 211 sovereigns.

- IHS Markit's ESG Reporting Repository is a central database for the input, collection, and dissemination of ESG data and information.[12] The ESG Reporting Repository facilitates issuers' reporting of ESG data and information across over 16 ESG reporting standards including Sustainability Accounting Standards Board ("SASB"), the Task Force on Climate-Related Financial Disclosures ("TCFD"), Edison Electrical Institute ("EEI"), the American Gas Association ("AGA"), Global Reporting Initiative ("GRI"), International Petroleum Industry Environmental Conservation Association ("IPECA"), etc. by mapping data input into the repository pursuant to one reporting standard to other overlapping standards.

It is from this vantage point that we submit these comments intended to help Commission staff "evaluate [SEC] disclosure rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information on climate change" and other ESG-related disclosures.

I. Executive Summary

As discussed in further detail below, we recommend that the SEC should:

1. **Leverage but not defer to existing frameworks like TCFD and SASB** as these would enable the SEC to make considerable progress toward enhancing the comparability, consistency, and reliability of ESG information that investors value.

2. **Aim to require quantitative or metric-based ESG disclosures to the maximum extent practicable** in order to reduce the costs of analyzing ESG information and to ensure comparability, consistency, and reliability. The use of quantitative disclosures also reduces the risk of a mismatch between investors' investment goals and actual investments. By mandating a quantitative, metrics-based approach to ESG reporting where practicable, the SEC can set the standard for the implementation of current voluntary frameworks through its rulemaking and subsequent harmonization efforts.

3. **Apply the proportionality principle and focus disclosure compliance timelines and assurance (including audit) requirements on the largest issuers in the industries most sensitive to climate risk.**

4. **Design its ESG reporting regime with interoperability and compatibility with existing**

[11] See https://ihsmarkit.com/products/our-ESG-corporate-governance-MA-solutions.html.

[12] See https://ihsmarkit.com/products/esg-reporting-repository.html.

or forthcoming frameworks as a goal – not complete alignment. Interoperability will provide the SEC flexibility in exercising its discretion to set the parameters for its ESG disclosure regime while reducing issuers' compliance costs with multiple ESG disclosure frameworks.

5. **Act to implement incremental action on ESG disclosure in the next few years even if full, global alignment facilitated by a legitimate global standard-setter is a laudable long-term goal.** This is because the urgency of enabling markets to better price climate risk for individual issuers, industries, nations, etc., through standardized disclosures.

6. **Recognize the capabilities of technology providers like IHS Markit to facilitate compliance as it assesses the costs and benefits of its ESG disclosure proposal,** e.g., with respect to facilitating interoperability across differing reporting frameworks or providing data (for example indirect emissions incorporated into a scope 3 emissions calculation).

II. <u>Questions and Responses</u>

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 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?*

With respect to *regulating* climate change disclosures, the SEC should consider mandating standard climate change disclosures in line with existing standards such as the Global Reporting Initiative, the SASB and especially the TCFD. Aligning with these standards will reduce disclosure-related costs on issuers and enable the SEC to make considerable progress toward consistent, comparable, and reliable climate change disclosures while facilitating the incorporation of ESG information into investment decisions.

To make further progress toward consistent, comparable, and reliable climate change disclosures, the SEC should leveraging, but not deferring entirely to, these standards to encourage or require the use of quantitative or metric-based disclosures in lieu of narrative-based disclosures as quantitative disclosures will better ensure more consistent, comparable, and reliable climate risk-related disclosures. For example, TCFD asks "Does the company have an overall climate risk policy including physical risk, liability risk, transition risk?"[13] The SEC should further clarify that answers should be expressed as a metric disclosure, i.e. "(1) No, (2) Yes, without Key Performance Indicators (KPIs), and (3) Yes with KPIs." Narrative disclosures ("Notes") would still be used to describe the disclosed metric, not unlike the "Notes" provided in connection with financial disclosures, e.g., to provide additional detail on the KPIs an issuer might use.

