July 21, 2016

Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Cc: Mary Jo White, Chairman; Kara M. Stein and Michael S. Piwowar, Commissioners

Via email to: rule-comments@sec.gov

Re: File No. S7-06-16 – Business and Financial Disclosure Required by Regulation S-K

Dear Secretary Fields,

Christian Brothers Investment Services (CBIS), a global investment firm stewarding over $6.3 billion in assets for Catholic institutions worldwide, appreciates and welcomes the opportunity to respond to the SEC's Concept Release on *Business and Financial Disclosure Required by Regulation S-K*. We support the SEC's broader disclosure effectiveness review, and its evaluation of disclosure under Regulation S-K and potential requirements for companies to report on sustainability matters. While we note the importance of the entirety of this complex review, we will focus our comments on Section F, *Disclosure of Information Relating to Public Policy and Sustainability Matters*, as well as *Number of Employees* under Section IV.A.5.

During our 35-year history, we have witnessed a groundswell of investor focus on the concept and practice of "responsible investment" (i.e., investors focused on more than purely financial return parameters to gauge the health, risk profile, and adaptability of companies in their portfolios). Evidence of this burgeoning interest comes from the growth of investor organizations focused on sustainability integration into the investment process; the growth of companies publishing sustainability reports; the surge in stock exchanges producing sustainability-focused listing rules and reporting guidance for their issuers; the number of assets and products devoted to sustainable investment overall; and the spike in the U.S. in the number of shareholder proposals to issuers on sustainability topics. But that groundswell of interest is often hampered by the dearth of consistent reporting by companies on their sustainability performance.

CBIS and the investor networks we are a part of would like to see improved and more comparable sustainability disclosure across markets, including the US. We are a member of the Interfaith Center

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on Corporate Responsibility (a coalition of faith-based investors who collectively represent over $100 billion in invested capital), as well as a signatory to the Principles for Responsible Investment (the PRI, with collective assets under management of over $59 trillion), and we are members of Ceres' Investor Network on Climate Risk (whose membership totals over $14 trillion in assets), the US Forum for Sustainable and Responsible Investment (the trade association for sustainable investing in the U.S.) and CDP (which represents in excess of $100 trillion in assets under management)—all of whom have submitted comments to this Concept Release in addition to ourselves.

CBIS' long-term focus on developing products for, and overseeing the assets of, Catholic institutional investors worldwide has meant that disclosure of issuer performance, policies, and initiatives related to sustainability matters—often now referred to as Environmental, Social, and Governance (ESG) concerns—is fundamental to addressing the investment needs of our funds' participants. Whether it is to identify best-in-class companies in high risk industries, to the screening of prohibited industries or companies in client portfolios, to engaging with companies in order to improve problematic or risky practices, or for informed proxy voting, ESG information is vital. CBIS staff has engaged several hundred global corporations since we launched in 1981, in order to promote more sustainable and fair corporate practices. Very often, that engagement centered on a lack of disclosure by companies in our funds on critical topics of concern. Without mandatory provisions around ESG reporting, some companies report on some topics—while others may not, and none do in a consistent and comparable way that meets our investment needs. Hence, individual company engagement is undertaken every year to get us the information we need to make informed decisions. We would rather be focusing most of our engagement attention on improvements to performance and policies, and have robust U.S. and global standards for ESG data that is well used by investors.

CBIS firmly supports mandatory disclosure of sustainability information that is material, timely, comparable, and consistently provided, and that affects our financial interests as shareholders and bondholders, as well as our communities. The value of such information is affirmed by an expanding number of global investors who are asking for it (through engagement, proxy voting and ESG product investment). However, as you well know, most such disclosures are done on a voluntary basis, company by company, and can lead to highly inconsistent and insufficient disclosures for investor needs. Industry peer analysis is quite difficult to undertake when you have different standards in different countries, and some companies reporting with others not providing any relevant information on a given topic. Mandatory rules are needed in order to address the significant gaps in reporting that exist today under a voluntary regime.

CBIS supports a mix of mandatory rules that address:

- **specific indicators across all companies** (large and small cap) that are of high interest to investors globally (diversity numbers, GHG emissions, key resource intensities, initiatives to protect human rights and worker rights, health and safety, etc.)

- added to **a mix of qualitative narrative discussion** on risk, opportunity, board accountability, incentives, and how ESG connects to financial and business strategy
- **plus industry-specific indicators** where appropriate
- as well as a robust and non boilerplate **discussion of process and outcomes of an ESG materiality assessment**
- coupled with **information on priority stakeholder engagement**.

These priorities are echoed in the many company engagements CBIS and fellow members of ICCR, US SIF, and PRI have undertaken over the years, as well as the March 2014 *Investor Listing Standards Proposal: Recommendations for Stock Exchange Requirements on Corporate Sustainability Reporting* developed by Ceres that summarizes global institutional investors views on ESG reporting rules and standards.

