August 19, 2021

Chairman Gary Gensler
U.S. Securities and Exchange Commission
Washington, DC 20549

Dear Chairman Gensler:

FULL MARKET DISCLOSURE of CLIMATE FINANCIAL RISKS

- **Climate financial risk disclosure will work if there is a market with tens of thousands of incentivized, competent professionals competing to publish detailed analyses daily on climate risk.**
- **This can be achieved through a "Big Bang" that compels major participants to simultaneously disclose on climate, creating an active "free market" to price climate risk.**
- **Via vast rewards to "get it right" and high costs to "get it wrong," unprecedented resources will be focused on rapidly optimizing the disclosure, analysis, and pricing of climate risk.**

PROPOSAL

In this letter, I propose two specific climate disclosures that I hope the Securities and Exchange Commission (SEC) will consider as it develops updated climate financial risk disclosure rules:

1. Make sustainability ratings and ESG data (SR-ESG) free of cost for individual investors and small businesses.

2. Require large, registered investment advisors (RIAs) and broker dealers (BDs) to disclose their entire climate research process.

RECENT EVIDENCE

- Sweden's financial regulator Finansinspektionen noted in a May 21 letter; and
- the Swedish government pension fund AP7 commented in a May 18 opinion piece that
  - the need for cooperating with well-informed peers is essential
  - to competently applying the EU climate taxonomy (translation A and B below, respectively).
  - Otherwise, it's nearly impossible.

- **Finansinspektionen**: "If… FI's supervisory responsibility includes examining underlying investments, this must be done through extensive cooperation with other authorities."

- **AP7**: "A crucial success factor will be international cooperation. Global coordination is the only way to curb the diversity of different local standards and evaluation options."

Sweden's implementation experience proves that it is best to maximize climate disclosure by all major market participants –
- not just companies –
- to ensure that the financial system has the basic information needed to act rationally and maintain fair, orderly, and efficient markets.

IMPLEMENATION

1. Make Sustainability Ratings and ESG Data Free of Cost for Individual Investors and Small Businesses

1.1 MSCI, Morningstar (owner of Sustainalytics), Moody's, and S&P Global Market Intelligence have an oligopoly over SR-ESG that most of the world's institutional investors use to benchmark and drive their sustainable investing. The high fees charged by the SR-ESG oligopoly put this research beyond the reach of individual investors and small businesses. As this information powerfully shapes the way markets function, particularly with respect to climate financial risk, it should be ubiquitous to all investors.

1.2 **The SEC should deem SR-ESG data to be available in full for free to individual investors and small businesses, with the full suite of supporting research, spreadsheets, and other data that are provided to institutional investors.**

1.3 The SEC should ask the Commodities Futures Trading Commission ("CFTC") to similarly make available any SR-ESG data that it regulates. Foreign regulators may likely require SR-ESGs to also provide free access to individual investors and small businesses, resulting in climate risk data flowing across the world and repricing markets' climate risks.

1.4 This will eventually increase the overall demand for SR-ESG from its addressable market as financial institutions learn about the value of budgeting for this expense.

2. Require Large RIAs and BDs to Disclose Their Entire Climate Research Process

2.1 **RIAs and BDs with client assets over $1 billion should publish via EDGAR whatever climate research that they do in its entirety. For client investments, it should be filed by trade date plus 5 days (T+5) and made public within 150 days (or less at their discretion). For client research, climate analysis should be published immediately with the research report via EDGAR. In both cases, the filing would include secure links to spreadsheets, primary data, algorithms, etc.**

2.2 **There is no burden in this reporting as RIAs and BDs file via EDGAR climate research that they have done or state nothing was done**. This approach avoids the problem that the United Nations Principles for Responsible Investing (UNPRI) had when, "many signatories found that the time and resource required to report on the pilot framework was too high," resulting in UNPRI's 2022 reporting period being cancelled. **The only substantive burden would be if RIAs' and BDs' climate risk research is obviously subpar when compared to peers. But this is a positive outcome as competition will organically ensure better research is eventually produced.**

2.3 Quality and veracity are ensured as the regulated RIAs and BDs are staffed with qualified, regulated professionals whose climate research colleagues' names, titles, and specialty will be part of the public disclosure. Media scrutiny, firms' reputations, and intense competition will deliver the best work product. **The SEC's daily release of hundreds of climate research disclosures on thousands of companies** will make climate disclosure journalism a significant part of the financial media landscape, immensely benefitting the public, investors, companies, and the economy.

