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EVALUATING DATA, ILLUMINATING RISK

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**June 15, 2021**

Gary Gensler
Chairman
Securities and Exchange Commission 100 F Street, NE
Washington, D.C. 20549

**RE: Public Input on Climate Change Disclosures**

Dear Chair Gensler,

Elucidate supports the inclusion of disclosures on Social, Governance and Risk management in the broad ESG framework, both for reasons of completeness and to move away from a silo-based approach. Elucidate is happy to contribute to the SEC's endeavor to create a rule proposal for ESG disclosure.

We welcome the opportunity to provide input on Question 15:

*Question 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 we will discuss in more detail below, **we strongly support considering climate-related requirements to be part of a broader set of ESG risk factors, with which climate-related risks are linked. In particular, we recommend that the SEC includes financial crime-related risk disclosures as part of an ESG disclosure requirement framework.** These risks **a)** are **directly related to environmental risks** and therefore essential to building a comprehensive framework for ESG disclosures, as well as providing for greater **policy harmonisation between the United States and major jurisdictions including the European Union**. Financial crime risks also **b)** require quantitative disclosure for **greater consistency, reliability and comparability.**

Requiring companies to make quantitative disclosures on Governance and Risk management would **make disclosure frameworks more impactful.** As such, not only climate-related information is best seen as part of a broader disclosure framework, but providing consistent information on Governance and financial crime risks makes information around ESG more comprehensive and reliable.

### a. Financial crime risks are intertwined with environmental and social risks:

Financial crime is still a 'blind spot' in ESG ratings, despite the fact that **Governance is deeply intertwined with the fight against financial crime**. Corporate governance around financial crime risk **affects both society and the environment**.

In its Guidance Regarding Disclosure Related to Climate Change (link)**,** the SEC refers to the Global Reporting Initiative (GRI) and their widely used sustainability reporting framework (link 2). We draw the attention of the Commission to the Global Reporting Initiative (GRI), especially Standard ***GRI 205*** addressing corruption and **financial crime practices** including bribery, facilitation payments, fraud, extortion, collusion, and **money laundering**. In this Standard, the GRI recognizes that these practices are **broadly linked to negative impacts such as poverty, damage to the environment, misallocation of investments and abuse of human rights** (link).

**ML/FT risks are also directly linked with Environmental, Risks**. In June 2020, th**e Financial Action Task Force (FATF) expressed its concern about the lack of focus on the financial aspects of environmental crime** (link), namely its money laundering aspects. This is despite the fact that increases in wildlife trafficking and environmental crime impede global sustainability efforts and the achievement of the UN SDGs (link). **The 2021 G7 summit outcome statement also links beneficial ownership transparency**, **illicit financial flows and protection of the planet's biodiversity** (link).

Furthermore, and in the wake of **Directive 2018/1973 of the European Union (EU)** (link), the definition of criminal activities which constitute predicate offences for money laundering was broadened by the EU to include environmental crime. The United States also categorizes wildlife trafficking as a money laundering offence by virtue of **the Eliminate, Neutralize, and Disrupt Wildlife Trafficking Act** (2016) link. This constitutes a milestone in our understanding of the linkage between financial crime and environmental impact.

In March 2021, The European Banking Authority (EBA) published Draft Implementing Standards on ESG disclosures, putting forward comparable disclosures and KPIs on sustainability risks management, including disclosures on Risk Management, Human Rights and Governance Arrangements (link). In sum, we recommend that the Commission, for purposes of regulatory coherence and harmonisation, recognizes the linkage between financial crime and sustainability, and includes financial crime risks in its ESG rule proposal.

**b. Quantitative disclosures on Governance and Risk Framework help achieve greater consistency, reliability and comparability**

In December 2018, former SEC Chairman Jay Clayton stated that companies should focus on providing material disclosure that a reasonable investor needs to make informed investment (link) . Building on this argument, there is a substantial likelihood that a reasonable investor would consider financial crime information relevant to decision-making.

Like other ESG risks, financial crime risks and impacts often are material and should be incorporated into a comprehensive disclosure regime. Weak governance can lead to weak financial performance, while money laundering failings can impact the cost of capital (S&P research link). Good governance is synonymous with resilience and diligent stewardship. On that account, **financial crime and money laundering risks are part of ESG risks Acting Chairman Allison Lee described in August 2021 as "strong predictors for resilience and for maximising risk-adjusted returns"** (link).

**Quantitative governance risk disclosure will add significant value to reporting standards.** Requiring companies to make such disclosures on Governance is increasingly possible as costs of data collection, analysis and reporting are rapidly falling, while data availability and technological capability are increasing. **Standardized disclosure will provide both consistency and comparability**. The long-term goal should be for entities to regularly **report risk levels against quantitative metrics across all ESG factors.**

A set of standardized risk metrics will draw on the increasing amount of existing data in the governance field, and provide the public and investors with a more objective view on financial crime risks. We are happy to share with you Elucidate's contribution on this subject (link).

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**Reporting metrics accurately reflect what companies are doing that affects the Governance factor**. This practicable quantification enables a more precise understanding of materiality. Indeed, thanks to a quantitative input to the materiality matrix, investors will understand better the likelihood and impact of different risks on financial performance. A comprehensive framework would enable an objective integration of financial crime risks to investment and proxy voting decisions, hence further exercising market discipline.

By working towards a measurable benchmark, the SEC would also **support a level-playing field in ESG reporting**. These benchmarks would enable smaller entities with fewer resources to also provide quantitative disclosures on Governance risks.

In May 2020, the SEC Investor Advisory Committee stated that "**the US should take the lead on disclosure of material ESG disclosure"** (link). Adding financial crime risk indicators and quantitative metrics for governance and risk disclosure would be a strong indicator of global leadership in this field and will serve to increase the efforts of the financial industry against the impact financial crime risk has on society, the economy and the environment.

Sincerely,

Max Heywood
Head of Public Sector Partnerships

*The Elucidate FinCrime Index (EFI) draws on the over 350 data points collected by the Wolfsberg Group's Correspondent Banking Due Diligence Questionnaire (CBDDQ), and enriches them with publicly available sources, a financial institution's own data and Elucidate's proprietary data. On a monthly basis, financial institutions on the EFI platform receive updated metrics, including scores for each of nine risk themes, and underlying findings. Learn more at elucidate.co*