CBIS has seen escalating interest in ESG reporting standards by some of the largest investors in the world during recent years, many of which, including BlackRock and Legal and General, support mandatory reporting of ESG information. Even the trade association of stock exchanges—the World Federation of Exchanges—has developed ESG reporting standards for its members (October 2015), in order to assist them in crafting guidance or listing rules for issuers in various markets. Hong Kong Exchanges and Clearing released listing rules on ESG last December; Singapore Exchange launched its listing rules this summer; key markets like Australia, South Africa, and China already have ESG reporting rules in place; and various Nasdaq exchanges and the London Stock Exchange are getting ready to release ESG reporting guidance for their listed companies this year. We feel it is appropriate for the SEC to bring the US disclosure regime on ESG matters up to a number of international standards already in place, and to be supportive of moving a more global reporting standard for ESG issues in places where that makes sense—like the International Organization of Securities Commissions (IOSCO) where the SEC has been a leader for many decades, the G20, and the Financial Stability Board.

CBIS also believes in the importance of disclosure of relevant and business-significant information that may not be deemed "financially material" in the short-term, but has a clear and direct impact on financial performance, and when taken together with other information, may have the potential to damage or strengthen a company's reputation, impact its social license to operate, or affect its sales and business relationships. This information would be relevant to an investor's assessment of the company and may at a future date be clearly within the definition of "material" information. There are several examples where this has manifested with respect to our engagement with companies, including: CBIS' concerns over abusive and risky practices in the financial services industry leading up to the 2008 financial crisis and subsequent economic recession; early concerns raised in the 1990s around climate change impacts; urging companies to recognize the need to address public health

threats and affordably-priced life-saving medicines; and the risks stemming from water scarcity and stress, which is now seen as a significant risk for many corporations, according to the World Economic Forum's most recent 2016 global risk assessment.

Mandatory disclosure would provide more consistent, reliable, comparable, and verifiable ESG information that would allow educated investors to make more informed investment decisions across the portfolio and advance effective engagement strategies, as well as improved ESG integration across the investment process (which is now difficult to do with the lack of sufficient ESG data coming from investments across asset classes).

Section F, *Disclosure of Information Relating to Public Policy and Sustainability Matters*

216. Are there specific sustainability or public policy issues [that] are important to informed voting and investment decisions? If so, what are they? If we were to adopt specific disclosure requirements involving sustainability or public policy issues, how could our rules elicit meaningful disclosure on such issues? How could we create a disclosure framework that would be flexible enough to address such issues as they evolve over time? Alternatively, what additional Commission or staff guidance, if any, would be necessary to elicit meaningful disclosure on such issues?

Disclosure of financially material sustainability information is already required under current rules. However, the resulting disclosures fail to meet investors' needs. Disclosure of business-relevant and stakeholder-impacting ESG information is useful to investors and necessary for strategic investment planning. Disclosure allows investors to identify industry leadership in each sector, tells investors how well positioned a company is to respond to changing regulations, is essential to the evaluation of investment risks, and informs overall investment and engagement strategies. The current framework, which leaves it up to the corporation to determine when such an item is material, however, has not produced the comprehensive and comparable information that we are seeking. What we often encounter is legal boilerplate that attempts to list every conceivable risk to a company (when those risks are addressed, which is inconsistent across companies in the same industry) without weighing those risks, their likelihood, or potential impacts. The proponderence of legal boilerplate is not useful to us in our investment processes, and any amendments to the SEC's disclosure regime should attempt to reduce the amount of legal boilerplate investors encounter, while getting companies to discuss more of the process it goes through to weigh and prioritize its risks and oppportunities, and then report out on that prioritized list and the processes behind those determinations—as well as the potential impacts stemming from them.

Additionally, CBIS would find it extremely helpful if issuers were required to disclose (in bond offerings, S-1 statements, and 10-Ks/20-Fs) the stakeholders that the company regularly engages to help identify emerging risks and opportunities, and its process for stakeholder engagement and the selection of stakeholders most critical to the enterprise.

We also want to see, at a minimum, how the Board of Directors is accountable for:

- ESG strategy overall, and the integration of ESG risks and opportunities into short- and long-term strategic planning
- The ESG risk assessment process, and prioritization of those risks
- ESG reporting across the business, based on issues identified during an "ESG materiality assessment" annually
- The integration and disclosure of ESG matters into financial metrics and executive compensation.

Since the board of directors represents CBIS at our holding companies, we want the buck to stop with our representatives, for holding management to account for robust processes, performance, transparency, and incentives on sustainability issues critical to the business.