2.4 Company reporting standards will dramatically improve when all the different methods of evaluating climate disclosure by RIAs, BDs, and SR-ESGs are disclosed for all market participants, including the companies, to compare and test. This will naturally induce more hard, primary data from companies.

2.5 Over 12 a month blitz, the SEC should host monthly day-long conferences in Washington D.C. with RIAs, BDs, SR-ESGs, and companies to refine disclosure, with small, weekly, one-hour Zoom meetings in between. CEOs should come quarterly. An address by the President at the last meeting would be ideal.

2.6 **Capital will flow more efficiently as greenwashing becomes impossible** via blistering media and investment analysis. The rich data ecosystem will help companies navigate structural adjustments, creating steadier markets, and may possibly make formulating a tax on carbon so precise that it is not particularly disruptive because it is being applied skillfully with so much data and research.

2.7 **Individual investors will be protected** through seeing exactly how their RIAs and BDs conduct climate research, with access to all SR-ESG data needed to interpret screenings and benchmarks.

2.8 The aggregation of the RIA and BD disclosures by financial data mediators like Bloomberg and Refinitiv which, of course, must be shared for free with individual investors and small business under the SR-ESG requirement, will generate a myriad of increasingly crystal-clear pictures of climate risk throughout the financial system, including risk pictures so subtle that we can't even see them now.

2.9 As foreign RIAs and BDs would be required to file too; this will likely trigger a wave of global climate disclosure, as these practices are localized, giving the United States more partners to work with.

2.10 The CFTC should ensure that the same standards above are applied to Swap Dealers, Major Swap Participants, and Eligible Contract Participants. All documentation, models, and data of International Swap Dealers Association governed transactions related to climate should be similarly disclosed.

CONCLUSION

Full Market Disclosure creates a virtuous circle, beginning with eliminating the possibility of greenwashing, which promotes investor confidence in markets and encourages RIAs and BDs to tackle climate risk without fear of being sued. In addition, it quickly levels up the overall climate risk skill levels and ensures innovation is rapidly adopted. Moreover, it generates tremendous, well incentivized activity in the marketplace. Lastly, it can be easily replicated internationally, cultivating global climate risk pricing.

Climate risk analysis is not an "investment edge," but a "public good." Everyone at the table must play their climate cards face up to have the best read on climate risk. All market participants should have access to the best available methods, yet be free to pursue their own innovations, so long as they share their work with the marketplace to get feedback that either they have made a mistake or have found another piece of the puzzle that everyone else can use. The securities business needs to cooperate on climate risk while at the same time competing on everything else. **It's a new arrangement to meet a new problem because everyone must get climate risk right – otherwise – we all lose.**

I fully expect that you will recommend the TCFD and SASB disclosure standards. That's a good place to start. But after that decision, the next step is to quickly iterate in a radically transparent, open way. **The SEC has a year or two to update the financial system, for these changes have time to transform the economy and reduce greenhouse gases by 50% by 2030. If we miss this window, then markets will undergo weather shocks, and the SEC will still have to do the same changes, but with a diminished financial system.**

Warm regards,

Gregory C. Beier
Macro ESG Strategist and Founder
Sustainability Arbitrage LLC

Sustainability Arbitrage is a macro ESG research startup.

Please see highlights.

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MEMORANDUM LEGISLATIVE MEASURES IN CONNECTION WITH THE EU GREEN TAXONOMY REGULATION (FI2021 / 01011)

Summary

Finansinspektionen (FI) mainly approves the memorandum's proposal. However, FI has some views on the proposals. FI assesses, in contrast to the memorandum, that the supervision of the disclosure requirements in the EU's green taxonomy regulation (the regulation) will entail a significantly increased need for resources at FI and that a resource supplement of SEK 5 million should be added. In addition, FI believes that the scope of supervisory responsibility should be clarified.

It is unclear whether FI's supervisory responsibility also includes examining whether the underlying investments meet the environmental requirements in the regulation. FI considers that this would be an inappropriate arrangement because it is an activity that does not fit in with FI's assignment as a financial supervisory authority. FI thus does not have the competence that this type of supervision would require and it would be costly and inefficient to build up such competence within FI.

FI also has views on the proposal to amend the law on securing pension commitments. FI questions whether the pension foundations are obliged to comply with the Taxonomy Ordinance and whether the inspectorate is to exercise supervision over them.

