Allianz Global Investors GmbH, UK Branch

Allianz Global Investors GmbH, UK Branch
199 Bishopsgate, London, EC2M 3TY

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549 – 1090

By email to: rule-comments@sec.gov

13th July 2016

Allianz Global Investors’ comments on the Concept Release “Business and Financial Disclosure Required by Regulation S-K”– File Number S7-06-16

Allianz Global Investors is an active investment manager with US$500bn of assets under management\(^1\), serving institutional and retail clients around the world. Our business is diversified across equity, fixed-income, multi-asset and alternative strategies and diversified by region.

We welcome the concept release, and appreciate the opportunity to comment on Section F Disclosure of Information Relating to Public Policy and Sustainability matters.

Allianz Global Investors agrees that public policy and sustainability matters are of relevance and significance to voting and investment decisions. We are among an increasing number of asset managers, who seek to incorporate environmental, social and governance (ESG) considerations into investment analyses. This is due to the growing body of evidence that poor management of environmental, social and governance issues can have a material impact on the issuer’s performance and shareholder returns in the short-, medium- and long-term.

ESG factors can impact many aspects of a company’s performance, such as its operational stability and financial growth, its business model and success in implementing its long-term strategy, its overall brand value and reputation in the marketplace, its access to capital, and business and regulatory licenses, and its ability to undertake quality M&A transactions. At the same time, the lack of relevant, consistent and comparable information on material ESG factors hampers incorporation of these factors into investment analyses and makes it more difficult for investors to price in associated risk.

Allianz Global Investors believes that consistency, comparability and materiality of ESG information are critical to informed voting and investment decisions. Given that material ESG issues vary depending on the nature of the business, as well as the industry and markets that companies operate in, it is important that regulatory disclosure requirements allow companies to focus on issues that are relevant and material to them and their industry peers, thus avoiding a long checklist of non-material disclosures. This should not prevent companies from producing additional disclosures that are useful for their broader stakeholder base, but this can be done outside of regulatory filings.

\(^{1}\) As of May 2016

Authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.
Question 216
While ESG factors are at times called “non-financial” or “extra-financial”, how a company manages them has financial consequences. We believe that companies need to apply a sound, pragmatic and flexible approach to identify ESG issues that are relevant for their business. A recommendation that companies should think through each piece of their value chain can help develop a comprehensive understanding of the ESG issues that could be relevant for disclosure. Once a company has established material ESG issues, it needs to select appropriate key performance indicators. In order to ensure consistency and comparability, we strongly recommend that companies use widely accepted KPIs developed via a credible national or international process.

Question 217
Line-item disclosure requirements should only apply when the issue is material to the company and therefore its investors. Material issues need to be determined at an industry level. Line-item disclosures also need to be of a quantitative nature, as qualitative line-item disclosures risk turning into boiler-plate statements.

For example, we believe that carbon costs can be material to the enterprise value assessment of oil & gas companies. We, therefore, propose that for the oil & gas industry, the existing disclosure requirement should be enhanced to include carbon costs alongside a baseline assessment of a company’s proved reserves and standardized NPV analysis.

Question 218
While more ESG information is available in the public domain than ever before, the quality and comparability of this information varies among companies, markets, sectors, and issues. Investors need better-quality information on material ESG factors and risks. Many sustainability reports serve various stakeholders (e.g. investors, non-governmental organizations, consumers, employees, etc.) and therefore do not fully meet investor needs.

Going forward, a framework such as integrated reporting can be helpful in enhancing investor-relevant disclosure, although their further application across markets will take more time. The integrated reporting framework links all aspects of disclosure that are relevant to investors: purpose and business model of the company; key stakeholders; strategy (e.g. what needs to be done to meet the expectations of key stakeholders) and implementation actions taken by the management; performance against financial and non-financial indicators reported in the context of the overall strategy; material risks and uncertainties; and risk mitigation measures. Furthermore, it is a principles-based approach striking a balance between flexibility and prescription but also offering a sufficient degree of comparability across companies.

Question 219
We recommend that the SEC consider the following sustainability reporting frameworks: the International Integrated Reporting Council, Sustainability Accounting Standards Board, Sustainable Stock Exchanges Model Guidance on Reporting ESG Information to Investors, and the Financial Stability Board Taskforce on Climate Financial Disclosure.

Question 220
The SEC can address the evolving nature of sustainability and public policy issues by requiring that companies report on issues that are material to them within a framework that allows for comparability of disclosures against specific KPIs. Any line-item disclosure requirements should be industry-specific and quantitative in nature.

4 See Allianz Global Investors’ letter on improving company disclosure of carbon costs in the oil & gas sector sent on August 13, 2015. See appendix.
Question 223.

Please see our previous letter for suggestions on improving carbon cost disclosures.

For further information or if you have any questions, please contact:

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Allianz Global Investors

August 13, 2015

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Improving company disclosure of carbon costs in the Oil & Gas sector

Dear Chair White,

As an active, long-term investor with nearly $500bn in asset under management, Allianz Global Investors pays close attention to the impact of climate change on the investments it makes on behalf of clients.

We note the recent letter from Ceres to the SEC and strongly support the role of collective engagement by investors in order to make changes to mitigate climate risks, where needed, in the companies we invest in.

One area of particular interest and concern relates to achieving better disclosure of the effects of carbon costs on the Oil & Gas companies. To this end, we request that the SEC consider our proposal to adapt reporting requirements for Oil & Gas companies.

Oil & Gas companies are required to report proved reserves, and also a "Standardised measure of discounted future cashflows" from those proved reserves, which projects both future revenues and future development and operating costs, discounted back to a net present value (NPV).

In order to improve the disclosure of climate change risks, we propose that the existing disclosure requirement is enhanced to include carbon costs alongside the baseline assessment of a company’s proved reserves and standardised NPV analysis. This could be achieved by requiring companies to base their calculations on a scenario where a $50/te CO2 carbon price is assumed. This would assist shareholders in identifying:

1) Proved reserves which would become uneconomic in the event of carbon price of $50/te or more
2) The changes in development and operating costs caused by a carbon price being introduced
3) The total impact on the NPV of companies’ proved reserves

Our goal in requesting this additional data is to create a level playing field of improved disclosure while minimising any additional reporting burden for companies involved. This will then enable investors to start asking much better-informed questions about climate change risks, and the extent to which they can be mitigated.

We view this proposal as a win/win situation. If shareholders can be better informed, then not only is there better transparency in the equity marketplace, but companies and investors can work together to better react to climate and carbon risks.

Thank you very much for your consideration of this proposal and we remain available at any time to discuss it in more detail.

Yours sincerely,

[Signature]

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