The use of quantitative disclosures reduces the risk of a mismatch between investors' investment goals and investments due to the interpretive bias. The disclosure outputs following this mode of disclosure would lower barriers to entry for investors and their service providers, as well as academics and other researchers, that would want to analyze and aggregate this information who might otherwise have to rely on natural language processing (increasing the cost of aggregation and analysis) and could frustrate comparability. These risks are enhanced by the fact that most

[13] Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017, https://www.fsb-tcfd.org/recommendations/, at 14.

investors aiming to increase their investment in issuers with strong ESG metrics will invest in funds diversified ESG portfolios, whether passive or actively managed, that are selected based on specific ESG characteristics. The selection of these issuers will better reflect investor intentions if the underlying ESG data is quantitative to the maximum extent practicable.

IHS Markit stands ready to assist the Commission look beyond high-level narrative climate change disclosures toward quantitative or metric-based disclosures. Through our work developing the ESG Reporting Repository,[14] a central warehouse for reporting and disseminating ESG-related data, we have developed a detailed understanding of the myriad reporting schema and their relative strengths and weaknesses. Moreover, we have developed questions that build off of TCFD to produce specific quantitative or metric-based disclosure models reflecting our recommendation above. We note that such an approach to the implementation of ESG reporting requirements has recent precedent.[15] Finally, by mandating a quantitative approach to ESG reporting, the SEC can set the standard for the implementation of current voluntary frameworks through its rulemaking and subsequent harmonization efforts.

With respect to *monitoring*, *reviewing,* and *guiding* climate change disclosures, once the parameters for climate change disclosures are set, then SEC oversight tools afforded to the SEC under U.S. securities laws could apply, e.g., examinations, guidance, audit, and, when necessary, enforcement action. To the extent that changes to the SEC's approach to climate change or, more broadly, ESG disclosures is beneficial, then the SEC should consider mechanisms to streamline the adoption of new disclosures, including through the creation of a specialized and independent office that monitors these disclosures and the macro context to which they relate in order to generate periodic recommendations to amend such disclosure standards to the Commission. This work could be informed by engagement with an ESG Advisory Committee[16] or an international or national standards-setting body.

2. *What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision?*

To the extent that an issuer has a material direct or indirect exposure to climate risks, then these greenhouse gas ("GHG") reduction goals should be disclosed and the SEC should standardize those disclosures to ensure that the information disclosed is consistent, comparable, and reliable and useful to investors. As discussed in our answer to Question (1), we think narrative-based disclosures recommended by frameworks like TCFD can be rendered and enhanced using metric-based disclosures as a general rule. IHS Markit has produced quantitative disclosures across 80

[14] "Investors, financial institutions and other stakeholders analyzing data and building ESG profiles benefit from access to a central repository covering multiple industries, corporations and geographies. Companies who provide ESG information on our platform benefit from ease of use, transparency and accuracy of their data for investors." https://ihsmarkit.com/products/esg-reporting-repository.html.

[15] "The [Business Responsibility and Sustainability Report] lays considerable emphasis on quantifiable metrics, which allows for easy measurement and comparability across companies, sectors and time periods." Securities and Exchange Board of India, March 25, 2021, https://www.sebi.gov.in/media/press-releases/mar-2021/sebi-board-meeting_49648.html.

[16] See Statement on the "Modernization" of Regulation S-K Items 101, 103, and 105, Commissioner Caroline Crenshaw, Aug. 26, 2020, https://www.sec.gov/news/public-statement/crenshaw-statement-modernization-regulation-s-k

separate ESG sub-themes that could inform the SEC's view on how this information should be conveyed in metric format.

We believe scopes 1, 2, and 3 GHG emissions are an essential datapoint in the investor's evaluation of an issuer's climate risk-related risk exposure. The SEC can improve the consistency, comparability, and reliability of these disclosures by setting assumptions for the inputs necessary to produce these metrics. The SEC could leverage work conducted by the Environmental Protection Agency[17] and GHG Protocol,[18] among others, to inform this standard approach to the calculations of GHG emissions.

