

INCLUSIVE CAPITAL PARTNERS

September 8, 2021

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

Via email: rule-comments@sec.gov

Dear Chair Gensler,

Inclusive Capital Partners (“In-Cap”) deeply appreciates this opportunity to comment on proposed regulation by the Securities and Exchange Commission (“Commission” or “SEC”) of climate-related disclosures, as initiated by the 15 March 2021 Request for Public Comment (“Request for Public Comment”). We commend the Commission for its ongoing efforts to ensure that US-based companies provide the most useful information regarding climate change risks.

Introduction to Inclusive Capital Partners (“In-Cap”)

In-Cap is an experienced investor in public markets and identifies and invests in high quality businesses that offer compelling value propositions and generate measurable positive impact by contributing to solutions for the environment and society. In-Cap actively engages with company management—often from inside the boardroom—on company specific environmental and social business drivers to make their business models more resilient, dynamic and sustainable. In-Cap aids in a company’s ability to execute its business strategy and create long-term value.

Depending on how appropriately they are managed, environmental, social, and governance (“ESG”) issues can either amplify or impede a company’s revenues, costs, access to capital and/or license to operate. As such, our aim is to integrate material ESG-related considerations into our investment decisions and likewise advocate for its incorporation into the decision-making by management teams and boards of our portfolio companies.

In-Cap is willing to engage with the “problem” in order to ultimately be part of the solution. Therefore, we invest in industries that traditional sustainability funds tend to avoid—including oil and gas, utilities, materials, chemicals and refineries, capital goods, food processing and food service, for-profit education—because these companies provide essential goods and services and have the customer relationships, technology, workforce, capital and scale to truly be part of the solution.

Summary of the In-Cap Submission to the SEC:

In order to ensure market stability, the SEC needs to address the increased investor demand for companies that are part of the effort to reduce global warming. In-Cap believes that to achieve this objective, investors need to be able to assess which companies are strategically resilient to the physical, transition and liability risks posed by climate change, as well as how they may be placed to take advantage of technologies and opportunities in a low carbon world. Such information will create investor confidence and market stability.

Toward this end, In-Cap believes that the establishment by the Commission of well-designed mandatory climate-related disclosures for both companies and investment managers that are timely, standardized, comparable, efficient and reliable is very important. It is vital that the mandatory disclosures give investors transparency as to the overall strategic planning of each company with respect to its carbon footprint, not simply a set of metrics that create portfolios or companies that score well on static information but do not achieve investor objectives of driving positive environmental change.

Therefore, In-Cap advocates climate-related mandatory disclosures that capture the strategic planning and the ultimate impact of carbon abatement efforts by companies and within portfolios. In essence, the objective of climate-related actions by the SEC should be to aid managers and investors in their objective to understand the risks and opportunities of a company's transformation to clean energy. As such, the disclosed information needs to be based on a company's strategic position in the achievement of the necessary reduction in carbon emissions, not simply static quantitative or qualitative data.

To achieve this objective, In-Cap believes it is vital that the SEC exercise caution against disclosure requirements that may be counterproductive to effectively enabling the capital markets to reverse our intrinsic environmental problems. If the disclosed information is not useful toward the overall investor objective of true carbon emission abatement, there could be numerous negative unintended consequences; namely, the privatization of the fossil fuel industry, its transfer to nations which do not actively engage in the reduction of carbon emissions and ultimately market turmoil because common investment frameworks for climate prove to be ineffective. This phenomenon would accelerate if disclosure of static climate data causes the market to divest of companies rather than force their transformation.

In order to achieve the magnitude of the adjustments needed to reverse climate change by 2050, coordinated global governmental action will be required. **In fact, government policies that create subsidies for clean energy and place a true cost on carbon are the only effective ways that the full power of the capital markets will be unleashed toward the deployment of the investments that are needed to stop the planet from climate devastation. While only Congress can establish a national price on carbon, In-Cap believes that climate-related disclosure requirements by the SEC that include the potential for a price on carbon can both hasten the adoption of carbon pricing by Congress and prepare the markets for its formal introduction.**

The objective of this submission is both to highlight the above-mentioned possible unintended consequence of static climate-related disclosure requirements and to propose an “assumed price on carbon” as a specific, simple and very informative metric that the SEC could require as an effective tool for investors to understand a company’s climate-related risks and to spur the capital markets as a major factor in the true alleviation of the global climate problem.

