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U.S. SENATOR DIANNE FEINSTEIN
CALIFORNIA

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United States Senate

August 6, 2021

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

The Honorable Allison Herren Lee
Commissioner
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Chair Gensler and Commissioner Lee:

Climate change has become a nearly constant headline issue for California as the frequency and severity of wildfires, droughts, and flooding increases. It is long past time for the Securities and Exchange Commission (SEC) to update its 2010 interpretive guidance on climate disclosures and I applaud you for seeking comments on how to approach such a project.

In the attachment, I highlight four areas that I hope the SEC will consider as it develops updated climate financial risk disclosure rules and guidance:

1. Why climate risk disclosures are material information for market participants;
2. Requiring disclosures, tailored to specific sectors;
3. Coordinating the agency's efforts with other U.S. and global financial regulatory agencies; and
4. Ensuring that new rules and guidance are adaptable and take advantage of expertise in climate financial risk.

Thank you for taking these comments into account as you work to address such an important issue. I would be happy to assist you in any way that I can.

Sincerely,

Dianne Feinstein
United State Senator

DF/js: attachment

Attachment: Detailed Comments

1. **The Need for Reporting:** The SEC's mission is to provide market participants—including investors, customers, credit rating agencies, and lenders—with the information they need to make U.S. markets more fair, orderly, and efficient.

   While defining exactly what kinds of information should be reported will always be subjective to some degree, it is clear to me that climate-related risks—whether they are physical risks or transition risks—are material information. Climate change and the transition to a low-carbon economy have major implications for companies and every sector of the economy, not just the fossil fuels sector.

   Not surprisingly, a broad swath of market participants, including a diverse group of investors and asset managers, have said that they want comprehensive, reliable, consistent, and comparable information about public and private companies' climate-related risks. The SEC should promote more fair, orderly, and efficient markets by providing them with the information they need.

2. **Mandatory and Tailored Disclosures:** The SEC is right to seek "the disclosure of consistent, comparable, and reliable information on climate change." In order to ensure this, I believe that disclosures from public companies should be mandatory rather than voluntary, and that as much as practicable are designed to provide quantitative data in preference to narrative reporting that is difficult to compare.

   However, a one-size-fits-all companies and sectors would not make sense either. For example, the fossil fuel, transportation, and insurance sectors are vulnerable to climate change in different ways than information technology. Reporting requirements should be tailored to account for these differences while maintaining needed comparability. The Sustainability Accounting Standards Board has shown one model of how this can be done that should be considered along with other options. Further, disclosure requirements should impose the minimum burden on reporting entities as long as the goals of the reporting regime are met.

3. **Coordination**: The fragmented nature of the U.S. financial regulatory system requires special effort for issues like climate risk that call for cooperation. In addition to its own work on this subject, the SEC should ensure that it coordinates its efforts with other financial regulatory agencies whenever possible. Such cooperation is necessary to "provide more consistent, comparable, and reliable information to investors."

   Specifically, the SEC should coordinate with the Commodity Futures Trading Commission where climate financial risk overlaps with that agency's market oversight. The SEC should work through the Financial Stability Oversight Council and with the Office of Financial Research when the risk that climate change poses to the financial system is at issue. And working with other financial regulatory agencies in areas of common interest, such as on standardizing climate financial risk metrics and reporting, is essential.

   The SEC should also ensure that it coordinates with market regulators in other countries. This does not mean that the SEC should adopt the same disclosure regime as other countries, but there should be an emphasis on sharing best practices and lessons learned with other countries and working toward a system where metrics and other data are sufficiently comparable. California's emissions trading scheme with Quebec might serve as one useful example.

4. **Adaptability**: I am pleased that the SEC is considering how its disclosure requirements can "be updated, improved, augmented, or otherwise changed over time." The best rules and guidance tend to be those that are flexible enough to be updated iteratively as conditions change and regulators gain a better understanding of how rules and guidance work in practice.

   First, the SEC should ensure that it has consistent access to experts in climate financial risk. My "Addressing Climate Financial Risk Act" calls for creating a permanent advisory committee of experts in climate financial risk on the Financial Stability Oversight Council. This is a common-sense action that I hope you will support. However, augmenting the SEC's access to expertise in other ways would be positive as well.

   In addition, the SEC should issue regular public reports on its climate financial risk disclosure regime, including assessments of how effective the regime has been at achieving the goals the SEC has set for it, how well it is serving investors, the usefulness and comparability of reported data, and the impact of reporting requirements on companies. Such reports will help focus the agency on continually improving its regime and be useful for Congress and other policy makers.