Similarly, the SEC can improve the consistency, comparability, and reliability of scope 3 disclosures by standardizing the methodology to produce these metrics. We note that scope 3 disclosures are particularly challenging for issuers because of a lack of transparency into and lack of control over downstream activities resulting in emissions. The energy industry, in particular, has seen significant variation around methodologies for calculating this metric: some companies have included only produced volumes in this calculation, whereas others have opted to include all product sales (regardless of the initial source of production). Differences in methodology can result in significant discrepancies in the ultimate result, and as a result, there is a need for greater clarity and standardization.

We will note that the methodology to calculate scope 3 disclosures will benefit from the use of supply chain data utilities like IHS Markit's KY3P platform.[19] These utilities provide a central repository for disclosures and other information on third-parties involved in a firm's supply chain. Issuers can access GHG emissions data disclosed by vendors upstream and downstream from them through these kinds of utilities and incorporate this into their scope 3 disclosures.

With respect to GHG reduction goals, these disclosures are foundational to understanding the issuer's climate risk mitigation plan and could assist investors' assessment of the value of an investment. In particular, investors would benefit from disclosures of climate risk operational performance indicators.

Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how?

Here, as elsewhere, we would recommend applying the "proportionality" principle.[20] Because of the lower climate risk associated with issuers whose activities have a limited climate risk impact. For these issuers, the SEC should consider a "scaled back" disclosure regime that is scaled based on the proportion of market capitalization and/or revenues of a company linked to climate risk relevant activities.

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[17] See https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance.

[18] See e.g., https://ghgprotocol.org/scope_2_guidance.

[19] See https://ihsmarkit.com/products/ky3p-for-procurement-risk-management-and-solutions.html.

[20] "Collectively, these risks suggest that sound proportionality regimes should, ideally, meet at least three conditions: first, the adoption of simplified requirements should not undermine key prudential safeguards, particularly the requisite capital and liquidity backstops needed to promote confidence in regulated institutions and the financial system; second, supervisors should maintain sufficient awareness and control of the overall risk profile of entities that benefit from simplified regulatory rules; and third, the proportionality regime should not seek to overprotect small or medium-sized firms from competition, particularly if there is overcapacity and where consolidation can help to promote a more efficient and viable banking industry." Proportionality in financial regulation: where do we go from here? Speech by Mr Fernando Restoy, Chairman, Financial Stability Institute, May 8, 2019, https://www.bis.org/speeches/sp190508.htm.

We do recommend, however, that there should be a ”common core” of non-financial ESG data points that all disclosing entities should provide. Beyond this level of detail, companies should be permitted to indicate whether certain climate risk issues are material to their business model and commercial activities and, if so, follow the SEC's disclosure regime in describing these.

Should disclosures be phased in over time? If so, how?

Applying the principle of proportionality, we would recommend a phase in of at least one year from publication of the final rules with a maximum of 2 years for core non-financial ESG data points and 3 years for non-core. These disclosures should be phased in by issuer size, as indicated by market capitalization or revenues. By adopting a phase-in, numerous technology solution providers like IHS Markit will be able to provide a competitive market for ESG-related services in addition to providing time for issuers to develop their own internal resources and capabilities to produce these disclosures, reducing the cost of compliance, particularly for smaller issuers subject to the delayed implementation.

How are markets evaluating and pricing externalities of contributions to climate change?

Markets evaluate contributions to climate change through the measurement of scopes 1, 2, and 3 GHG emissions for public and private companies. There are limitations in the utility of these data, however, because of differing assumptions and limited coverage – issues that the SEC can help address. More reliable GHG emissions data, among other things, will assist investors assess climate risk exposure at the firm, industry, national, and international levels.

Do climate change related impacts affect the cost of capital, and if so, how and in what ways?