And while many investors will argue that companies should only disclose those items that directly correlate with financial materiality in the short- to medium-term, investors like CBIS increasingly see the value of information that helps to contextualize our investments in a single company relative to the whole portfolio. ESG issues increasingly present portfolio-wide risks; issues such as climate change, poor governance, lack of diversity, or human rights abuses are relevant beyond a specific company and accrue to whole industries, economies or swaths of the portfolio. These issues can revoke an entire industry's license to operate in a key region, for example, even when many impacted companies have sound practices. The ability of investors (particularly "universal owners" with assets across classes, geographies and industries, and that are well-diversified) to assess their entire portfolio for risks or opportunities unfolding fits within the U.S. Supreme Court's definitions of "materiality" and what "a reasonable investor"[1] might consider in the "total mix" of information for an investment decision. Increasingly, investors need the tools to not just analyze one company and make an investment decision. They need more information on systemic risk that may be building up across their assets. Not getting this information will make it much more difficult in the future to conduct proper asset allocation and other strategies. We therefore want to see disclosure from companies not just on the risk it sees impacting the company itself, but information on how a company may be impacting others—in a region or community, its industry, an ecological zone, etc. We are happy to discuss this with SEC staff if more information is needed here. This issue of how to steer companies towards reporting on systemic risk accruing to systems (that they may be

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[1] TSC Industries, Inc. v. Northway, Inc. 426 U.S. 438 (1976)

contributing to) could be an issue that the SEC Investor Advisory Committee takes up to develop further.

Corporate approaches to ESG issues and risks relate directly to value and risk mitigation. Corporations that recognize the need to address ESG concerns are better positioned to anticipate changes and adapt most effectively.[2] A company's ability to define and measure its progress will help investors consistently analyze portfolios, creating a more robust investment strategy. Instead of this more robust disclosure and associated strategic thinking being relevant to only a small subset of companies that have received pressure from investors or their customers to provide this information, CBIS recommends that the SEC should require at least some subset of information from all companies, to enhance the practices and performance of all issuers in this area.

Additionally, we want to see that the ESG information provided is verified externally, which would ensure best practice reporting. It is also vital that small cap companies report the same ESG information as large ones. While such companies may need more time to come into compliance, and build proper systems for good reporting, we have found that they can often ignore critical ESG risks if not focused on systems and disclosure of them, and it makes for a much stronger, more resilient company when ESG performance and transparency is built into the company's DNA from the ground up at inception.

218. Some registrants already provide information about ESG matters in sustainability or corporate social responsibility reports or on their websites. Corporate sustainability reports may also be available in databases aggregating such reports. Why do some registrants choose to provide sustainability information outside of their Commission filings? Is the information provided on company websites sufficient to address investor needs? What are the advantages and disadvantages of registrants providing such disclosure on their websites? How important to investors is integrated reporting, as opposed to separate financial and sustainability reporting? If we permitted registrants to use information on their websites to satisfy any ESG disclosure requirement, how would this affect the comparability and consistency of the disclosure?

CBIS recognizes that hundreds of companies are providing sustainability reporting to differing degrees on their websites. A significant reason that companies are now reporting on ESG issues is the long history of active engagement by investors such as CBIS.

However, the available information on ESG performance and reporting on company websites is insufficient for investor needs. While listing this information on company websites can be helpful, this

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[2] ICCR, Social Sustainability Resource Guide: Building Sustainable Communities through Multi-Party Collaboration

type of voluntary disclosure is inconsistent, is provided with varying frequency, and is often very, very difficult to find. Additionally, information companies provide in corporate sustainability websites and online reports is information intended for all stakeholder audiences. We appreciate this information, but seek mandatory reporting of information that is necessary for investment-related decisions. We agree with CDP's statement to the SEC that if information is deemed necessary or appropriate to protect investors, then this material ESG data should be included in a company's annual report and 10-K filings.[3] This would ensure that investors have access to regularly reported data in a more consistent and easy-to-find way. Sustainability reports that are filed on corporate websites are not comparable, are inconsistent, are not audited, and are therefore often unreliable. As examples of these challenges, some reports are only several pages long, while others are over a hundred pages or more; some are formatted as an online web platform, while others are a well-indexed report; some include information on climate change management and scenario planning, while others focus purely on corporate philanthropy and employee volunteerism. While all of this information is valuable to a certain audience, having the most relevant information available to investors in a simple format at the same location would be ideal and much more efficient.

Investors have had to spend significant amounts of time and money to get the level of disclosure that currently exists. Companies are providing some information on websites, through sustainability reports or other voluntary disclosure, but this information is not easily searchable and investors cannot benchmark companies on the basis of varied disclosure. The result is that there is hidden risk for investors due to this inadequate and uneven reporting.

We urge the SEC to establish mandatory disclosure requirements for fixed income and equity investments, at the IPO stage and subsequent reporting, and that those requirements are made through filings in a consistent and comparable manner. Again, we believe such disclosures should be a combination of qualitative and quantitative reporting, so that companies have clearer expectations for metrics regarding certain types of risk, and so that they have narrative discussion to explain in more detail to investors the risks and opportunities of an ESG factor or trend that may impact the business.

219. In an effort to coordinate ESG disclosures, several organizations have published or are working on sustainability reporting frameworks. Currently, some registrants use these frameworks and provide voluntary ESG disclosures. If we propose line-item disclosure requirements on sustainability or public policy issues, which, if any, of these frameworks should we consider in developing any additional disclosure requirements?