Background:

Global temperatures have increased by 1-degree Celsius since the dawn of industrialization.¹ The carbon emissions gap,² reported annually by the UNEP DTU Partnership, is expanding rapidly, leading to severe weather conditions, damage to biodiversity and human suffering around the world.³ Within the next five years, temperatures are likely to reach 1.5-degrees above pre-industrial levels—a tipping point that experts agree would precipitate a confluence of heightened risks that the Paris Agreement attempted to prevent.⁴

Because current pledges to reduce greenhouse gas (GHG) emissions made under the Paris Agreement have failed to keep up with the pace of climate change,⁵ temperatures could rise a full 3-degrees this century, which would create increased uncertainty and volatility for the economy and the markets. As temperatures climb, so do the costs of reducing carbon levels—with the International Energy Agency (IEA) predicting in May 2021 that it will cost \$5 trillion annually until 2030 to eventually cap the increase at 1.5-degrees by 2050.⁶ And, in April 2021, Secretary of the Treasury, Janet Yellen said, “One estimate placed the needed incremental investments at over \$2.5 trillion for the United States alone. Private capital will need to fill most of the gap”.⁷

Led by asset owners, the capital markets are pivoting to address this challenge. According to the Global Sustainable Investment Alliance (GSIA), the sustainable investment industry grew 50% between 2016 and 2020 to \$35.3 trillion and accounts for 36% of all professionally managed assets in the US, Canada, Japan, Australasia and Europe.⁸ According to Bloomberg Intelligence, ESG-managed financial assets are on track to grow to more than \$53 trillion by 2025.⁹ It is because of this furious pace of investor demand that it is incumbent upon the SEC to protect against market-based distortions that could lead to a “Minsky Moment” for the markets and derail the good faith intentions of investors to use their capital to mitigate climate-related

¹ IPCC (2018) “[Summary for Policymakers](#)” in Global Warming of 1.5°C: An IPCC Special Report.

² As stated in the [UNEP Emissions Gap Report 2020](#), the gap between estimated future global greenhouse gas (GHG) emissions if countries implement their climate mitigation pledges and the global emission levels from least-cost pathways that are aligned with achieving the temperature goals of the Paris Agreement. This difference between “where we are likely to be and where we need to be” is known as the ‘emissions gap’.”

³ UNEP (2020) “[Emissions Gap Report 2020](#)” in Executive Summary: Nairobi.

⁴ IPCC (2014) [Assessing and Managing the Risks of Climate Change](#).

⁵ Note that through-out this submission, the terms GHG and carbon emissions are used interchangeably.

⁶ IEA (2021) [Net Zero by 2050: A Roadmap for the Energy Sector](#).

⁷ Yellen, Janet L. (2021) “Secretary of the Treasury Janet L. Yellen’s Remarks to the Institute of International Finance” at the Institute of International Finance’s Sustainable Finance Summit.

⁸ Global Sustainable Investment Alliance (2020) “[Global Sustainable Investment Review: 2020](#)”.

⁹ Marsh, Alastair (2021) “[European ESG Assets Shrank by \\$2 Trillion After Greenwash Rules](#)” for Bloomberg.

damage. The SEC has an important role in connection with these investment objectives by clearly establishing mandatory climate-related disclosures that are meaningful measures of climate risk and of sustainable climate outcomes.

At the outset, we agree with the position of Commissioner Allison Herren Lee in her [May 2021 speech](#) that the Commission must establish rules for climate-related disclosure because, “Public company disclosure is not automatically triggered by the occurrence or existence of a material fact. There is no general requirement under the securities laws to reveal all material information. Rather, disclosure is only required when a specific duty to disclose exists [...]. We must not operate under the false assumption that the securities laws already effectively elicit the information investors need. We must not be diverted by mistaken views regarding the SEC’s rulemaking authority. And we must not be persuaded to ignore scientific evidence or other decision-useful data on the grounds that it intersects with issues of political or social concern. I hope we can dispense with these misnomers as we continue the important debate on how best to craft a rule proposal on climate and ESG risks and opportunities.”^{10,11}

Recommendation No. 1: DO NO HARM: Protect investors and protect against the danger that disclosure requirements could lead to the “privatization” of the fossil fuel industry or its relocation to nations not committed to reducing carbon emissions

