March 21, 2022

Ms. Vanessa A. Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: File Number S7-01-22: Amendments to Form PF to Require Current Reporting and Amend Reporting Requirements for Large Private Equity Advisers and Large Liquidity Fund Advisers

Dear Ms. Countryman:

On behalf of Ceres and our Ceres Accelerator for Sustainable Capital Markets, I am pleased to submit comments on the Commission's proposed Amendments to Form PF to Require Current Reporting and Amend Reporting Requirements for Large Private Equity Advisers and Large Liquidity Fund Advisers.

Background:

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world's greatest sustainability challenges. The Ceres Accelerator for Sustainable Capital Markets works to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis. We also support the Investor Network on Climate Risk and Sustainability, which consists of 217 investors that collectively own or manage over $49 trillion in assets, who advance leading investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities. Ceres is a founding partner of the Investor Agenda, the Net Zero Asset Managers Initiative and the Paris Aligned Investor Initiative, which includes investors focused on sustainable investments within their portfolios and other assets.

Ceres has a keen interest in the disclosures that private equity firms make about climate issues. Last year, Ceres established a Private Equity Working Group. It has grown to the largest assemblage (based on assets under management) of private equity firms focused on climate change. Ceres supports general partners (GPs) and limited partners (LPs) in their efforts to transition private equity portfolios towards a sustainable net zero economy. Ceres also facilitates monthly sessions that provide GPs and LPs with the latest climate-centric and sustainable investment practices, policies, frameworks and tools to assess, manage and mitigate ESG and

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climate risks, adopt investment practices in alignment with the Net Zero Investment Framework, align environmental and social impacts of investments to support sustainable development, and develop and implement investor climate action plans.

Further, in June last year, Ceres and The SustainAbility Institute by ERM released a detailed report outlining solutions and recommendations to guide the private equity industry in addressing the systemic risk that climate change poses to the global economy. The report, The Changing Climate for Private Equity, assesses the state of private equity with regard to integration of climate issues in investment practices and provides insights to help the industry realize the investment opportunities presented by the transition to a low-carbon future. The report's findings were drawn from research that included interviews with 27 leading private equity GPs and LPs. This included 18 leading GPs with, in the aggregate, over $1.9 trillion total AUM, including Apollo Global Management, Bain Capital, The Carlyle Group, EQT AB, KKR & Co. Inc, Partners Group, and TPG, as well as nine LPs, including the California Public Employees Retirement System, Church of England Pensions Board, and OMERS, with a collective $1.3 trillion total AUM.

Accordingly, we have gained considerable knowledge of two areas that are relevant here – first, the role played by private equity with respect to the systemic risks created by climate change, and second, private equity investors' needs for greater transparency into how climate risks might impact their investment decisions.

Ceres' Views on the rule proposal:

The Proposal: The Commission's proposal would amend the SEC's Form PF, the form used by registered investment advisers to report confidential information about their private fund clients. The existing form requires information about the basic operations and strategies of private funds. The Commission's proposal would, among other things, require new current reporting by large hedge fund advisers regarding their qualifying hedge funds and by private equity advisers upon the occurrence of certain key events.

At the outset, we wish to make clear that Ceres has no position on particular aspects of the proposal. Rather, our concern is that the Commission is missing an opportunity to address important disclosure issues relating to climate, an area of significant risk and opportunity to the marketplace overall and to the private equity sector specifically.

Systemic Risk: The Commission's proposing release explains the principal reason for the proposal: "The proposed amendments are designed to enhance FSOC [Financial Stability Oversight Council]'s monitoring and assessment of systemic risk and to provide additional information for FSOC's use in determining whether and how to deploy its regulatory tools."

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If better information on "systemic risk" is the objective of the rulemaking, then Ceres believes the Commission is missing a vital set of risks, specifically relating to climate change.