The financial impact of climate change can lead to asset impairments.[21] The increased probability and potential magnitude of such impairments can affect companies' cost of capital. In contrast, for companies that appear better positioned from a climate risk perspective, e.g., with a portfolio of green innovation products, other ESG factors, e.g., an enhanced human capital strategy, the cost of capital will incorporate the probability and potential magnitude of such ESG factors in the form an “ESG premium.”

To the extent the SEC improves company-level ESG disclosure quality, it would contribute to a lower cost of capital across the universe of issuers by providing certainty for the projection of future cash flows and asset values. Investors value high quality disclosure and the transparency it provides, reducing the cost of capital given more certainty for their return on investment. Credible disclosure discussing flexibility to respond to shifts in the effects of climate change, as an example, reduces uncertainty around a firm's ability to adjust to physical and transition risks.

How have registrants or investors analyzed risks and costs associated with climate change?

Registrant's risk management units commonly apply a Value at Risk (“VaR”) model to analyze risks to a firm, including those associated with climate risk. This VaR analysis would based on a variable basket of defined risk attributes over time. VaR can be discounted through the application of known

[21] Total to book $8.1 bil Q2 impairment on lower prices, 'stranded' Canadian oil sands assets, July 29, 2021, https://www.spglobal.com/platts/en/market-insights/latest-news/oil/072920-total-to-book-81-bil-q2-impairment-on-lower-prices-stranded-canadian-oil-sands-assets.

risk mitigation strategies that have been implemented such as re location of facilities through to the use of risk management products such as carbon credits and/or derivatives and/or specialist insurance.

Issuers, in particular, may also consider an internal carbon price and then assess portfolio risk by running scenarios based on potential future carbon prices.

How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?

The lack of a benchmark price or prices for carbon and other GHG credits that reflects the supply and demand for GHG emission credits, incorporating the price of externalities with GHG emissions, is a frustration for firms that would like to price their exposure to climate risk. For example, carbon price indexes, like the Global Carbon Index administered by IHS Markit[22] can be structurally robust, but the limited coverage of emissions by the underlying carbon market reduces confidence in the true price discovery function of these indexes. We expect price discovery to improve over the next few years however as more countries and companies begin to implement actions that will increase participation in both voluntary and regulatory carbon markets. Improved confidence in the price discovery process in global carbon and GHG credit markets will enhance the ability of firms to price their climate risk and better internalize the externalities associated with emissions and the consistency, comparability, and reliability of many climate risk disclosures.

In addition to continuously working to improve price discovery in carbon and GHG credit markets, IHS Markit is working with other market participants to alleviate some of the infrastructure problems with the global carbon markets. IHS Markit recently launched a "meta-registry" with the goals of increasing the transparency, reliability, and efficiency of carbon credit markets[23] consistent with the goals of the Task Force on Scaling Voluntary Carbon Markets ("TFSVCM") relating to the enhancement of voluntary carbon markets.[24]

The SEC's climate risk disclosure regime, to the extent it will facilitate a "race to the top" among issuers with respect to their climate risk mitigation plans, including net zero commitments, will enhance participation in carbon markets, further increasing the price discovery function of the carbon credit markets. For example, the SEC could require the disclosure of carbon credit inventories and retirements by companies that engage the offset markets to mitigate their climate risk exposure.

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.)?*

At present there are multiple disclosure standards for public and private companies that have been created. Most of these are "voluntary" and have been adopted with varying degrees of adoption and efficacy by issuers across the US and internationally. This patchwork of standards has initiated

[22] See https://ihsmarkit.com/products/global-carbon-index.html.

[23] See https://ihsmarkit.com/research-analysis/ihs-markit-to-launch-onestop-registry-for-global-carbon-credit.html.

[24] TSVCM Final Report, Jan. 2021, https://www.iif.com/tsvcm.

increasing levels of non-financial reporting it has not produced disclosures that are consistent, comparable, and reliable because of differing methodological approaches and resource investment.