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[3] Response from CDP to: Concept Release: Business and Financial Disclosure Required by Regulation S-K

As you may know, there are several frameworks that are in common use. The Sustainability Accounting Standards Board (SASB), CDP, the International Integrated Reporting Council's IR Framework, and the Global Reporting Initiative (GRI). CBIS appreciates the extensive work done by these organizations over the years in creating standards for meaningful disclosure of vital ESG information. However, because each reporting standard is voluntary, each has weaknesses. Not all companies choose to disclose through these frameworks. In addition, some companies may respond to only partial sections of a disclosure questionnaire, leaving out portions of the answers that may be most material or relevant to investor concerns, and therefore the response has limited value. While investors appreciate knowing which reporting standards companies are working with, as well as the information in them, without specific mandatory standards to create a common floor of expectation, the information is difficult to compare. For example, while the SASB tool is valuable for sector specific guidance, it has a narrower definition of materiality that might not capture issues of systemic risk which CBIS considers to be important. While the CDP is valuable for specific indictors on climate, water, and forestry, the voluntary corporate reporting results are not consistently comprehensive across issues like human rights, labor standards, diversity, or human trafficking. CBIS urges the SEC to build further expertise in the information that is business-relevant around a variety of subject areas and across industries, and to consider each of these reporting standards in order to draw from them and create a consistent mandatory reporting mechanism that provides investors with the critical information they need to evaluate a full spectrum of ESG risks. SEC guidance or rules should encourage companies to disclose the referenced standards or programs utilized.

220. Are there sustainability or public policy issues for which line-item disclosure requirements would be consistent with the Commission's rulemaking authority and our mission to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation, as described in Section III.A.1 of this release? If so, how could we address the evolving nature of such issues and keep our disclosure requirements current?

CBIS urges the SEC to adopt a policy where line-item disclosure of material information across sectors is required, but is also flexible so that requirements can be amended as risks evolve within corporate sectors. We also recommend that the Commission develop a process for regularly gathering ESG disclosure views from both companies and investors to identify emerging issues and track the evolution of disclosure needs in this space. We recommend an ongoing advisory committee (perhaps a subset of the SEC Investor Advisory Committee plus members of Corp Fin and the International division) that meets on a quarterly basis to convene research, expert speakers, and ongoing discussion of the evolution of this space and expected standards therein).

Additionally, CBIS works across a variety of ESG issue areas. With CBIS' decades of experience across the ESG spectrum, there are a number of key indicators that we would suggest across the following areas:

Human Rights

Information about the human rights risks present in a company's operations and supply chain, as well as the management of those risks, is relevant information for an investor in assessing a company's performance and management approach in both the short- and long-term. Poor management of human rights risks can lead to significant reputational, regulatory, and litigation risk for a company and can have a material impact on financial performance.[4] The adoption of the UN Guiding Principles on Business and Human Rights (UNGP) in 2011 has made it clear that there is a role for business to play in respecting human rights.[5] Information about how a company is meeting its expectations under the UNGP would be relevant for investors, particularly in industries where there are known risks and violations related to working conditions, labor rights, race and gender discrimination, forced labor and modern day slavery, and business impacts on local communities throughout the global supply chain.

There are tools that are evolving to assess and benchmark companies on their human rights policies, practices, and disclosure, including the UNGP Reporting Framework,[6] the Corporate Human Rights Benchmark,[7] and Know the Chain.[8] However, these tools rely on information that is publicly disclosed by companies, and because there are not clear standards, this information is inconsistently provided or is of varying quality, not comparable, and does not always include reliable data.

Furthermore, these tools are unable to assess all companies, and are therefore of limited value to investors with a diversified portfolio. Therefore, it would be beneficial to require mandatory disclosure of several key elements related to management of human rights issues. The experience from the mandatory disclosure related to conflict minerals demonstrates that requirements for further disclosure encourage companies to better understand their risks and develop the internal infrastructure, policies, and practices to mitigate those risks.

There are several critical pieces of information that would enable investors to better understand and assess the human rights issues and management practices of a company to inform their investment

[4] See e.g. The Wall Street Journal, Accused of Labor Trafficking, Oil-Rig Repairer Files for Bankruptcy
[5] UN, Guiding Principles on Business and Human Rights
[6] UN Guiding Principles Reporting Framework
[7] Business & Human Rights Resource Centre, Corporate Human Rights Benchmark
[8] Know the Chain.org

and voting decisions. Disclosure of the following would provide consistent information available to all investors:

- Whether an issuer has a Human Rights Policy that applies to direct operations and throughout its supply chain that includes prohibition of child and forced labor, and how it is auditing the human rights policy.
- Governance and Board responsibility for human rights issues.
- Data from an independent Human Rights Risk Assessment to define the primary human rights challenges to inform the company's approach to human rights issues in its operations and value chain.
- Existence and effectiveness of Remediation and Grievance mechanisms, and the number of grievances reported and resolved each year.
- The company's approach to stakeholder engagement.
- Reporting on traceability, purchasing practices, recruitment, worker voice, and monitoring.[9]