Responsibility for supervision of the regulation

According to Articles 21 and 22 of the Regulation, Finansinspektionen has supervisory responsibility for the compliance of financial market participants with the requirements of Articles 5, 6 and 7 of the Regulation.

It is unclear whether FI's supervision of compliance with Articles 5, 6 and 7 of the Regulation, in addition to examining whether certain documentation has been prepared and certain information provided in accordance with the Regulation, also includes examining whether a certain underlying investment meets the environmental requirements in the audit criteria. FI considers that this would be an inappropriate arrangement because it is an activity that does not fit in with FI's assignment as a financial supervisory authority.

Supervision of the latter more extensive kind is something that requires competence in environmental technology, science, etc., depending on the type of activity that is the subject of review (forestry, energy efficiency of properties, etc.). The Swedish Environmental Protection Agency also points out in its response to the consultation that advanced environmental expertise is required for such an inspection. These are skills that FI today completely lacks. Building up such competence at FI would be very costly and inefficient. It is therefore important that the scope of FI's supervisory responsibility is clarified and delimited.

If the government nevertheless considers that FI's supervisory responsibility includes examining underlying investments, this must be done through extensive cooperation with other authorities. The more detailed forms of such cooperation will then require careful consideration.

The memorandum states that any increased costs for FI due to the ordinance are judged to be limited and fall within the existing financial framework. FI's does not agree with that assessment. The part of the supervision that involves reviewing the disclosure requirements in the regulation will also entail a significantly increased need for resources at FI. The regulation imposes completely new disclosure requirements on both financial and non-financial companies. FI must have the resources and competence to be able to guide companies in the work of meeting the taxonomy's disclosure requirements and thus the taxonomy's overall purpose of directing capital to sustainable investments. The regulation is expected to contribute to the EU's environmental goals and as the competent authority, FI has a great responsibility to ensure that the purpose of the regulation is fulfilled.

The previous national requirements for fund companies and AIFMs to report on their sustainability work were less extensive compared to the disclosure requirements that follow from the regulation. The new requirements also include credit institutions, securities companies, occupational pension institutions and more. In Sweden, securities companies and insurance intermediaries with fewer than three employees are also covered, which further increases the number of companies to be audited.

All in all, both new supervisory areas and new supervisory objects will be added. FI estimates that these new tasks require resource investments in the order of SEK 5 million per year. A corresponding addition of resources via increased funding is therefore justified.

Extended supervision of certain pension foundations

The proposed amendment to section 34 of the Act (1967: 531) on securing pension commitments, etc. (the Social Security Act) aims to give FI powers to supervise that the pension foundations specified in section 9 a, second and third paragraphs of the Social Security Act comply with Articles 5–7 of the EU Green Taxonomy Regulation.1 FI notes, however, that this Regulation shall apply to such financial market participants providing financial products (Article 1 (2) (b)). It is clear that a pension fund is a financial market participant as defined in Article 2 (2) of the Regulation. The question is, however, whether a pension foundation can be considered to provide financial products.

Article 2 (3) of the Regulation refers to ll the definition of a financial product in Article 2 (12) of the EU Regulation on Sustainability Information.2 The latter article states that a financial product can be, inter alia, a pension product or a pension plan. However, a pension foundation cannot pledge a pension and is therefore not responsible for the pension commitments (Section 12 of the Social Security Act). The sole purpose of a pension foundation is to secure an employer's pension commitments (Section 9 of the Social Security Act). The foundation's only task is to manage capital, and since it has no own pension commitment or responsibility for the pension commitments, there is no corresponding liability item in the foundation's balance sheet. The foundation may not normally pay pensions either. It is the employer who calculates the pension commitments and based on them makes the necessary payments to the foundation. It is also the employer's task to handle the payment of the pensions. The pension foundation's assets can therefore be characterized as a form of mortgage for the pensioner's pension claim (cf. Bill 2018/19: 158 p. 176).

1 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.

2 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related information to be provided in the financial services sector.

In view of the fact that a pension foundation thus does not have its own pension commitments but only secures the employer's pension commitments by managing the employer's assets, it cannot be considered to provide any financial product as referred to in the regulation (pension product or pension plan). FI therefore questions whether the pension foundations are obliged to comply with the ordinance and whether the authority is to exercise supervision over them.

FINANSINSPEKTIONEN

Erik Thedéen, Director General

Please see highlights.