The SEC can improve the utility of the disclosure of these material climate risks through the incorporation of mandatory, transparent and quantitative data to be disclosed on a regulated basis. There will always be the opportunity for additional material data and information to be supplied by issuers these disclosures need discipline and accountability to be consistent, comparable, and reliable. Industry standards may be able to contribute valuable information and "framework" for the SEC to start with, but ultimately the SEC and other securities regulators can ensure consistent, comparable, and reliable disclosures by becoming the ultimate standard setters.

Many industries would welcome the opportunity to work with the Commission as it develops disclosure standards and metrics that will be useful for investors. There is precedent for this collaboration. For example, IPIECA, set up in 1974, has been bringing together oil and gas companies to share and promote best practices and knowledge to help the industry and improve its environmental and social performance. It could make valuable contribution to help develop ESG disclosure standards as IPIECA's work has informed SEC standards relating to oil and gas reporting, enhancing consistency, comparability, and reliability of oil and gas-specific disclosures like reserves reporting. Other standard setters can similarly inform the SEC's industry-level disclosures, e.g., the EEI and AGA.

The treatment of oil and gas reserves may provide a useful lesson. These figures are complicated and can have a significant impact on market capitalizations, and the SEC worked with the industry to develop a methodology to increase transparency and comparability across the industry. The outcome has been improved understanding by the market, with a greater ability to integrate this metric into benchmarking. Something similar will be required for ESG metrics (especially emissions).

For industry-specific disclosures, a two-digit SIC should provide sufficient granularity. Additional information at four-digit SIC level is unlikely to provide significantly more valuable information.

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?*

Except where necessary to assess the industry-specific climate risks, the SEC should avoid industry-specific standard disclosures in order to ensure the consistency and comparability of disclosures. One ton of carbon emissions, for example, is the same regardless of the specific industry that produces it.

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?*

Please see our response to Question (1) where we recommend leveraging existing frameworks.

In addition, we will be happy to assist the SEC develop an approach to ESG disclosure that maximizes quantitative or metric based disclosures. IHS Markit has developed a detailed ESG framework that leverages TCFD and also covers other ESG factors. This approach has yielded a disclosure regime resulting in quantitative and metric-based disclosures with 80 clearly defined ESG sub themes and 1,900 data points could be used as a core for any regulatory framework.

In contrast to TCFD, we do not think that narrative disclosures should be used as primary data points because of issues with comparability and the introduction of bias when such answers are converted to metrics by ESG vendors who look to provide such data for analysis to markets and investors. We do support the inclusion of additional narrative discussion in support of standardized metric-based disclosures when the latter is impractical, akin to "notes" provided in support of standard financial data disclosures..

6. *How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?*

As discussed in our answer to Question (1), we would recommend the usual SEC oversight tools to update, improve, or augment ESG disclosures, e.g., audit, examinations, guidance, and, when necessary, enforcement action. A specialized and independent office that monitors these disclosures and the macro context to which they relate in order could be tasked to generate periodic recommendations to amend such disclosure standards to the Commission. This work could be informed by engagement with an ESG Advisory Committee or an international standard setter.

8. *How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?*

TCFD provides a framework for the governance and oversight of climate risk-related issues. "Among other things, the Task Force expects the governance processes for these [climate risk] disclosures would be similar to those used for existing public financial disclosures and would likely involve review by the chief financial officer and audit committee, as appropriate."[25]

We would concur and note that this approach would enable markets participants to align the impact of financial and non-financial statements. However, non-financial ESG reporting covers a substantial range of diverse subjects. It could be impractical to identify and require all such disclosures to be fully backed by evidence, e.g., because they may rely on activities undertaken further upstream or downstream in the supply chain. Such a requirement may also require substantial new regulations to be implemented which could, inadvertently create implied liabilities for non-compliance which could be deter disclosure.

[25] TCFD at iv. https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

With respect to specific disclosures relating to governance and oversight of climate risk-related issues, we would recommend the disclosure of governance and oversight practices that might give rise to conflicts of interest as it relates to the assessment and mitigation of climate risk. This would include the connection between executive or employee compensation and climate change risks and impacts.