Climate Change

Climate change poses material financial risk to investors, and over the past several years it has been increasingly recognized by the financial community as an area of investor concern. This has been demonstrated by the broad investor action in support of the Paris Climate Agreement, the 52 shareholder proposals filed by ICCR members in 2016,[10] and the number of investor statements about climate change. The Paris Climate Agreement, adopted in Paris in December 2015 by 195 countries, included a commitment to limit global average temperature increases to 2°C or less above pre-industrial levels. Countries have made initial commitments in line with this goal and will be increasing their regulatory efforts to further align with the 2 degree target. Companies must be prepared to operate in a carbon-constrained economy and additional disclosure about their strategies to do so is necessary. We see evidence of demand for companies to discuss how they are meeting such commitments during the 2016 proxy season, especially with oil and gas and utility companies' engagements and proxy ballot items.

Disclosure of the following would provide more useful and consistent information to all investors related to climate change:

- Board of director qualifications that establish a "climate competency" on each board, through a skills matrix or other avenues.

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[9] Know the Chain, ICT Benchmark: Themes Key Findings
[10] ICCR, 2016 Proxy Resolutions and Voting Guide

- Climate change (and emissions reductions) policies and discussion of the governance of climate change issues—both risk and opportunity.
- Greenhouse Gas emission reduction targets for scope 1, 2, and 3 emissions and progress against these targets.
- Energy efficiency of operations and products.
- For relevant companies in the oil and gas industry, stress testing and scenario planning for alignment with the 2 degree objective adopted in Paris.
- How climate change strategies are connected to a company's public policy agenda and activities, and lobbying expenditures.
- Renewable energy procurement targets.
- Discussion of corporate transition plans to a low-carbon economy or business, including any potential product diversification strategies.
- Where companies have responded to the CDP survey or other framework indicators on climate change, to indicate so clearly with hyperlinks in core documents.

Water

Water has been declared a human right by the United Nations. Economies everywhere are challenged by the supply and demand imbalance, the lack of good substitutes, climate change impacts to existing supplies, pollution, and political controversies surrounding the issue. Corporations have a critically important role to play in addressing the freshwater crisis as their agricultural and industrial consumption increases and water stress becomes a more prominent issue due to climate change and competing interests. Presently, agricultural and industrial water use accounts for 70 and 22 percent of total freshwater use respectively. Apart from the stresses on water supply generated by industrial use, declining water quality due to agricultural runoff, industrial wastewater, and improper disposal of human waste, many other issues are contributing to the acute water crises around the world. Affected communities, civil society, investors, consumers, and the general public are increasingly engaged in issues of water sustainability.

Beyond the obvious social impact to affected communities, water issues pose a range of risks to business – from higher costs to major business disruptions stemming from supply chain interruptions and a possible loss of license to operate. It is imperative that companies publicly disclose ways in which they seek to identify and assess water use in core businesses and key suppliers, and how they incorporate these findings into business decisions and a water stewardship policy. This process helps businesses and institutional investors to better understand the risks and opportunities associated with water scarcity, identified water stress, and other water-related issues. Disclosure facilitates a company's journey towards water stewardship and water mapping, delivering insight that enables

companies to take intelligent action to manage this critical resource. Further, disclosure communicates and builds trust with shareholders, clients, communities, and the public audience.

Disclosure of the following would provide more useful and consistent information to investors, related to water management:

- Whether water, and a specific quality of water, is a material input to the company or its key suppliers.
- Identification and assessment/measurement of water use in core businesses and key suppliers, by region.
- Assessment of water availability, water costs, regional stress, stakeholder challenges, and levels of sustainable use around business operations.
- Performance measured against baselines and goals, and if material, tied to executive compensation.
- Performance data on water for operations and supply chain, especially in water stressed or scarce areas (including seasonal or periodic water stress or scarcity). Report in the context of local climate, ecology, human population, economy (agriculture, industry, service) and define the term “local” and the “watershed” area(s) covered.

Food

Given the fragility of the current food system and the need to feed an ever-growing global population, it is incumbent on all companies in the food supply chain (producers, processors, and distributors) to ensure that their policies and practices do not further contribute to the growing crisis, but instead advance innovative solutions that will help create a more sustainable and resilient food system. The industrialization of agriculture, intended to help feed the Earth’s growing population, has had unintended environmental and social consequences. Food operations powered by fossil fuels to produce and ship foods around the world, the overuse of artificial fertilizers and pesticides, and the enormous quantities of animal waste and other “externalities” are fouling the soil, air, and water--to the detriment of both communities and other businesses relying on uncontaminated resources for their operations.

