



The Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler, Commissioner Lee and Secretary Countryman,

We write to provide comment in response to the March 15, 2021 Division of Corporation Finance of the Securities and Exchange Commission (the Commission) request for public input on proposed reporting requirements on registrants related to climate change disclosures as well as the prospect of broader environmental, social and governance (ESG) disclosures.¹

The Coalition for Inclusive Capitalism (the Coalition) is a not-for-profit organization dedicated to the proposition that the purpose of the corporation is to profitably solve the problems of people and planet and that the financial ecosystem should be in service of that goal. The Coalition offers our comments based on our work since 2011 with the world's largest asset owners, asset managers and corporations to establish frameworks, metrics and best practices that will help make our economic system more inclusive, sustainable, dynamic and trusted.²

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Toward those shared aims, the Coalition and EY in 2015 embarked on an evidence-based initiative with [more than 30 CEOs](#) representing \$32-trillion of assets under management designed to test the proposition that corporate outcomes driven by ESG factors create long-term shareholder value. The effort became known as the [Embankment Project for Inclusive Capitalism \(EPIC\)](#).³ By the project's completion in 2018, it was one of the first market-led efforts to identify specific and limited ESG metrics for generating long-term value. Participating CEOs announced their unanimous agreement that a corporation's environmental and social impact is a value-accreditivite driver of its long-term, sustainable growth in a November 2018 [Wall Street Journal advertisement](#), saying, "We have a role to ensure long-term value creation that can benefit all" — and the world's future strongly depends on it.⁴

¹ [Public Input Welcomed on Climate Change Disclosures](#) (2021) by Acting Chair Allison Herren Lee.

² [The Coalition for Inclusive Capitalism US Inc](#) is a 501(c)(3) nonprofit organization supported through charitable donations. This letter represents the views of the founder and staff of the Coalition but does not necessarily represent the view of the Coalition's charitable supporters, past participants or any partners, and its reference to companies, individuals or groups does not denote their endorsement of the letter.

³ [Embankment Project for Inclusive Capitalism \(EPIC\)](#) (2018) by the Coalition for Inclusive Capitalism and EY.

⁴ [Business Leaders Unite to Advance Long-Term Value Measures](#) (2018) The Wall Street Journal (advertisement).



The primary premise of EPIC was that traditional financial reporting fails to capture the intangible assets and the significant risks and opportunities to a company from ESG factors and that investors need this information in order to properly evaluate a management and value a company.⁵ Very importantly, the Coalition organized EPIC to be wholly industry driven; in other words, major asset owners, asset managers and companies worked under the guidance of EY and the Coalition to determine “not-yet-financial” ESG metrics that all participants agreed are valuable for investors and managements.

Furthermore, there were two major motivations for EPIC. One was that although ESG areas had been voluntarily covered in piecemeal fashion by many corporations, led by various independent bodies and academics, the existing reports were not uniformly comparable. And, secondly, as the topic of ESG became more popular, corporations were often asked to complete up to 200 “ESG” questionnaires in connection with the burgeoning industry of “ESG rating agencies” which led to wasted time by management and investors. EPIC addressed these problems by dealing directly with market players to establish a base line that united diverse topics—from biodiversity and land use to consumer health and employee wellbeing—in a concise manner under the mantle of long-term value creation, known as the EPIC Long Term Value Framework. Admittedly, the framework did not deal with all material metrics for ESG, but clearly identified the areas of agreement among investors and corporates.

EPIC outlined ESG metrics based not only on the impact on climate and society of corporate policies and behaviors, but also on how these activities would affect individual corporate financial performance. EPIC was informed by a series of expert working groups which spanned areas of climate, human capital, consumer health and corporate governance involving hundreds of hours of meetings under the leadership of EY and the Coalition.⁶ The framework’s climate metrics specifically included formulas for calculating water intensity, resource efficiency and carbon price risk, among others, to measure and limit environmental impact by industry.

In recognition that more work must be done to capture the full range of corporate ESG activities which create long-term value, EPIC’s Long Term Value Framework was made open-source and available to like-minded initiatives and studies, with whom the Coalition continues to cooperate, including SASB, GRI, IFRS and various independent academic efforts.

We would like to remind the Commission that EPIC’s human capital findings were cited by the Commission’s Investor Advisory Committee and Investor-as-Owner Subcommittee in their 2020 Human

⁵ [Global Intangible Finance Tracker](#) (2018) by Brand Finance.