Indeed, only a few months ago, on October 21, 2021, the FSOC issued its "Report on Climate-Related Financial Risk," and in that report stated its conclusion that climate change is an "emerging threat to financial stability."[1] And there is substantial support in the investment community and the scientific community for that conclusion. For example, the Commodity Futures Trading Commission's report, "Managing Climate Risk in the U.S. Financial System," published in September 2020, stated: "A central finding of this report is that climate change could pose systemic risks to the U.S. financial system." The report further stated: "A sudden revision of market perceptions about climate risk could lead to a disorderly repricing of assets, which could in turn have cascading effects on portfolios and balance sheets and therefore systemic implications for financial stability."[2]

In reviewing the proposed changes to Form PF, it is striking that information about the systemic impact of climate change is bypassed entirely in the proposal even though systemic risk is the underlying purpose of Form PF. In this regard, we note Commissioner Hester Peirce's vote against the issuance of the rule proposal, where she stated criticism of the proposed Form PF reporting requirements because they focused on things *other than* how to facilitate the FSOC's monitoring of systemic risk.

The SEC should take another look at how to improve available information about the systemic impact of climate change and require additional reporting on a confidential basis to the SEC pursuant Form PF. Specifically, investment advisers of hedge funds, liquidity funds and private equity funds should specify, in a sub-question to Form PF's Section 2 Item B, Section 3 Item B or Section 4 Item B, if and how the impact of climate change on the relevant private fund's investments is taken into account as part of the private fund's investment strategy. Disclosures should include quantitative metrics and qualitative information about governance, strategy, and risk management. This information can then be used by the SEC to assess systemic risks and monitor potential violations of fiduciary duties, such as potential greenwashing of investment products through misleading policies or disclosure.

Investment Decisions: The risks and opportunities created by climate change are enormously important to the capital markets as a whole, to investors in private funds, and to investment advisers of private funds. There is substantial support for this view.

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[1] "Report on Climate-Related Financial Risk," *Financial Stability Oversight Council* (2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf

[2] "Managing Climate Risk in the U.S. Financial System," *U.S. Commodity Futures Trading Commission* (2020), https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf

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The Ceres/ERM report cited above explored this issue in depth. Ceres cited one estimate that more than $3.06 trillion in combined assets has been raised by private capital funds that integrate ESG principles since 2011, and that amount is expected to steadily grow. Further, according to a 2020 survey of 150 GPs, 88 percent expected to increase ESG focus over the next one to two years. The report's authors stated that "our interviews and research affirm the central status of climate" in private equity's investment decisions. They further stated that "[i]ndustry participants including the GPs and LPs interviewed for this report agree that the next few years will see rapidly accelerating integration of climate thinking by private equity."[3]

Why this interest in climate? The report explained: "Climate is now recognized not only as presenting risks, but also as an opportunity to boost returns and gain competitive advantage." A top official at one firm stated: "We strongly believe that anything related to climate and ESG is closely linked to performance."[4]

However, investors lack detailed information about what private fund managers are doing, and this creates significant risks for investors.

The SEC's request for information on climate change disclosure last year (the "Request for Information") raised this issue by asking: "What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?"[5] In response, the Private Equity Stakeholder Project stated that "the disclosures of climate-related risk are subjective, inconsistent, vague and rarely quantitative." The organization's comment letter further stated: "For members of the public and investors, there is no way to discern which companies have greater climate impacts, which are engaged in greenwashing through misleading ESG policies, and which may be genuinely working to disclose and mitigate climate impacts and emissions."[6]

The Institutional Limited Partners Association (ILPA) also raised these concerns. ILPA comprises over 500 member institutions representing more than $2 trillion of private equity assets under management. ILPA is "the only global organization dedicated exclusively to advancing the interests of LPs and their beneficiaries through best-in-class education, research,

[3] "The Changing Climate for Private Equity," *Ceres & The SustainAbility Institute* (June 2021), https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/2021/ceres-sustainability-institute---the-changing-climate-for-private-equity.pdf

[4] Ibid.

[5] Allison Herren Lee, "Public Input Welcomed on Climate Change Disclosures," *U.S. Securities and Exchange Commission* (March 15, 2021), https://www.sec.gov/news/public-statement/lee-climate-change-disclosures

[6] Alyssa Giachino, Comment Letter, "Re: Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021," *Private Equity Stakeholder Project* (June 14, 2021), https://www.sec.gov/comments/climate-disclosure/cll12-8916249-244994.pdf

advocacy and events."[7] In its 2021 submission to the SEC on climate related risks, the ILPA made the following statements:

> "In ever increasing numbers, limited partners view environmental, social and governance considerations as an integral part of their investment decision making processes. In a recent survey of 100 U.S.-based institutional investors, 96% expect their firm to increase prioritization of ESG considerations as an investment criterion. For many LPs, this means considering the climate-related risks and opportunities associated with their current portfolio and potential future investments. However, the climate-related information available today for private funds is not sufficiently advanced nor reliably available to support informed due diligence or portfolio monitoring. When data is provided by general partners on underlying portfolio companies, it lacks both consistency and comparability. This presents a fundamental challenge to LPs that have made target-based commitments to their stakeholders, such as the Net-Zero Asset Owner Alliance, which ultimately require that LPs have data that allows for an evaluation of progress against such commitments. To that end, ILPA members have indicated that when compiling a cross-portfolio analysis of carbon emissions, spanning all underlying portfolio companies in which they are invested, as much as 90% of their private funds emissions data must be estimated given reporting gaps and inconsistencies. … Minimum, mandated climate reporting disclosures for SEC registrants, if aligned with globally recognized standards and calibrated for relevance to private markets, will provide LPs with more abundant, consistent information that is required to assess climate related risks and opportunities across their portfolios."[8]

Ceres' comment letter in response to the Request for Information also expressed concern about the lack of transparency and supported a regulatory requirement that large private companies and funds disclose information in line with TCFD requirements. The letter stated: "As with public companies, the lack of 'decision-useful, consistent and comparable climate risk disclosure data creates significant risks for investors."[9]

The Commission's staff itself has provided support for our view that more transparency is needed. An April 9, 2021 Risk Alert issued by the SEC's Division of Examinations stated: "The staff noted, despite claims to have formal processes in place for ESG investing, a lack of policies and procedures related to ESG investing; policies and procedures that did not appear to be reasonably designed to prevent violations of law or that were not implemented; documentation of

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[7] "Who We Are," *Institutional Limited Partners Association*, https://ilpa.org/about/

[8] Steve Nelson, Comment Letter, "Re: Public Input Welcomed on Climate Change Disclosures (March 15, 2021)," *ILPA* (June 11, 2021), https://ilpa.org/wp-content/uploads/2021/06/061121-SEC-Request-for-Public-Input-Welcomed-on-Climate-Change-Disclosures-ILPA.pdf

[9] Mindy Lubber, Comment Letter, "Re: Public Input on Climate Change Disclosures," *Ceres* (June 10, 2021), https://www.ceres.org/sites/default/files/6-10-21%20Ceres%20Letter%20to%20SEC%20-%20Final.pdf

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ESG-related investment decisions that was weak or unclear; and compliance programs that did not appear to be reasonably designed to guard against inaccurate ESG-related disclosures and marketing materials."[10]

Thus, we agree with the recommendation of the Private Equity Shareholder Project that "private funds must provide comprehensive disclosures in order for investors and the public to evaluate the risks and contributions to climate change."[11] Investors want climate-related disclosures that cover both physical risks and transition risks that affect enterprise value, including information about governance, management, and risk strategy. Further, the Project urged disclosures that would cover climate risks for the equity firm overall; sectoral exposure, in particular energy and fossil fuels; fund-level exposures; and individual portfolio companies' risks, leverage and contributions to climate change.

Because Section 204(b) of the Investment Advisers Act of 1940 as amended (the Advisers Act) provides for confidential treatment of the information contained on Form PF, disclosures of this type of information should be provided through an amendment to an investment adviser's reporting obligations on Form ADV, which is publicly available. Also, because a significant portion of private funds is managed by investment advisers that are exempt from SEC registration, Ceres believes that the additional, publicly available reporting on climate change impacts should apply to both registered investment advisers and to "exempt reporting advisers" under the Advisers Act.

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[10] "Risk Alert: The Division of Examinations' Review of ESG Investing," *U.S. Securities and Exchange Commission* (April 9, 2021), https://www.sec.gov/files/esg-risk-alert.pdf

[11] Alyssa Giachino, Comment Letter, "Re: Public Input Welcomed on Climate Change Disclosures, Acting Chair Allison Herren Lee, March 15, 2021," *Private Equity Stakeholder Project* (June 14, 2021), https://www.sec.gov/comments/climate-disclosure/cll12-8916249-244994.pdf

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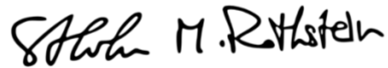
We appreciate the opportunity to share our views with the Commission and its staff on these important issues. For further information, please contact the undersigned at [redacted].

Respectfully submitted,



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