Companies need to be more transparent on the food security implications of land and water use along the value chain. As consumer demand builds for healthier alternatives and growth in these segments continues to outpace conventional categories, long-term investors will be attracted to those companies best able to capitalize on these emerging market trends.

Disclosure of the following would provide more consistent information to investors related to food:

- For relevant sectors: sustainable agriculture policies, applicable across the value chain, that demonstrate how the company's business model is consistent with long-term environmental and social sustainability.
- Where relevant, disclosure on total food waste by operations and in the supply chain; policies and practices to reduce food waste amounts over time.
- Up-to-date information on policies, practices and performance related to food system impacts, risks and opportunities.
- Commodity risk assessments by commodity type and key region, covering climate, water, pollution, deforestation rates, ecological/biodiversity stress, and human rights and community-based risks.

Board and Executive Diversity, Non-Discrimination, and Pay Equity

CBIS supports the strengthening of the existing proxy rules to require companies to disclose the gender and racial composition of their nominees for directors and their plans to achieve greater gender and racial diversity among company leadership.

Workplace discrimination and unequal pay is not just a social issue but a critical business issue that can affect the performance of the businesses in which we invest. Unfair social practices within companies can lead to negative outcomes including damaged reputations, limited internal competition, poor morale, higher turnover, not to mention the risk of legal violations and lawsuits.[11] As a result, a broad spectrum of investors is becoming increasingly interested in these issues.

An earlier requirement in 2009 from the SEC for companies to report on board diversity did not define the term and as a result, companies created their own definitions. Many companies chose to define diversity on their boards as consisting of members with different professional experience or even those hailing from different geographic regions. Though this is no doubt a form of diversity, very little progress has been made on increasing the racial, ethnic, age, and gender representation of boards or senior managements within firms which are the areas of diversity that are most lacking.

As a network of investors with investments spanning a multitude of countries, cultures, and languages, we are ourselves committed to fostering a diverse and inclusive work environment. We believe diversity enriches our efforts and aligns with our desire to consider the full range of social justice, environmental, and corporate governance factors that influence the long-term performance of our investments. We therefore also support demographic disclosure on the race, ethnicity, gender (or gender identity), and age of direct employees, including managers and executive positions, building on some of the EEO-1 data that many companies already supply to the U.S. government.

[11] Vivek Wadhwa, Bloomberg News, The True Cost of Discrimination

With regard to greater information on pay gaps by gender and race, the SEC has already mandated disclosure of the pay gap between public company executives and their workforce as part of the implementation of the Dodd-Frank Act. Collecting and disclosing pay data across gender, race, and ethnicity would significantly increase investor confidence in the commitment of firms to address the issue. The requirement that companies disclose this data is a critical first step in addressing the significant pay gap by gender and race. Investors and the companies themselves must first understand the extent of this problem before attempting to formulate solutions.

Having a diverse set of skills, experience, and backgrounds on boards is, in our view, an essential component of good corporate governance and long-term business success. Pay gap data collected across sectors will also allow companies that are outperforming on these metrics to self-identify and to be rewarded by the marketplace.

We believe the proposed SEC rule should include information about the company's policy on board diversity, as well as steps taken to implement a diverse board in terms of gender, ethnicity, age and race. In addition, we believe there should be disclosure on how the company instructs its search firm or search committee to provide a diverse candidate pool and successes or challenges the company has faced in the last year in meeting those goals. Investors have asked companies to ensure the Charter of their Nominating Committee includes an affirmation of a diverse board.

Disclosure of the following[12] would provide more consistent information available to all investors related to diversity and pay equity:

- The inclusion of women and minority candidates in every pool from which board nominees are chosen.
- Plans to advance board and executive diversity.
- An assessment of challenges experienced and progress achieved.
- Disclosure of pay ratios by gender, race, age and ethnicity on an annual basis.

Indigenous Rights and Community Relations

Where CBIS invests in extractives industries, we often urge these companies to address the concerns of local communities and indigenous populations. The need to respect the rights of indigenous peoples and local communities relevant to natural resource extraction comes from more than a

[12] The first two disclosure indicators listed are reflected in 2016 shareholder resolutions filed with Cabot Oil & Gas Corporation, Cognizant Technology Solutions Corp., Discovery Communications, Inc., and Stifel Financial. See ICCR, 2016 Proxy Resolutions and Voting Guide

community need; there are clear financial risks. When communities do not give companies a social license to operate, they have significant financial implications, as has been seen with the Newmont Mining Minas Conga location in Peru. As stated by Professor John Ruggie, "for a world-class mining operation…there's a cost somewhere between $20 million to $30 million a week for operational disruptions by communities" and the time it takes to bring oil and gas projects online has "doubled over the course of the previous decade, creating substantial cost inflation."[13]

A 2011 study by Environmental Resources Management of delays associated with a sample of 190 of the world's largest oil and gas projects (as ranked by Goldman Sachs) found that 73% of project delays were due to "above-ground" or non-technical risk, including stakeholder resistance.[14] In 2014, Ernst and Young elevated the "social license to operate" to the third place on its list of the greatest business risks to the mining industry, citing that "the frequency and number of projects being delayed or stopped due to community and environmental activists continues to rise."[15]

Disclosure of the following would provide more consistent information to investors related to indigenous peoples and community relations:

- Policies and practices for obtaining community support and, where required by the UN Declaration on the Rights of Indigenous Peoples, Free Prior and Informed Consent from Indigenous Peoples.
- Project-level assessments of negative social and environmental impacts to communities, with specific attention given to Indigenous Peoples, women, and other vulnerable groups.
- Steps being taken in relevant industries (such as trucking and extractives) to monitor and reduce human trafficking and violence against women that may be directly or indirectly caused by operations.

