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Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Submitted via email

05 July 2021

Dear Ms Countryman,

AIMA and ACC response to SEC call for input on climate change-related disclosures

The Alternative Investment Management Association (AIMA)[1] and Alternative Credit Council (ACC)[2] welcome the opportunity to respond to the Call for Input of the U.S. Securities and Exchange Commission (the Commission) on climate change disclosures.[3]

We welcome the fact that the Commission is considering how best to address the topic of climate-change related disclosures, given their increasing importance to investors, the economy and the environment, and **encourage the Commission to introduce a framework for mandatory climate-related disclosures for public companies**. This should provide comparable and reliable data to the investor community, and should include information on Scope 1 and 2 greenhouse gas

[1] AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org

[2] The ACC represents over 170 members that manage more than $400 billion of private credit assets. ACC members provide an important source of funding to the economy by providing finance to mid-market corporates, small and mid-sized enterprises, commercial and residential real estate developments, infrastructure, as well the trade and receivables business. The ACC's core objectives are to provide direction on policy and regulatory matters, support wider advocacy and educational efforts, and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits.

[3] See https://www.sec.gov/news/public-statement/lee-climate-change-disclosures

(GHG) emissions. The Commission could consider elements of the Task Force on Climate-Related Financial Disclosures (TCFD) framework in developing its own disclosure regime.

We also believe that the Commission should in its work take account of the need for thoughtful sequencing and prioritization of reforms – climate policy can be approached from multiple angles, presenting significant complexities and challenges. When it comes to capital markets activity, it is important that the Commission focus on those policies which can deliver the maximum positive impact in the shortest timeframe:

- **We believe it is important to prioritize climate-related disclosures by publicly listed companies** rather than focusing on disclosures by investment managers in respect of their operations and/or the products they manage. The experience with the EU regulatory disclosure framework applicable to asset managers illustrates the challenges of requiring mandatory information on funds and products without having an adequate and reliable source of information from corporate issuers. The disclosures applicable to providers of financial products are often crafted with a view to tackling greenwashing and other types of misconduct associated with the provision of misleading information. We believe this is best tackled through robust enforcement rather than binding rules which risk stratifying markets and products into rigid categories that may end up creating investor confusion, while hurting innovation and competition.

- **Focusing on public companies first will also positively impact the types of disclosures available in private markets.** A well-functioning public issuer disclosure regime can be adapted and, gradually, adopted on a voluntary basis by private issuers. We would support market-led convergence toward a single standard for private issuers, especially larger ones. The existing private offering framework under federal securities law provides an adequate framework for disclosure of climate-related risks by private issuers by ensuring that the information reported is reliable and complete. This framework can be supplemented by industry initiatives aimed at improving information flow between private companies, their investors and ultimate asset holders. We are currently in the process of establishing a dialogue between the key stakeholders in the private credit markets to that end.

- **Focusing on core climate disclosures rather than taking a more expansive approach** is likely to be beneficial in creating momentum in the market and ensuring progress is made and consolidated in areas where there is already well-established practice or where there is consensus on the type and materiality of data required for reaching informed investment decisions.

We also encourage the Commission to take account of the following in its work:

- The significant and rapid evolution in the context of the measurement and management of climate-related physical and transition risks. There is a **need to ensure that any applicable regulatory requirements are adapted over time** in light of changes in industry and societal understanding of climate risks and how to quantify those risks.

- **The need for the Commission to play a central role in efforts to promote greater international consistency** in the approach to corporate disclosures, particularly by promoting more uniform metrics for climate disclosures by firms that operate in multiple jurisdictions.

- **The possibility of external assurance of climate-related disclosures, but only when disclosure practice is more developed**.

We address each of these points in further detail in the annex to this letter and would be happy to elaborate on any of the points raised. For further information please contact Adam Jacobs-Dean, Managing Director and Global Head of Markets, Innovation and Governance (ajacobs-dean@aima.org).

Yours sincerely,

/s/

Jiří Król
Deputy CEO, Global Head of Government Affairs, AIMA
Global Head of the ACC

Annex

1. A disclosure framework for public companies

We strongly encourage the Commission to introduce a framework for mandatory climate-related disclosures for public companies, considering which elements of existing external frameworks could usefully be leveraged, including those of the Task Force on Climate-related Financial Disclosures (TCFD) We also note that the Impact Management Project, working with the CDP, CDSB, GRI, IIRC, SASB and WEF, is making good progress toward putting TCFD requirements into the form of a prototype climate-related financial disclosure standard,[4] to feed into the IFRS's current work program that AIMA supports.

Below we discuss key elements of a mandatory disclosure framework.

GHG emissions

We believe that a framework for disclosure of climate-related risks by listed corporate issuers should focus on ensuring that corporate issuers disclose against key quantitative indicators that should include Scope 1 and 2 greenhouse gas (GHG) emissions. Other indicators could be required depending on the sector's activities, for example metrics related to the use of renewable energies or general energy management indicators for certain sectors, as these also are related to climate change.

We recommend that the Commission leverage existing calculation methodologies and include them in its framework. As an example, GHG emissions calculation methodologies from the GHG protocol are widely used by the industry and could be referred to in the Commission's work.

The Commission also could publish guidance and support corporate issuers in the computation of Scope 3 GHG emissions, which are more complex to measure than Scope 1 and 2 emissions. Many investors need improved disclosure of Scope 3 emissions but no standard methodology is currently available. There is considerable flexibility in how Scope 3 emissions are reported under the GHG Protocol. It is not uncommon to use rough estimates and imperfect proxies, and then seek to improve reporting over time. The Commission could commission a study to report on how and when to mandate greater reporting on Scope 3 GHG emissions over time.

