Congress of the United States
Washington, DC 20515

June 15, 2021

Hon. Gary Gensler, Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair Gensler,

Thank you for your commitment to continue the Securities and Exchange Commission's (SEC) work to better prepare companies, investors, and our economy to address climate change. After more than a decade of essentially taking no material actions, the SEC took several aggressive steps under Acting Chair Lee towards better addressing the risks and opportunities posed by climate change, including creating a new senior advisor for Climate and Environmental, Social, and Corporate Governance (ESG), directing the staff to review its 2010 climate-related guidance, prioritizing climate issues and related proxy voting in its examinations, creating a Climate and ESG Task Force within the Division of Enforcement, and releasing a comprehensive request for comment regarding climate disclosures.[1] We urge you to build upon that momentum, and adopt significant climate change-related disclosure rules without delay.

The United Nations Intergovernmental Panel on Climate Change (IPCC) has found that without rapid, ambitious changes to all sectors of society, we will not limit global warming to 1.5˚C and prevent the ensuing sea level rise, polar ice cap melting, and habitat destruction.[2]

In 2010, the SEC acknowledged the importance of climate change-related disclosures in its Commission Guidance Regarding Disclosure Related to Climate Change. The Guidance outlined the possible physical and transition risks climate change poses to companies registered with the SEC. Physical risk, such as changes in weather patterns, sea level rise, and water availability, could "impact a registrant's personnel, physical assets, supply chain and distribution chain." The Guidance also acknowledged that climate change-related physical changes could pose credit risks for banks and companies dependent on suppliers harmed by climate change.[3] Unfortunately, that Guidance is both limited in scope and insufficient to provide comprehensive, reliable, and comparable disclosures.

For example, it did not explicitly require all securities issuers to disclose exposure to climate risk.[4] While many organizations have proliferated voluntary climate disclosure frameworks, voluntary disclosure will never provide the comprehensive, reliable, and comparable information necessary for investors and the public.

[1] Securities and Exchange Commission, https://www.sec.gov/sec-response-climate-and-esg-risks-and-opportunities
[2] IPCC, https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/
[3] Securities and Exchange Commission 2010 Guidance, https://www.sec.gov/rules/interp/2010/33-9106.pdf
[4] SEC, https://www.sec.gov/rules/interp/2010/33-9106.pdf

As Chair of the SEC, you are tasked to "protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation."[5] Through public securities disclosure requirements, the SEC helps give investors (as well as creditors, customers, and others) the tools to make informed choices. The SEC cannot adequately fulfill its mission to protect investors and the public interest if companies are not identifying, assessing, and disclosing their climate-related risks and opportunities.

As you consider updates to the 2010 Climate Change Guidance, we urge you to require public companies to provide climate-related disclosures and analysis in their annual filings to the SEC. These requirements should include the following:

1. **A standardized set of metrics and disclosures:** Disclosures can only serve their purpose if they are standardized and comparable. The Task Force on Climate-related Financial Disclosures (TCFD) has acknowledged that "for metrics and targets to be useful for investors and other users, they should be defined and calculated consistently within an industry to ensure comparability."[6] The SEC must publish a standardized set of metrics and disclosures to ensure that every company provides the same information. Further, where possible, those disclosures should be made in a machine-readable format.

   Where appropriate, the SEC should work with other federal agencies, such as the Environmental Protection Agency (EPA) and the Financial Stability Oversight Council (FSOC) to develop measurements that identify, assess, and relay a company's overall climate risk.

2. **Require disclosure of direct and indirect emissions:** Climate disclosure requirements should include all direct and indirect emissions, including as defined in the *Climate Risk Disclosure Act* introduced by Rep. Sean Casten:
   - All direct greenhouse gas emissions released by the covered issuer
   - All indirect greenhouse gas emissions with respect to electricity, heat, or steam purchased by the covered issuer
   - Significant indirect emissions emitted in the value chain of the covered issuer
   - All indirect greenhouse gas emissions that are attributable to assets owned or managed, including assets that are partially owned or managed, by the covered issuer
   - All emissions associated with deforestation activities of the issuer anywhere in the world

3. **Require executive and board accountability for overseeing and addressing climate-related risk:** The SEC should require companies to disclose how climate-related risks affects their corporate strategy and require senior executive and board-level oversight of processes used to identify, assess, and disclose climate risks and opportunities.

4. **Require audits, testing, and reviews of climate-related assumptions, analyses, and disclosures:** Climate-related disclosures are only effective if they are accurate and

[5] Securities and Exchange Commission, https://www.sec.gov/about.shtml
[6] TCFD, https://www.fsb.org/wp-content/uploads/P291020-1.pdf

verified. The SEC should ensure that disclosures are, to the extent practicable, implemented in the financial statements of issuers. Further, for disclosures that may not be implemented in the financial statements, such disclosures should be subject to auditor review, and significant disputes regarding assumptions or analyses should be elevated to the board. Further, the SEC should work with the Public Company Accounting Oversight Board to begin testing climate-related disclosures in company audits.

5. **Require disclosures by all large companies and for large offerings of securities:** The public company disclosure regime no longer applies to many large companies or large offerings of securities. Because the SEC's regime is linked to how the company raises capital, and not its overall size or impact, you should reconsider restoring disclosures to offerings that the SEC has chosen to make exempt from its regime. For example, with trillions in corporate debt outstanding for which there are no required climate disclosures, some of which may not be due for several decades, it is very difficult for investors, banks, or regulators to assess those securities' climate risks. Further we urge you to recognize that without covering all large offerings and large companies, more climate risky financing will likely move into the dark.

6. **Require disclosures of climate risks by banks and funds:** Climate risks may be concentrated in banks and investment funds. We urge you to require these financial firms to identify, assess, and disclose important climate related information as well.

7. **Use your position as a member of FSOC to work with your colleagues and push for cross-agency cooperation and engagement:** FSOC has a statutory responsibility to "respond to emerging threats to the stability of the United States financial system."[7] FSOC should use its platform to respond to the emerging threat of climate change and coordinate climate finance policy across the member agencies.

8. **Lastly, we recognize that disclosure is a central component of addressing climate change, but it is not the only necessary reform.** We urge you to make sure professional investors are fulfilling their fiduciary obligations by having policies to review and consider these disclosures.[8] We also urge you to take efforts to restore shareholders' ability to hold companies and executives accountable through restoring voting rights, restoring the ability to offer proxy proposals, and easing the ability to replace directors.

We thank you for your commitment to preparing companies, investors, and our economy to better identify, assess, and address climate change.

We look forward to your response.

Sincerely,

[7] Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5322(a)(1)(C)

[8] Modernizing the Social Contract With Investment Fiduciaries, Center for American Progress, https://www.americanprogress.org/issues/economy/reports/2020/11/18/492982/modernizing-social-contract-investment-fiduciaries/.

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