⁶ EPIC environmental and climate metrics were developed in the context of the UN Sustainable Development Goals, while human capital and corporate governance metrics also utilized indices, surveys and other factors to aid in the standardization of data collection and reporting. For the full report, Long Term Value Framework and its detailed guidance, including empirically tested metrics and their supporting methodology, visit CoalitionforInclusiveCapitalism.com/EPIC.



Capital Management Disclosure Recommendations, which precipitated this request for public input.⁷ Earlier that year, the House Committee on Financial Services considered EPIC’s findings with regard to the proposed Workforce Investment Disclosure Act (H.R. 5930), whose 2021 reintroduction would require revision of S-Ks to include greater ESG disclosure.⁸ EPIC metrics are also factored into the World Economic Forum’s 2020 recommendations for common metrics under governance and people pillars, as well as the March of 2021 *In-Depth Report on Human Capital Management*, published by proxy advisory firm Glass Lewis.^{9,10}

The Coalition has continued its ESG efforts advocating for increased disclosure that prioritizes the interrelatedness of environmental, social and human capital issues, emphasizing the need for a “Just Transition” from carbon-intensive industry toward a regenerative economy that fairly accounts for industry workers, their families and host communities. In 2021, the Coalition paper *Framework for Inclusive Capitalism: A New Compact Among Business, Government and American Workers* recommended the Commission include human capital, workforce development and worker treatment in new rulemaking for the universal disclosure of standardized ESG metrics.¹¹

It is in this context, drawing on empirical evidence, best practices and lessons learned from EPIC and Coalition work, that we offer comment, with focus on the following Questions for Consideration, as published by the Commission:

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What are advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them?

The development of new disclosure standards should engage parties across the financial ecosystem so that a diversity of thought is brought to bear in producing a standardized, comparable and assurable climate and ESG disclosure system. The process should include not only registrant corporations, but also investment

⁷ [Recommendation from the Investor Advisory Committee on Human Capital Management Disclosure](#) (2019).
[Recommendation from the Investor-as-Owner Subcommittee on Human Capital Management Disclosure](#) (2019).

⁸ [Memorandum of the U.S. House Financial Services Committee](#) (2020).

⁹ [Toward Common Metrics and Consistent Reporting of Sustainable Value Creation](#) (2020) by the World Economic Forum International Business Council.

¹⁰ [Human Capital Management: In-depth report](#) (2021) by Glass Lewis & Co.

¹¹ [Framework for Inclusive Capitalism: A New Compact Among Business, Government and American Workers](#) (2021) by the Coalition for Inclusive Capitalism.



companies and advisors, asset owners like public and private pension funds, as well as key not-for-profit organizations that have labored on the reform of capitalism since the time of the global financial crisis.¹²

As described above, the Coalition was deliberate in convening EPIC as a high-level, market-led effort which earned CEO support for its framework and resulted in a public commitment to disclosure signed by each participant and published in [The Wall Street Journal](#).¹³ Reaching consensus among more than 30 CEOs—from corporations like Unilever to asset managers like BlackRock to asset owners like CalPERS—was a demanding process, but this collaboration made it valuable as a market-led effort. We recommend that the Commission structure its disclosure development process with the same kind of cross-industry private sector participation as adopted by EPIC.

Furthermore, because of their crucial role in holding corporations accountable for creating broad-based value over the long term, the Division of Investment Management should pursue the establishment of disclosure requirements for institutional investors, including registered investment companies, as well as public and private pension funds. In essence, it would not be enough to require the companies that make products and deliver services to disclose their efforts at promoting environmental and social value if the institutional investors who control the stock of those companies do not deploy those very disclosures in their investment selection process and provide such disclosures to their investors.

What are advantages and disadvantages of establishing different climate change reporting standards for different industries?

To deliver on ESG standards that lead to meaningful and broad-based investor adoption, disclosure requirements should be crafted to reflect varied circumstances among different industries.

By way of example, EPIC was designed along sector-specific categories, each with unique stakeholder outcomes—namely consumer goods, healthcare and industrial—determining different metrics. The EPIC metrics and underlying methodology were designed to be flexible, permitting adaptation to industry circumstances and industry-specific issues. This allows better illumination of the unique risks and value drivers of each company. This nuanced approach, which recognizes that issues might be material for one industry but not others, is a theme shared among EPIC and other ESG frameworks, particularly GRI and

¹² In pursuit of inclusive capitalism, the Coalition has benefited from allying and working with several of such key not-for-profit organizations over the years as, the American Council on Education, American Sustainable Business Council, Aspen Institute Business and Society Program, B Lab, B Team, Chief Executives for Corporate Purpose, Cincinnati Regional Chamber Workforce Innovation Center, FCLTGlobal, Global Impact Investing Network, Impact Investing Alliance, Imperative 21, and JUST Capital.