Emissions reduction targets

Another key data point our members use is companies' emissions reduction targets and we support the Commission's consideration of emissions reduction goals, across all time frames – short, medium and long. Visibility of emissions reduction targets, by way of a published plan and key indicators enabling stakeholders to assess a company's progress, is useful to taking a forward-

[4] Reporting on enterprise value -Illustrated with a prototype climate-related financial disclosure standard, World Economic Forum and Deloitte,2020, available at: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf.

looking view of companies' alignment with the requirements of the Paris Agreement and investors' own climate goals. The TCFD has also consulted recently on the disclosure of forwarding-looking metrics used by financial institutions in their assessment of investment opportunities,[5] which reinforces the need for investors to have access to data related to emissions reduction targets from issuers.

Data related to transition risks

The climate-related data disclosure framework should also consider how to start measuring and reporting on material transition risks,[6] as opposed to physical risks. Indeed, limiting disclosures to GHG emissions for example could incentivize investors to more narrowly invest in companies on the basis of their GHG emissions. Taking into account transition risks and incentives for "brown companies" to become environmentally more efficient is key to managing climate change-related risks and would complement pure "static" data such as GHG emissions.

2. Prioritization of public issuer disclosures

Improving investment advisers' disclosures by improving public issuers' disclosures

With regard to the consideration of climate-related risks by fund managers, we remind the Commission that pursuant to the Investment Advisers Act of 1940 (the Advisers Act), investment advisers must already disclose matters that are material to clients' decisions, including potentially climate-related risks where relevant. By taking positive steps to improve the comprehensiveness and comparability of public corporations' climate disclosures, the Commission would ensure that investment advisers can conduct more thorough, consistent analysis of material climate-related risks to their fund investments, which can then be disclosed to underlying investors.

We believe that the fiduciary responsibilities of investment advisers, coupled with investor demand for climate-related data, is sufficient motivation for investment advisers to increase their private fund disclosures once comprehensive, consistent data on public issuer risks is available. We caution the Commission against pursuing new rules for investment adviser disclosure as a result.

The impact of asset class on climate risk disclosures

Another important factor is to acknowledge the diversity of portfolio holdings and investment techniques when evaluating the impact of climate risks on investments. We note that in other parts of the world such as the EU, policymakers have tended to use relatively well-established climate-related – or more broadly, ESG – approaches from the long-only equity world as the basis for policy considerations regarding financial markets. This has led to uncertainty as to the treatment of short

[5] Forward looking financial metrics consultation, Summary of Results, 2021, available at: https://assets.bbhub.io/company/sites/60/2021/03/Summary-of-Forward-Looking-Financial-Metrics-Consultation.pdf

[6] "Transition risks include policy changes, reputational impacts, and shifts in market preferences, norms and technology". Cambridge University Institute for Sustainability Leadership, 2019.

positions or positions held through derivative contracts. It also raises uncertainty about the approach to investments in asset classes that have a less direct link to climate-related concerns, including rates or currency.

3. A distinct approach for private companies

Our membership also includes private debt fund managers who originate loans to private / non listed borrowers. Contrary to the private equity industry, these members do not have direct access to their portfolio company data as they typically are not the owners of the companies they lend to. They therefore must rely either on the sponsor, on the company itself or on third-party vendors' databases. As an association representing the lenders, we have started work with the relevant stakeholders to enhance the availability and comparability of data in both the direct lending and the broadly syndicated markets.

As part of our sound practices and due diligence work, we are seeking to develop tools that would assist in the gathering of information from borrowers, ensuring that the disclosures converge, as well as improving the information provided to end-investors on the types of climate, and more broadly ESG, risks and strategies deployed by investment managers. The investor community has been consistently increasing demands on the investment managers and advisers to both integrate these issues into their investment process and provide greater transparency in relation to those activities.

We also see progress in the manner in which direct lenders incorporate ESG-related terms in their loan documentation, introduce ESG-related covenants and reporting requirements as well as establishing targets and robust monitoring of borrower activity. This is an exciting new area of activity where we see innovation and the direct impact of the financial community on the broader economy.

Given the bespoke nature of private markets and the differentiated treatment of those markets in the US regulatory framework, we would caution against imposing regulatory solutions in the context of private transactions where there is a strong incentive for the investor to carefully assess, and therefore require information on, any potential risks related to climate or other non-financial aspects of the underlying private issuer.

We therefore encourage the Commission to focus on publicly listed companies and foster the development of market-led solutions in the context of private issuers. Non-binding guidance or recommendations of useful standards on reporting climate risk considerations could be helpful for some private companies or markets to offer a degree of consistency with public company reporting.

Keeping pace with change in practice

Although we generally are in favor of regulators and supervisors taking steps to ensure more reliable and comprehensive climate-related disclosures by listed corporate issuers, we would still recommend that the Commission adopt a proportionate, flexible and sequential approach to this rapidly evolving matter. The measurement and quantification of climate-related indicators is a relatively new trend that is constantly being refined and complemented by new research. Any regulatory approach should take this evolution into account. We would recommend that any proposed disclosure framework is therefore capable of adapting to emerging trends.

International coordination

We would favor a global approach to standards applicable to companies across the world. Indeed, the development of distinct climate-oriented rules in multiple jurisdictions could create a number of problems, including:

- Compliance difficulties where disclosure or marketing obligations conflict;
- Additional operational costs where disclosure obligations are differently designed; and
- Difficulties for investors in understanding and comparing different products.

We would therefore welcome the Commission take a leading role of coordination between jurisdictions to avoid divergence, particularly when it comes to key definitions and concepts.

Assurance

Although we understand the benefits of independent review of non-financial data, we feel that the market is not yet mature enough to impose an assurance requirement on public issuers in respect of climate risk disclosures. This is something that could be considered at a later date, once corporate disclosures are more broadly available and more comprehensive in terms of the data they provide.