In order to reduce risk to investors and guard against market turmoil, SEC climate-related disclosure requirements should be fit for the purpose of reducing overall global GHG emissions in a meaningful way, not simply removing them from portfolios. Anything less will be exposed within a number of years and lead to overall investor rejection of the premise that climate-based investments can both accelerate the achievement of the Paris goals and create shareholder value. Sadly, one of the perverse, unintended consequences of the well-intentioned movement by asset owners and managers to divest of fossil fuel companies has been the growing acquisition of those assets by private, Chinese and Russian buyers who have no incentive to reduce carbon emissions. If not well constructed, SEC mandates for climate-related disclosures could further this unfortunate impact. While divestment was an important market signal in the past because it demonstrated the power of large asset owners and managers to be heard on climate, divestment is now becoming an economic opportunity for purchasers who have no concerns for overall global GHG emissions. The SEC disclosure requirements must not accelerate this dangerous trend.

As we have seen, divestment often does nothing to reduce carbon emissions because the offending company or project is sold to another investor who does not have a focus on reducing carbon emissions. This dilemma was well described by [David Blitz and Laurens Swinkels](#) in

¹⁰ Lee, Allison Herren (2021) “[Living in a Material World: Myths and Misconceptions about ‘Materiality’](#)” speech at the Washington, DC ESG Disclosure Priorities Event.

¹¹ The Sustainability Accounting Standards Board (SASB) finds that 93% of US capital markets are materially exposed to climate risk (SASB 2016 “[Climate Risk Technical Bulletin](#)”).

September 2019. They state, “Many believe that investors can contribute to a more sustainable world by divesting from firms with the worst sustainability profiles. However, exclusion comes down to a transfer of ownership from concerned investors to other (perhaps less, or not at all concerned) investors, and it is actually not obvious how this is supposed to lead to changes for the better in society. This is a crucial realization: any improvement in the sustainability profile of the portfolio achieved by an individual investor, i.e., at the micro-level, has zero direct implications at the macro-level, because the excluded securities will end up being owned by someone else. In other words, ... if one investor lowers the carbon footprint of the portfolio, another investor will have a higher carbon footprint, *by definition*.”¹²

As further stated by Kolbel and Heeb, et al., “We define *investor impact* as the *change that investor activities achieve in company impact*, and *company impact* as the *change that company activities achieve in social and environmental parameters* [...]. Currently, most Sustainable Investment (SI) funds either exclude firms operating in harmful industries or focus on companies that have in the past performed well on metrics of ESG performance. This is a static approach, which ignores that impact is fundamentally about change. Companies can and do change over time, and investors make an impact by triggering or accelerating such change. Due to a lack of suitable metrics for investor impact, however, very few investors analyze how their activities cause companies to change. As a result, the majority of the US\$30 billion that are deployed in SI today is invested in ways that promise only modest and perhaps even negligible investor impact.”¹³

A vivid example of this dilemma was reported by Bloomberg in April 2021. They published a detailed report about the divestment by oil giant, BP, of all of its Alaskan oil reserves. With the best of intentions, the move allowed BP to announce in 2020 that it had lowered its Scope 1 and 2 emissions by 16% that year. But, the Bloomberg investigation “reveals what happens when a supermajor walks away as it moves down the path toward net-zero.”¹⁴ An examination of state data found that oil production from the Hilcorp unit that took over BP’s Alaska business was 4.7% higher under Hilcorp ownership from June 2020 through Feb 2021 compared to the prior year under BP ownership, the first time output increased since 2015, in a field with otherwise declining production. Moreover, ownership transitioned to an operator that had 3 times more safety violations and 30% more spills attributable to human error than BP.

Bloomberg concluded that “BP’s sale to Hilcorp is a harbinger of what’s coming to the wider world of divested fossil fuel assets. By the end of this decade, Royal Dutch Shell, Total, Chevron, ExxonMobil, and the rest of the top eight oil and gas companies will sell a combined \$111 billion worth of assets to adjust to the energy transition ... BP alone plans to cut oil and gas output by 40% in the next 10 years. Those assets won’t be mothballed. This investigation found overall

¹² Blitz, David and Laurens Swinkels (2020) “[Is Exclusion Effective?](#)” in *Journal of Portfolio Management*.

¹³ Kolbel, Julian F. and Florian Heeb, et al. (2019) “[Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#)” in *Investment & Social Responsibility eJournal*.