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?*

A global standard would be the ideal outcome but as an interim step, rules for issuers with a US capital markets nexus would are warranted as a function of investors' needs for consistent, comparable, and reliable disclosures of climate risk and other ESG factors. This interim step is warranted due to the systemic importance of climate risk disclosures, in particular, and ESG disclosures more generally. Climate change is a global systemic risk to all of society and across all industries. The appropriate pricing and mitigation of climate risk will not be resolved through a multiplicity of voluntary and regulatory frameworks as is the case currently, because this approach impedes and confuses the assessment and mitigation of climate risk at an individual asset level, at the issuer level, at the industry level, and at the national and international economy level as well.

The SEC's approach to ESG disclosure requirements should be designed with interoperability and compatibility as a goal. Full alignment with other frameworks and regulatory regimes will be challenging and may lead to a suboptimal approach to the SEC's implementation. The SEC should not let the limitations of TCFD or other frameworks limit its policy options should it seek to implement more optimal disclosure requirements. Interoperability will provide the SEC flexibility in exercising its discretion to standardize ESG disclosures while reducing issuer's cost to comply with multiple approaches to ESG disclosures. Technology platforms like the IHS Markit Reporting Repository can facilitate the reporting of ESG data and information across differing national and voluntary standards and should be encouraged and, in fact, incorporated in the SEC's general approach to ESG disclosure and its cost-benefit analysis.

If there were to be a single standard setter and set of standards, which one should it be?

We would recommend that if there were to be a single standard setter, we would recommend that the global accounting standards bodies like [FASB and IFRS] set these standards with the support and under the oversight of market regulators with opportunity for other stakeholders, including public interest groups, exchanges, investors, banks, issuers, data and analytics firms like IHS Markit, as well as interested members of the public, to comment on proposed disclosure standards that are established transparently and under procedural rules that ensures their acceptance by the public as legitimate.

What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards?

It would be advantageous to create a minimum global set of standards. The starting point for non-financial ESG disclosure should be the application of these standards into local jurisdictions based on the size of the company located in the jurisdiction and the extent of their climate risk. At each level within a hierarchy, minimum standards of disclosure should be required to provide the data required for the measurement & modelling of non-financial ESG risks. There should also be a clearly established timeline for increasing their complexity pursuant to clearly described assumptions. This should not be to a point that they become impractical or commercially prohibitive to complete such as the EU taxonomy for sustainable activities.[26]

Note that, consistent with our recommendations above, these "standards" should be metric-based to the maximum extent practicable.

If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability?

With multiple standard setters, there is the increased risk of a single multinational issuer having to disclose pursuant to multiple standards. While this is a suboptimal outcome, the risk and the costs of this outcome are manageable. Technology-based reporting solutions such as the IHS Markit ESG Reporting Repository platform facilitate reporting across differing frameworks and assist companies to cross reference and map their reported data.

What should be the interaction between any global standard and Commission requirements?

Any single global standard will require years of negotiation, likely spanning the tenures of multiple SEC chairs and other relevant policymakers, U.S. or otherwise. Because of investor need and systemic importance, the SEC should take the lead and make the first best effort to establish a disclosure standard for climate risk and ESG that improves upon existing voluntary and regulatory frameworks. The SEC can concurrently work to minimize divergences in approaches with other regulators before, during, and after the implementation of its approach.

If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

Mandatory compliance will ensure that the information disclosed is consistent, comparable, and reliable. This high-quality data will empower investors and enhance climate risk assessment and mitigation. Absent mandatory compliance, the disclosures will be much more likely to be inconsistent, not comparable, and not reliable because of a lack of accountability that would be afforded by the SEC's oversight and securities laws more generally.

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?*

Climate and ESG disclosures should come under the enforcement mechanisms available under the Securities Act of 1933 and related securities laws and regulations.[27] An audit or assurance requirement would further enhance the consistency, comparability, and reliability of ESG data and

[26] See https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

[27] See Securities Act of 1933, 5 U.S.C. § 77a et seq.

may be justified for certain “core” disclosures. Consistent with our recommendation to adopt a disclosure regime under the principle of proportionality, audit or independent assurance requirements should be phased in sometime after, at least one year after, mandatory disclosure compliance.