Conflict Minerals

While disclosure on conflict minerals is required under the Dodd-Frank Act, additional requirements from the SEC are necessary for investors to accurately review companies in their portfolios. Over 1,200 companies have now reported to the SEC regarding their sourcing of conflict minerals – tin, tantalum, tungsten, and gold – for three years in a row. Companies have reported on the advantages they have seen to increasing transparency in their supply chains, having a clearer understanding on the origin of their raw materials, and looking at their human rights risks.

[13] Business-Ethics.com, Business and Human Rights: Interview with John Ruggie
[14] BSR, Commercial Value From Sustainable Local Benefits in the Extractive Industries: Local Content
[15] EY, Business Risks Facing Mining and Metals 2015

The consistent disclosures that companies have submitted to the SEC over this time period have allowed investors to start tracking companies' progress in improving their activities to address the risk that minerals used in manufacturing may support conflict in the DRC. Reports such as Responsible Sourcing Network's reports (2014, 2015) *Mining the Disclosures: An Investor Guide to Conflict Minerals Reporting*[16] have offered investors an analysis of individual companies' and industrial sectors' performance, have ranked companies, and have pointed out best practices.

Several lessons have been learned from the implementation and evaluation of reporting under 1502. Having the OECD Due Diligence Guidance as the de facto framework has been useful, noting that frameworks are constantly being revised and updated. The OECD guidance itself does not limit reporting to a specific geographic region, mineral, or issue, and increasingly conversations among leading conflict minerals stakeholders have turned to other DRC-related human rights risks, as well as other minerals that are involved in such risk. The mandatory aspect of this reporting has led to new companies and new industries putting standardized programs and procedures in place, which has a greater impact on suppliers.

However, a company does not have to establish that it conducted a "good faith" Reasonable Country of Origin Inquiry (RCOI), it only needs to assert it. There needs to be more accountability about how companies decide whether they should be reporting. Allowing companies who may conduct a less thorough RCOI to skip out on more comprehensive reporting incentivizes risky behavior, and as a result punishes companies who are more transparent.

Disclosure of the following would provide more consistent information to investors related to minerals/raw materials sourcing:

- A strong policy and an effective system addressing conflict-free sourcing.
- An assessment of identified risks in the chain of custody of minerals/raw materials.
- A due diligence report on steps taken to manage risks.
- A report on progress toward meeting established goals to source conflict-free (ethical and sustainable) minerals/raw materials.

223. In 2010, the Commission published an interpretive release to assist registrants in applying existing disclosure requirements to climate change matters. As part of the Disclosure Effectiveness Initiative, we received a number of comment letters suggesting that current climate change-related disclosures are insufficient. Are existing disclosure requirements adequate to elicit the information that would permit investors to evaluate material climate change risk? Why or why not? If not, what additional disclosure requirements or guidance would be appropriate to elicit that information?

[16] Responsible Sourcing Network, Mining the Disclosures

Based on the depth and scale of registrant reporting on climate risk under the existing SEC disclosure requirements, CBIS believes that more direction and clearer expectations (spelled out indicators and more guidance on narrative reporting) need to be articulated for climate change reporting to improve. Current rules have not produced sufficient information for investors to evaluate climate risks at an industry or portfolio level, and often not at a company level. While CBIS appreciates the SEC's 2010 interpretive guidance on climate change-related disclosure, its potential to elicit information essential for investors has been largely unrealized. We are concerned that even in the midst of increasing regulatory and policy action on climate change, staff have issued very few comment letters regarding the inadequacy of current disclosures and have not pursued enforcement actions for failure to meet disclosure requirements, despite a very active financial risk and disclosure enforcement agenda. Such actions would ensure that companies were updating their disclosures to reflect the evolving material risks associated with climate change. We see poor reporting overall of Scope 1, 2 and 3 emissions and increasingly, we value such reporting across all sizes of companies.

In some cases, specific disclosure rules that apply to industry sectors may be useful here. Many investors are long-term shareowners like CBIS, and hold companies representing the breadth of the economy. Interested in reducing climate risks in their portfolios, they seek disclosure that enables them to evaluate climate-related risk in exposed industry sectors. Also, with such broad holdings, these investors are interested in reducing GHG emissions throughout the economy to reduce systemic risks from climate impacts that are accruing to the portfolio. For example, rules regarding the disclosure of GHG reduction targets, progress against these targets, the energy efficiency of operations and products, and climate-related initiatives and policies would be a useful starting point.