¹³ [Business Leaders Unite to Advance Long-Term Value Measures](#) (2018) The Wall Street Journal (advertisement).



SASB.¹⁴ Furthermore, as discussed above, to help align corporate disclosures with investor needs, the Division of Investment Management should establish investment industry-specific rules to require asset managers to describe to investors how they use such metrics to evaluate companies.

What are advantages and disadvantages of rules that incorporate or draw on existing frameworks?

We believe it is vital that the Commission take an active part in the establishment of disclosure standards, but that it be finalized and overseen by an independently governed standard-setting body, established along the lines of the Financial Accounting Standards Board (FASB). GAAP was established by a series of independent bodies, namely FASB and its predecessors like the Committee on Accounting Procedures, beginning with sweeping reforms of the New Deal, including the Securities Act of 1933 which created the Commission itself. Since then, FASB has operated with funding, incentive and/or endorsement from the Commission, but is not controlled by the Commission or any other government body. The Commission establishes the funding structure, fees and guidelines of the Financial Accounting Foundation that oversees FASB and the Commission approves the FASB operating budget.^{15,16} The Commission requires public companies to report according to FASB rules¹⁷ but the precise rules are established by a private independent organization.

As with FASB, the Commission should direct, fund and/or incentivize either the expansion of FASB into climate and ESG factors, the creation of a new organization for ESG related reporting, or partner with the most developed not-for-profit organization working on ESG standards, which we would argue is the Sustainability Accounting Standards Board (SASB).

Financial reporting under Generally Accepted Accounting Principles (GAAP) is a continuously evolving standard that should serve as the template for climate and ESG reporting. In the same way that GAAP has adapted to business and economic trends over time, it is vital that climate and all ESG disclosure to be governed and evolve over time in light of technological, government and environmental progress, with due recognition of all relevant interested parties.¹⁸

At the outset, the governing organization for climate and ESG disclosures should seriously consider all the major frameworks for how companies can report assurable, standardized non-financial information material to all stakeholders. Incorporating existing frameworks and standards for disclosures of material climate-related information would help leverage the diversity of work that has been produced over many years and is

¹⁴ “A common theme among proposed frameworks is the need for nuance in regulations,” in [Human Capital Management: In-Depth Report](#) (2021) by Glass Lewis & Co.

¹⁵ [Sarbanes-Oxley Public Company Accounting Reform and Investor Protection Act](#) (2002) Act of Congress.

¹⁶ [Accounting Theory: Conceptual issues in a political and economic environment](#) (2007) by Harry I. Wolk, et al.

¹⁷ [Accounting Series Release No. 4](#) (1938) by the Securities and Exchange Commission.

¹⁸ [Evolution of US Generally Accepted Accounting Principles \(GAAP\)](#) (2005) by Stephen A. Zeff.



currently being reported by hundreds of companies across many corporate industries, most importantly the Task Force on Climate-related Financial Disclosures (TCFD).

The framework recommendations of the TCFD, supported by more than two-thousand companies and investors globally responsible for \$175-trillion of assets under management,¹⁹ provide a useful and important start on both metric standardization and climate reporting. This is particularly true because it aims to make companies take a strategic, rather than a static, approach. In essence, even though this standard should change over time, it is a promising approach to giving investors a sense of a company's internal thinking about climate. Before being finalized, the establishment of climate and ESG disclosure requirements should be informed by the climate disclosure work of the Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) as well as the standards being developed in Europe, the G7 and the Organization for Economic Co-operation and Development (OECD).

It is vital that every effort be made to make climate and ESG measurement and disclosure uniform across the globe. With respect to financial reporting, the conflict of U.S. GAAP with the non-U.S. International Financial Reporting Standards (IFRS) has historically obfuscated financial comparability, as has been acknowledged by the Commission.²⁰ Global consistency of climate and ESG disclosure would aid managements and investors, and also impede corporate greenwashing.²¹ As such, the Commission should share its findings and work with the International Organization of Securities Commissions (IOSCO) and the IFRS Foundation work on climate and ESG disclosures, with the aim of developing one global standard for climate and ESG related disclosures.^{22,23}

How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?

The reality of climate change with its related risks and business implications has direct and far-reaching impact on every American, as well as future generations worldwide. As Pope Francis said, in his 2015 encyclical *Laudato si'*, “the climate is a common good, belonging to all and meant for all”, and “we have to realize that a true ecological approach always becomes a social approach”.²⁴ This is all in keeping with the Chair's early focus on making new workforce disclosures a top priority for the Commission.²⁵

¹⁹ [Task Force on Climate-related Financial Disclosures: Overview](#) (2021) by the TCFD.