11. *Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?*

Consistent with our recommendation for the SEC to proceed under the principle of proportionality, any such measures should come sometime after mandatory compliance in order to ensure that the processes and substance for climate and ESG disclosures are refined and become routine, particularly as it relates to certifications that could result in personal liability.

12. *What are the advantages and disadvantages of a “comply or explain” framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should “comply or explain” apply to all climate change disclosures or just select ones, and why?*

A “comply or explain” framework is among the tools the SEC can use as it moves forward with its new disclosure regime in order to ensure a cost-effective implementation consistent with the principle of proportionality. A “comply or explain” framework is acceptable, particularly as an interim step, but in our view phased in requirements would be the better method to implement the new disclosure regime.

Having said this, where the SEC has mandated a particular standard disclosure but the information is otherwise deemed to be immaterial, then in those limited circumstances that should be explained and the SEC should clarify that such explanation is deemed compliant.

13. *How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?*

As discussed above, consistent with our recommendation for the SEC to proceed under the principle of proportionality, a mandatory sustainability disclosure and analysis disclosure should be phased in after mandatory compliance in order to ensure that the processes and substance for climate and ESG disclosures are refined and become routine with both the producers of such data (issuers) and their consumers (investors and analysts) have matured in their incorporation of the new ESG disclosures into their decision-making.

14. *What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?*

IHS Markit has witnessed a tremendous increase in ESG disclosures generally and climate change disclosures, in particular, by private companies and concurrent demand from their investors. Risk considerations are the primary drivers of the increased availability of ESG information though rapidly ESG information is being seen as enhancing the perceived value of private enterprises.

Nevertheless, there is also considerable confusion and uncertainty about what ESG are "material" for private investors given a variety of voluntary disclosure regimes and a lack of best practices or regulation for these disclosures. For example, we have noticed different trends in different jurisdictions. For example, Europe / Middle East / Asia ("EMEA") private company investors seem to be more focused on carbon emissions risks or opportunities, for example, while in the US social and governance factors appear to have relatively more prominence.

With respect to encouraging standard climate change or ESG disclosures, the SEC and the Department of Labor could encourage or require registered investment companies and Employee Retirement Income Security Act of 1974 ("ERISA") limited partner ("LP") investors in private funds to require general partners ("GPs") of private funds to take ESG into account in order to access LP capital. We note a trend toward GPs taking into account ESG factors as drivers of investment return, and are using sustainability / ESG assessments of potential investments and corresponding ESG strategies in their value creation planning and as a source of value differentiation.

15. *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?*

As discussed above in our responses to Questions (1) and (6), we recommend the creation of a specialized and independent office that monitors ESG disclosures and the macro context to which they relate in order could be tasked to generate periodic recommendations to amend such disclosure standards to the Commission. This work could be informed by engagement with an ESG Advisory Committee.

We note that many of the same issues we and others have identified with the current voluntary frameworks for climate risk disclosures are similarly present, if not more so, for other ESG factors. This is particularly true for human capital disclosures where standards like the UN Guiding Principles on Business and Human Rights[28] are commonly attested to by issuers but actual compliance is uncertain and accountability very limited.

Finally, we would recommend that the SEC focus its resources on a regime implementing the "E" in ESG if efforts on the "S" and "G" may slow implementation past 2023. Progress on "S" and "G" factors could be made through an ESG Advisory Committee or other body tasked with standardizing these disclosures.

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[28] UN Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, 2011, https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf.

IHS Markit is honored to have the opportunity to provide insight to the SEC as it embarks upon the important work of standardizing ESG and climate change disclosures.

Please do not hesitate to contact me at [redacted] or [redacted] if you have any questions. We would welcome the opportunity to assist the SEC on rulemaking or other policymaking arising from the RFC.

Sincerely,

/s
B. Salman Banaei

Executive Director
Financial Services