Other disclosures that provide investors with more critical tools of the management of such issues include (and have already been mentioned):

- Details on the climate competency of directors, in a skills matrix for the board and in individual director qualification descriptions.
- Executive compensation that may be tied to reducing climate risks or developing opportunities.
- Disclosure of Scope 1, 2, and 3 greenhouse gas emissions, and where relevant, newly coined "Scope 4" emissions (avoided emissions).
- Year over year performance of greenhouse gas emissions, their reductions, and energy efficiency rates.
- The impact of climate change (positive or negative) to the company's core products, services or strategies.

In some cases, industry specific rules may be appropriate. For instance, many investors are concerned

that the business plans of oil and gas, electric power, and coal companies pose financial risks in the short- and long-term because they do not sufficiently factor in the ongoing transition to a low-carbon global economy. In this case, rules regarding disclosure of 2-degree scenario planning results and methodologies may be needed.

Section IV.A.5: *Number of Employees*

56. Should we require registrants to distinguish among their total number of persons employed, such as by distinguishing between:

- **full-time and part-time or seasonal employees;**
- **employees and independent contractors; or**
- **domestic and foreign employees?**

Why or why not?

It is important to require registrants to distinguish between the types of workers employed. The prevalence of migrant workers (domestic or foreign) might indicate a higher risk for violations of human and labor rights – namely, forced or bonded labor, exploitation, overtime violations, discrimination, deductions from wages related to the migrant status, or other scenarios that lead to exploitation of a worker's vulnerable status. In addition, where a company employs a higher number of temporary workers, particularly foreign migrant workers, we see a higher rate of workplace accidents due to improper or insufficient training related to language barriers, as well as other related health and safety issues.

Additionally, investors may flag when rates of temporary or contract workers rise substantially, indicating high turnover, possible lack of training and experience, and lost institutional knowledge in the enterprise.

57. Rather than requiring registrants to disclose the number of employees or independent contractors, should we require or permit registrants to provide a range? Why? Should we allow for different ranges based on the size of the registrant? Would reporting a range rather than a specific number reduce the costs of producing this disclosure?

Companies should be required to report the exact number of employees in the different categories and by region or core business segment, including such pertinent information as gender, race, ethnicity and age. Enabling companies to report ranges would deprive investors of accurate information about material risk that companies may face with potential labor and human rights violations. Ranges would also make company to company comparisons less accurate and valuable.

However, a range for a number of contractors or subcontractors may be acceptable only if the exact number is not known by the registrant. The acceptable estimate should be a narrow range accompanied by a disclosure of why the exact number is not available.

58. Should we require disclosure of additional information about a registrant's employees or employment practices? What would be the challenges of requiring disclosure of any additional information, and what would be the benefits to investors?

Companies should be required to disclose additional information about their employment practices, to ensure that investors have accurate information about a company's material risks. As one example, for investors concerned about a company's risk with human trafficking and forced labor, such additional information should include: what is the protocol for hiring workers? Is the company using agents, recruiters, labor brokers or other third party contractors to recruit workers? If a third party is used for hiring, is a third party licensed in the location it operates? Does the company ban fees charged for employment? Does the company provide written contracts in the employee's language? Does the company prohibit retention of any work documents including passports? What is included in the benefit package for any migrant workers? Is there adequate health coverage? What are the grievance mechanisms for such workers?

Companies should also be required to disclose information about pay equity by gender, race, age and ethnicity, as described above.

59. As outsourcing and subcontracting have become more prevalent in the last few decades, what, if any, additional information about a registrant's outsourcing or subcontracting arrangements should we require? Would this information be most useful in the context of the description of the registrant's business, disclosure about trends and developments affecting results of operations, or in a discussion of risk and risk management? What would be the challenges of requiring disclosure of this information?

Disclosure for investors about a company's outsourcing and subcontracting is vital in understanding a company's risks related to supply chain operations. Supply chain risks related to labor and human rights violations, as well as environmental impacts, are increasingly recognized by investors as material to the long-term health and sustainability of a company. Investors believe that the most profitable companies over the long-term will be those which are creating transparent, ethical, and accountable corporate cultures reflected by improved disclosure and reporting, especially on the issue of worker rights in their supply chains. CBIS would like to see such disclosure in several places, depending on the type of information. Basic demographic summaries may appropriately be included

in the registrant’s description of its business, whereas information on new trends, risks or opportunities would go under the other two categories where appropriate.

Conclusion

We wish to thank the SEC for this opportunity to comment on the important topic of sustainability disclosure. We urge the SEC to act and develop mandatory reporting on ESG issues as described above. We would welcome the opportunity to discuss this matter with you further at your earliest convenience.

Sincerely,

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Christian Brothers Investment Services