²⁰ [A U.S. Imperative: High-Quality, Globally Accepted Accounting Standards](#) (2017) Public Statement by Chair Mary Jo White.

²¹ [The Drivers of Greenwashing](#) (2011) by Magali A. Delmas and Vanessa Cuerel Burbano.

²² [G7 Finance Ministers & Central Bank Governors Communiqué](#) (2021) by the Department of the Treasury.

²³ [Statement on Disclosure of ESG Matters by Issuers](#) (2019) by IOSCO.

²⁴ [Laudato si'](#) (2015) by The Holy Father Francis.

²⁵ [SEC Chair Planning New Workforce Data Disclosures for Public Companies](#) (2021) by Katanga Johnson in Reuters.



Because of the fundamental need for energy, new disclosure rules would be remiss to not account for the workers, their families and host communities that are affected by the move to reduce carbon emissions. This is the essence of the doctrine of “Just Transition” that is enshrined in the Paris Accord for industry leaders accelerating their companies’ transition to cleaner energy in ways that generate new jobs, reduce inequality and improve the quality of life for those affected by climate change. Support for private sector movement toward a “Just Transition” is also work being undertaken by the Coalition’s sister not-for-profit organization, the Council for Inclusive Capitalism with The Vatican.²⁶

For too long, American workers crucial to the success of our economy have not received their fair share, as companies became subject to the power of investors demanding immediate profits. Such historic inequality favoring capital and management over labor, at the expense of workers and many Americans, especially Black, Indigenous and People of Color, is why the Coalition convened a bipartisan, cross-sector and diverse group of 21 business, public and civic leaders to release the above-referenced *Framework for Inclusive Capitalism* in February of this year.

Like the 2018 EPIC framework, which identified need for greater human capital disclosure in such areas as talent deployment, organizational culture and employee health, as well as the 2019 Investor Advisory Committee and Investor-as-Owner Subcommittee Recommendations which cited EPIC, the 2021 *Framework for Inclusive Capitalism* also recognized human capital as a crucial component to ESG disclosure for the Commission’s leadership.

Among the *Framework for Inclusive Capitalism*’s bipartisan recommendations is that the Commission lead cross-sector development of more inclusive human capital disclosures, including how corporate policies and workforce development affect workers and their communities. The standardized, comparable human capital metrics should consider corporate treatment of workers in such crucial areas as worker reward, including wage, benefit and pay equity across gender, race and ethnicity; workforce investment, including training and reskilling; workforce turnover and the prevalence of independent contractors working full-time or on regular basis for a company.

The *Framework for Inclusive Capitalism* also recommended companies be incentivized to report on more proactive plans for achieving employment and pay equity across gender, race and ethnic gaps, as well as diversity and governance indicators by employee category, such as workforce composition, reward benefit and investment in training. The reporting of such proactive diversity, equity and inclusion planning, in addition to their indicators, would in turn identify equity gaps and help address them in the market.

²⁶ The Vatican and Pope Francis, including his encyclical *Laudato si’*, provide the moral guidance of the Coalition’s sister non-profit, The Council for Inclusive Capitalism with The Vatican, more information on which is available at [InclusiveCapitalism.com](https://www.inclusivecapitalism.com).



Re: Public Input on Climate Change Disclosures

Page 8 of 8

For all these reasons, to maintain the Commission's standard for fair markets and restore a level playing field for American workers, we ask that the Commission continue evaluating human capital as part of ESG disclosures and in future public statements, which the Coalition looks forward to also commenting on.

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Conclusion

As the Coalition, most participants in the global financial ecosystem and civil society have come to agree: the time for virtue-signaling and greenwashing is over. Without standardized, comparable and assurable metrics adapted by industry and disclosed internationally, it is impossible for investors, employees, policy-makers, the public and customers alike to understand the efforts companies make to profitably protect the environment, their workers and societal stakeholders.

Therefore, the Commission should harness market participation across the financial ecosystem—from corporations to asset managers and owners—to create or support an independent body to develop global standards for the mandatory disclosure of climate- and ESG-related risks which address the interrelated impact of business on both the environment and people.

We are very grateful for the Commission's consideration of these comments, and for your commitment to fair capital markets and meaningful evaluation of ESG issues. As always, I remain at your service.

Thank you.

Sincerely,

Lynn Forester de Rothschild

Founder and Chair

Inclusive Capitalism is a movement to make our economic system more inclusive, sustainable, dynamic and trusted.

The Coalition for Inclusive Capitalism is a 501(c)(3) organization.

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