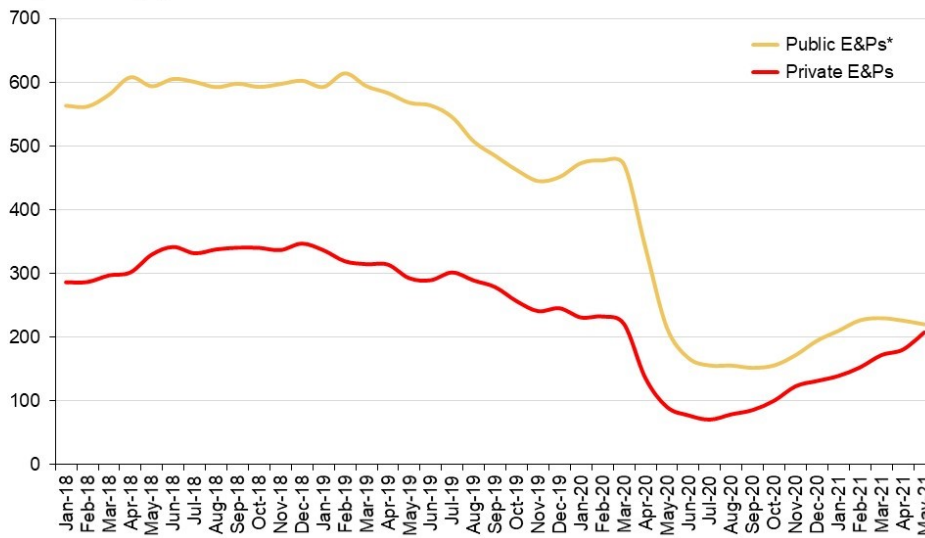
¹⁴ Adams-Heard, Rachel (2021) “[What Happens When an Oil Giant Walks Away](#)” in *Bloomberg*.

emissions from former BP facilities will likely be unchanged or even rise under new owners. In a just-released annual sustainability report, divestments alone accounted for a drop of 5.4 million tons of carbon dioxide equivalent from BP’s direct emissions, more than five times the reduction the company achieved through operational improvements. For the world, though, those emissions don’t stop”.¹⁵

As shown in the chart below,¹⁶ there is an accelerating trend toward private ownership of oil and gas production.

Figure 1: US onshore horizontal rig activity by operator type

Average active rigs per month



*Includes supermajors

Source: Rystad Energy ShaleWellCube, June 2021

While listed oil companies are reducing their exposure to fossil fuels, private US oil companies are moving in quickly to take advantage of the low prices with little concern for the environmental impact of the operations.

Some might argue that this problem could be alleviated by requiring carbon disclosure for all companies, both private and public, throughout the OECD countries. However, while this might be effective for the 33.6% of global fossil fuel output from OECD countries,¹⁷ it would not halt the

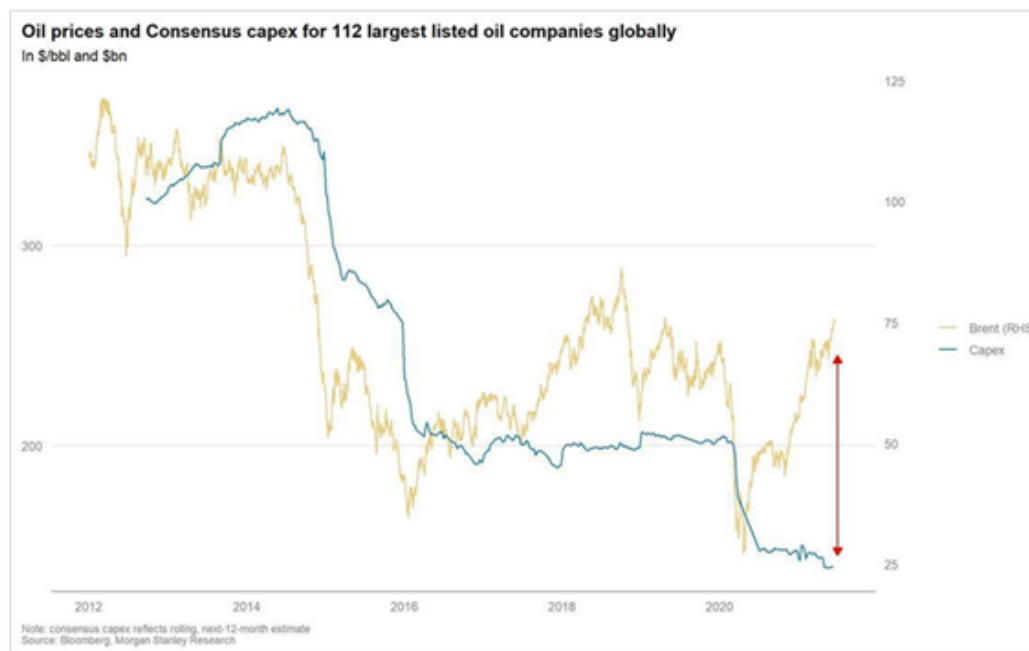
¹⁵ Ibid.

