Dear all,

I have been in the financial analysis and investing field for the last 20 years, across various geographies. We need to acknowledge that ESG factors are manifesting in diverse forms today, like never before. The ever evolving macro economic trends are becoming challenging to capture and represent in the typical financial statements, resulting in valuation gaps among listed stocks. This further enhances the investors' dilemma on ways to capture or comprehend the associated risks and opportunities. The family office I was working with in 2004 in GCC did not invest in the Google IPO, as we could not fathom the valuation multiple. The financial statements of Google did not tell the story, justifying the price to earnings. There was a huge information gap.

I have been tracking ESG and related frameworks for the last 2-3 years in quest for non-financial information. The encouraging part is that there is lot of excitement among companies to report and we have seen a huge information flow from companies or responsible investors to stakeholders in the last decade. More reporting and disclosure walks you towards a transparent and efficient market place along with appropriate pricing of listed assets. However, it takes little time for this information to be 'chaotic' for an average reader, if there are no comparable patterns or benchmarking between asset classes or within the industry they operate. And if the discretion of mandatory reporting (10K) is left at the onus of company, they will end up picking and choosing as many topics with a personal view on factors that they feel are material. This is what we are experiencing in the MD & A segment of reporting. It becomes good reading with limited usability for incorporating into portfolio models.

This is where standards are required like what FASB did for financial accounting. SEC should endeavor towards these standards in ESG, as mandatory reporting, by choosing and setting up technical boundaries on interpretation of topics for reporting. If the companies are to report on ESG, then they need to do it in the defined way. The role of SEC is mission critical as guardians and gatekeepers of information flow to investors and stakeholders from listed businesses. We are at a precipice, where the risks and opportunities from ESG factors are finally emerging (especially climate change) after decades of background work. SEC has significant role in ensuring that investors and shareholders are benefited by channelizing the relevant and material information. Like what SEC did for financial accounting through FASB, decades back and information that we take for granted today. SEC's has a role of acting as the 'sieve' to cleanse and control ESG information before it flows for investors use. For controlled and systematic information with similar interpretation (la standards) to work, needs regulatory blessings and oversight. This will ensure that capital flows to the right opportunities based on the mosaic of financial and non-financial information being reported. SEC with its reach and influence should endeavor to be the beacon for ESG reporting in today's world.

As a common investor, I would also like SEC to encourage the body of work done by institutions like SASB in this context. The effort at SASB is important, as it lobbies for industry specific, material and quantifiable metrics that have a linkage with financial and operational condition of the business. They recommend a limited number of baseline reporting metrics which makes it cost effective for the company that is reporting to adopt and easy for the analyst integrating it into portfolio models. Additionally, their center of argument revolves on 'materiality' to investors based on evidenced research. While attempting to implement SASB standards as pilot to a couple of companies we know, we further figured out an additional advantage i.e. most of the metrics are already being collected by the company with internal control in place. This made the transformation to SASB standard easy.

If standards like SASB are acknowledged by regulatory bodies like SEC, it will do sea of good in the 'comparability' space from investors' viewpoint on ESG data. There is also value in the additional dimension offered by SASB, over and above ESG i.e. technology and innovation. All the major changes and good part of the valuation gaps are triggered by this dimension.

Most of the other reporting options that are available for companies, like GRI, are multi-stakeholder approach and not focusing only on topics that are material to investors. This dilutes the investor's viewpoint. And since it's not typically focused on investors and not a standard, the topics reported by companies keep changing on year to year basis, based on what they felt is material in that year or at that point of time, reducing comparability and benchmarking value. And this makes it difficult to incorporate it into analytics.

I have never worked on the IIRC standard. However, I presume, it will not be as adaptive to US listed companies as SASB. Since SASB's focus and work seems to be primarily for the US listed securities. Moreover, IIRC has broad guidelines leaving it open to company level interpretation.

The investment and analytics community will be immensely benefited if standards like SASB are adopted by listed companies. This will extend the mosaic of analysis into ESG and technology dimensions, making it relevant in today's new, new, new world. SEC has a pivotal role to play in this journey as standards only make sense, if a large community reports using them. And effort and body of work, done by institutions like SASB is the right tool for a regulator to adopt, as they do not have to reinvent the wheel

ESG is here to stay. SEC is the information and disclosure facilitator. As a regulator, it's time to reinforce the value creation it provides to investment community.

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