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GREEN REPORTING IS TOO LOW QUALITY

A regulatory wave for increased transparency in sustainability issues sweeps across the world. But the reporting suffers from poor quality at the same time as the companies are bureaucratized. The green accounting must be much better, write Richard Gröttheim, CEO of AP7 and Johan Florén, Head of Communications and Corporate Governance AP7.

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AWARD. The market needs information about companies' sustainability risks and strategies for managing them. If it gets it, pricing works in an efficient way, write Richard Gröttheim and Johan Florén, AP7.

Many companies complain about the burden of growing sustainability reporting, but there is no indication that it will decrease. The problem has several dimensions and needs to be taken seriously. A study of the world's largest oil companies confirms, for example, that the climate scenarios that are currently being used have low value and are difficult to use in investments and corporate governance. The solution is greater coordination, but also higher quality.

A regulatory wave for increased transparency in sustainability issues is sweeping the world and the requirements will not disappear. Over the past month, the EU has begun rolling out regulations to define sustainability and increase reporting, and investors have been contributing for several years through ownership initiatives such as ClimateAction100 +.

A framework that has received great support in just a few years is the TCFD (Task Force for Climate-Related Financial Disclosures), where the climate scenario plays a central role. AP7 has commissioned UK-based Trove Research to analyze 14 of the world's largest oil companies' reporting on climate scenarios. The oil sector is one of the most critical for society's change, but the analysis shows that only four out of fourteen reports in accordance with TCFD's recommendations. Just over a third do not report at all.

A major problem, however, is that the climate scenario can look a bit different and therefore has limited value as long as basic assumptions are not reported. Key assumptions need to be identified for each sector in order for the scenarios to be comparable and evaluated. In the oil sector, these include things like expected demand for energy, oil, electricity and electric cars, but also costs for fossil-free alternatives and CCS technology (carbon dioxide collection and storage).

The study shows that the time perspective is of great importance. The scenarios need to extend to the year 2050 to provide a useful picture of the future prospects. Companies such as Chevron and Conoco, for example, publish two-degree scenarios, but conclude that even under these scenarios, demand for oil will not be much affected until 2040, and that a transition to low-carbon energy sources is therefore not necessary.

Forward-looking reporting on the development of the business in different scenarios is an excellent idea, but it has not lifted yet. The reporting initiatives are stuck halfway. Companies think that it has become a burdensome burden, while investors find it difficult to use the information because it is too superficial, general and difficult to compare. The reporting is simply too low quality to be meaningful.

In the situation we are in, there is only one way forward. The value must increase.

AP7 will work in the coming years to both increase reporting among the laggards and increase the value of the scenario analyzes as a basis for investments and corporate governance. In this work, we have a high ambition to coordinate so that the burden on companies does not increase more than necessary.

A crucial success factor will be international cooperation. Global coordination is the only way to curb the diversity of different local standards and evaluation options. It will benefit the companies that bear the greatest reporting burden: large international companies with significant sustainability risks.

In this type of global investor collaboration, extensive consultation rounds are also an important component, which means that both business and academia and organizations are involved in the process. The result is thus well worked out and anchored.

A current example is the global framework for responsible climate lobbying that will be presented this summer, which AP7 has been involved in developing for a number of years. The development has been driven by a constellation in which, among others, IIGCC (The Institutional Investors Group on Climate Change), Ceres in the USA and the London School of Economics have been key players. Because the framework will affect the work within ClimateAction100 +, which focuses on the world's 167 largest emission companies, it will have global coverage directly.

The market needs information about companies' sustainability risks and strategies for managing them. If it does, pricing works effectively. Companies that are well positioned for the societal adjustment we are in benefit, at the same time as the risks become apparent to those who lack awareness or strategies. And everything is reflected in the valuation of the companies. Investors also need the information to be able to take responsibility as active owners, which is perhaps the most important contribution forward to achieving real economic climate results.

The requirements for increased reporting will not pass. But there is also a potential upside to this development for companies, regardless of whether it concerns TCFD or other initiatives. Good existing initiatives can be coordinated more to minimize double reporting. Better and more value-creating reporting can "compete" with older forms and the market can praise those who deserve it when the quality of the information is raised.

More reporting has no intrinsic value. However, it has better reporting.

Richard Gröttheim, CEO

Johan Florén, Head of Communications and Corporate Governance

This is a debate and opinion text. The opinions expressed are the writer's own.