¹⁶ Rystad Energy (2021) "[Private operators may soon account for more than 50% of US onshore rig activity](#)" in Shale Newsletter.

¹⁷ Baker, Arthur and Ian Mitchell (2020) "[Projecting Global Emissions for Lower-Income Countries](#)" for Center For Global Development.

purchase of these facilities by companies organized under the laws of China, Russia, India, Africa or the Middle East which already account for the majority of carbon emissions.^{18,19}

Perversely, as the chart below highlights,²⁰ forecasted capex spending at listed OECD oil companies has essentially halved from pre-COVID levels but, per the IEA, demand is now down only by a low to mid-single digit percentage, and is likely to rebound to pre-COVID levels sometime around year-end, suggesting that fossil fuel prices are likely to rise and attract investors not concerned about climate change to buy the divested fossil fuel assets.²¹



While overall capex at the OECD oil majors is down significantly from levels a few years ago, the chart below²² highlights how national oil company spending has remained *relatively* resilient amidst this collapse in spending at the OECD based major oil companies.²³

¹⁸ Ritchie, Hannah and Max Roser (2020) "[CO₂ emissions](#)" for Our World in Data based on Global Carbon Project (GCP) data.

¹⁹ Union of Concerned Scientists (2020) "[Each Country's Share of CO₂ Emissions](#)" based on Earth System Science Data (ESSD).

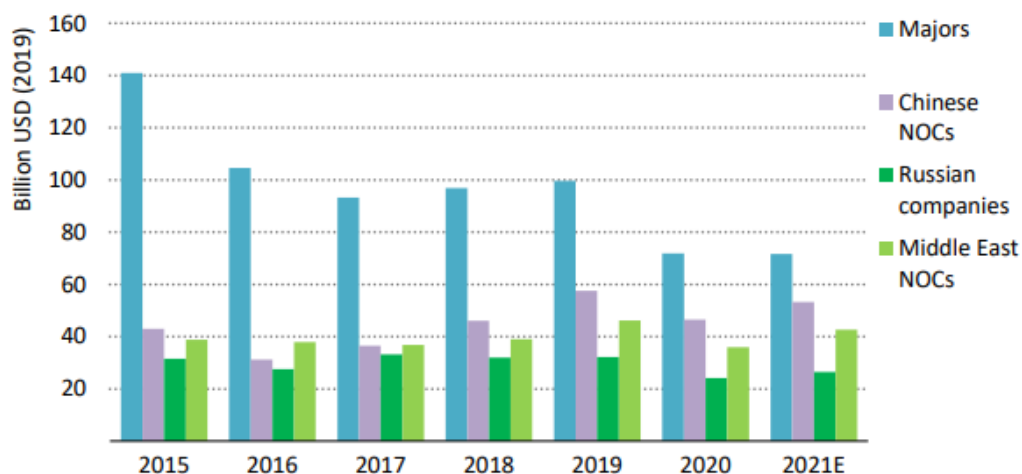
²⁰ Rollins, Blaine (2021) "[Weekly Research Briefing: Current State?](#)" for Hamilton Lane.

²¹ IEA (2021) "[Oil Market Report - June 2021](#)".

²² Waldron, Michael (2021) "[World Energy Investment 2021](#)" presentation at the 12th Clean Energy Ministerial Meeting.

²³ Blas, Javier (2021) "[This Time Is Different: Outside OPEC+, Oil Growth Stalls](#)" for Bloomberg.

Upstream spending by selected company types



As shown above, as the oil majors decrease upstream spending, it is increased by actors around the world who are less accountable to shareholder scrutiny regarding GHG emissions.

Due to divestment pressure on public fossil fuel companies, oil production is heading into the shadows over the near-term, with production under less environmental scrutiny, creating huge geopolitical and human rights implications. In-Cap believes that it is vital to curb this growing trend. But it is only going to be viable if investors are given meaningful and comparable information about how companies are transforming their operations to meet the goal of net zero global emissions by 2050. In other words, investors need an analytical tool that allows them to engage with the world's largest emitters and support them on their transition to carbon neutrality.

Recommendation No. 2: MOVE THE NEEDLE: Assume a price for carbon

While the Commission has received many suggestions regarding the specifics of climate-related corporate disclosures, In-Cap believes that the final requirements should be guided by the insight of Herbert Simon, the influential social scientist, who said, "A wealth of information creates a poverty of attention".²⁴ The final climate-related disclosure regulations should inform investors of climate risk and they should further reflect the nuances of the global and "just transition" to a carbon-neutral world, helping lead to active engagement between investors and companies. A list of static disclosure factors that mainly incentivize investors to divest from currently carbon-rich companies while making little impact on solving the problems of climate change should be avoided. It should be recognized that the mitigation of climate risks cannot be captured by static backward-looking reports on Scope 1, 2 and 3 GHG emissions, or projected revenue from less carbon intensive sources or holdings of proven fossil fuel reserves.

²⁴ Simon, Herbert A. (1971) "Designing Organizations for an Information-Rich World" in "Computers, Communications, and the Public Interest" edited by Martin Greenberger

Indeed, to quantify the impact of a company's carbon footprint it is vital that legal transparency into a company's operations goes beyond the static and move to the strategic. It requires disclosures that shed light on a company's specific climate strategy toward carbon neutrality in a "just transition" with factors that are material to long-term value creation and global carbon abatement. Investors need to be able to assess which companies are strategically resilient to the physical, transition and liability risks posed by climate change, as well as how they may be placed to take advantage of technologies and opportunities in a low carbon world.

As described by Mark Carney in 2019, "the biggest challenge in climate risk management is in assessing the resilience of firm's strategies to transition risks."²⁵ We agree that the most important climate-related factor for investors to consider is transition risk. And, government has the greatest potential to establish material transition risk because of the impact of actual (or potential) changes in government policy.²⁶ Carney's statement highlights that even the "potential" for government action must be considered a transition risk for companies and investors. As it is widely agreed that the most impactful government tool to reduce climate change is a mechanism to price carbon, either through a cap-and-trade program or a tax on carbon emissions, it is incumbent upon companies to be prepared for such an eventuality.

As stated in the 2020 U.S. Commodity Futures Trading Commission Market Risk Advisory Committee report "Managing Climate Risk in The U.S. Financial System", financial markets will only be able to channel resources efficiently to activities that reduce greenhouse gas emissions if an economy-wide price on carbon is in place at a level that reflects the true social cost of those emissions."²⁷ The report explains, "The British economist, Lord Nicholas Stern, in his influential *Review of the Economics of Climate Change*, famously called climate change 'the greatest and widest-ranging market failure the world has seen'.²⁸ From an economic perspective, greenhouse gas pollution is a powerful example of a negative externality. Emissions of CO2 and other GHGs impose significant damages on society at large in the form of future climate impacts, but at least in the absence of government policy, these damages remain 'external' to the calculus of individual economic agents. In effect, the environmental costs of burning fossil fuels, cutting down tropical forests, and other emitting activities have been treated as if they were 'free.'²⁹

²⁵ Carney, Mark (2019) "[A New Horizon](#)", speech to the 2019 European Commission Conference: A global approach to sustainable finance.

²⁶ "For example, investment in water-saving technology is not a "material ESG practice" in a situation where water tariffs are too low to justify the investment. But it can become material once regulators begin to raise tariffs to appropriate levels" as written by Kolbel, Julian F. and Florian Heeb, et al. in "[Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#)" (2020).

²⁷ Climate-Related Market Risk Subcommittee (2020). "[Managing Climate Risk in the U.S. Financial System](#)" for the U.S. Commodity Futures Trading Commission Market Risk Advisory Committee., page ii.

²⁸ Stern, Nicholas (2007) "[The Economics of Climate Change: The Stern Review](#)" as quoted on page 4 of the "[Managing Climate Risk in the U.S. Financial System](#)" report for the U.S. Commodity Futures Trading Commission Market Risk Advisory Committee

²⁹ [Ibid.](#)

“Without an effective price on carbon, financial markets lack the most efficient incentive mechanism to price climate risks. Therefore, all manner of financial instruments—stocks, bonds, futures, bank loans—do not incorporate those risks in their price. Risk that is not quantified is difficult to manage effectively. Instead, it can build up and eventually cause a disorderly adjustment of prices.”³⁰

The “Fit for 55” plan adopted by the European Commission in July 2021 demonstrates that Europe is serious about carbon pricing and the achievement of net-zero by 2050, including a goal of a 55% reduction from 1990 levels by 2030 and the establishment of the Carbon Border Adjustment Mechanism (CBAM) to place a price for carbon on companies that import to the EU.³¹ Another example of the forward-leaning position in Europe is the announcement by the ECB in its June 2021 strategy review that it would begin to incorporate **assumptions** about carbon pricing in its macroeconomic projections.^{32,33} The IMF has long advocated for a global price on carbon. And, in July 2021, the finance ministers and central bank governors of the G20 signed a communiqué endorsing carbon pricing “if appropriate”.³⁴

Although Congress does not at this time seem to seriously be considering the adoption of a price on carbon, various types of carbon pricing exist in 73 countries and it is reasonable to expect it to become universally adopted as global leaders become serious about commitments to net zero GHG by 2050.³⁵ It is also of note that the idea is broadly supported around the world, with 1,000 companies signing a “Carbon Pricing Statement” in 2014, and investors with over \$37 trillion in Assets signing the “Global Investor Statement” in 2019, among many other such statements of support for carbon pricing in the global economy.³⁶ The CDP reported in April 2021 that the number of companies using an internal price for carbon has increased 80% in the last five years, representing \$27 trillion in market capitalization.³⁷

³⁰ [Ibid.](#)

³¹ European Commission (2021) “[Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality](#)” on EUR-lex network.

³² European Central Bank (2021) “[ECB presents action plan to include climate change considerations in its monetary policy strategy](#)” (press release).

³³ Sandbu, Martin (2021) “[It's been a good week for carbon pricing](#)” for *Financial Times*.

³⁴ Finance Ministers and Central Bank Governors of the Third G20 (2021) “[Communiqué](#)”.

³⁵ Climate-Related Market Risk Subcommittee (2020). “[Managing Climate Risk in the U.S. Financial System](#)” for the U.S. Commodity Futures Trading Commission Market Risk Advisory Committee.

³⁶ As stated by the U.S. Commodity Future Trading Commission Climate-Related Market Risk Subcommittee in page 5 of the “[Managing Climate Risk in the U.S. Financial System](#)” report, five notable examples of carbon pricing-supportive governments and entities include, “(i) the Carbon Pricing Statement signed by 73 countries and more than 1,000 companies and investors in 2014; (ii) the 2019 Global Investor Statement to Governments on Climate Change signed by 613 investors with more than \$37 trillion in assets; (iii) the Guiding Principles announced by the CEO Climate Dialogue made up of 21 companies and four non-governmental organizations (NGOs) in 2019; (iv) the Economists’ Statement on Carbon Dividends signed in 2019 by more than 3,500 economists including all four former chairs of the Federal Reserve, 27 Nobel laureates, and 15 former chairs of the Council of Economic Advisers; and, (v) the Vatican Dialogues Participant Statement on Carbon Pricing signed by the CEOs of 10 major oil companies along with major asset managers and others in 2019.”

³⁷ CDP report (2021) “[Putting a Price on Carbon: The state of internal carbon pricing by corporates globally.](#)”

In light of the broad global support for a price on carbon (which is admittedly wanting in levels, pricing mechanisms and execution), In-Cap believes that it is prudent and necessary to mandate that listed companies begin to plan for the **eventuality** of a price on carbon. **In essence, the one simple metric that the SEC should mandate is the price of carbon that companies assume in their near-, medium- and long-term strategic planning.** This assumed price of carbon should be incorporated in 10-Ks, in the same way that companies disclose commodity, interest rate, foreign exchange and other risks factors. This would give investors visibility on a company's operations, investment decisions, asset valuations and enterprise value. This price, even if it is considered to be zero, gives investors a meaningful way to analyze the thinking of management toward the physical, transition and liability risks of the company. While the requirement itself would be broadly applied to all companies, the information would quickly become comparable within specific industries and geographies. Requiring the disclosure of a registrant's assumed price of carbon forces them to give investors the basis for their own operational and strategic plans regarding climate.

In this connection, we believe it would be further advisable to require companies to provide investors with their assumed price of carbon in climate-related scenario analysis. In-Cap believes this is helpful because while it is impossible to predict the future, the scenario planning is a systemic process that helps translate climate risk into financial risk. Scenario analysis would put contours around possible financial outcomes by illustrating the complex connections and dependencies across technologies, policies, geographies, societal behaviors, and economic outcomes that are at stake as the world moves to net-zero.^{38,39}

As stated by the Market Risk Advisory Committee of the U.S. Commodity Futures Trading commission, "Scenarios illustrate the complex connections and dependencies across technologies, policies, geographies, societal behaviors and economic outcomes as the world shifts toward a net-zero emissions future. Scenario analysis can help organizations integrate climate risks and opportunities into a broader risk management framework, as well as understand the potential short-term impact of specific triggering events".⁴⁰ While it must be acknowledged that climate-based scenario analysis has its limitations, In-Cap believes it is a tool that should be developed and required to be disclosed. The assumptions to be used should be developed by policymakers and industry experts so there will be a consistent and common set of

³⁸ The analysis should not be considered forecasts, but data-driven narratives that give investors critical insight to how companies are preparing for the impact of the different physical, transition and liability climate risks that are inherent in today's economy and be protected by a safe harbor rule. As stated by the U.S. Commodity Future Trading Commission Climate-Related Market Risk Subcommittee in page 74 of the "[Managing Climate Risk in the U.S. Financial System](#)" report, "Scenario analysis is less about forecasting the most probable outcomes than it is a 'what-if' analysis of different potential projections of the future". Scenario analysis is also suggested by the TCFD framework.

³⁹ Scenario analysis is also suggested by the TCFD framework, as detailed in the 2016 TCFD Technical Supplement "[The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities](#)".

⁴⁰ Climate-Related Market Risk Subcommittee (2020). "[Managing Climate Risk in the U.S. Financial System](#)" for the U.S. Commodity Futures Trading Commission Market Risk Advisory Committee, page iv.

assumptions that give investors and companies comparable information about the true extent of climate-related risks and opportunities for each company.

This approach would allow capital to be allocated with meaningful analysis of each registrant's understanding of their exposure to climate risk. It would provide investors with a more refined measure of the long-term cost of capital, as well as risks to a company's margins, cashflow and valuations, creating more certainty about a company's management skills, valuation multiples and cost of capital. Importantly, this would allow capital allocation to the largest emitters of GHGs if they can prove to their investors that they are on the road to reducing their emissions, rather than the current trend to disinvest from these companies. This would allow investors to benefit from the scale of the research and development, distribution and marketing of the largest energy, transport and building companies **if** they are able to explain their transition to net-zero in a transparent and meaningful way.

Conclusion: THE MARKET NEEDS PRICE LEVERS

Overall, in order for the Commission to fulfill its statutory duty to protect investors, maintain fair, orderly and efficient markets, and to facilitate capital formation, In-Cap believes that climate-related mandatory disclosures are essential. These disclosures must be designed to allow managers, investors and policymakers to accurately understand the risks and opportunities of reducing GHG through their strategic plans and capital allocation. The reporting regime designed by the SEC needs to make it possible for management teams and investors to “go into the problem” of carbon production and distribution and support those companies that are on the transition to reducing their carbon footprint. SEC reporting should give investors clarity on the full impact of a company's conversion from fossil fuels to clean energy. This would not lead to divestment, but to engagement.

In-Cap believes that—even in the absence of Congressional establishment of a national price for carbon—the most impactful role for the SEC would be to require all US-listed companies to report the price of carbon that they assume in their strategic planning, from decision-making to risk assessment and capital allocation. This exercise would serve a dual purpose of both hastening the eventuality of governments placing a price on carbon and preparing the market for what such pricing would mean for their operations and for shareholder valuations. In other words, it is vital to create a reporting regime that gives companies and investors the clear ability to measure climate risk and opportunity, which includes not only if a company is “green”, but if it is “greening”.

We thank the Commission for its work to establish a mandatory climate-related disclosure framework that will give investors meaningful, consistent and comparable information in the context of escalating global climate risk as well as an imperative to achieve net zero carbon by 2050. If you have any questions on our submission, please contact Philippe Pradel, Chief Compliance Officer and Legal Counsel, at [REDACTED]

Sincerely,



Jeffrey W. Ubben
Founder, Portfolio Manager and Managing Partner
Inclusive Capital Partners

CC: The Honorable Caroline A. Crenshaw

The Honorable Allison Herren Lee

The Honorable Hester M. Peirce

The Honorable Elad L. Roisman

John C. Coates, Acting Director, Division of Corporation Finance

Kristina S. Wyatt, Senior Counsel, Division of Corporation Finance

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