

Dear Chairman Gensler,

Reformation welcomes the U.S. Securities and Exchange Commission's (SEC) proposal to require public companies to disclose their climate-related financial risks, entitled "Enhancement and Standardization of Climate-Related Disclosures for Investors."¹ This is an important step forward by a major market regulator amid a backdrop of recent global efforts—both voluntary and regulatory—seeking to establish strong, standardized norms and requirements regarding the disclosure of climate risk. We applaud this move as a demonstration of U.S. leadership on this issue and look forward to the passage of a strong final rule.

As an apparel brand committed to sustainability, Reformation supports mandatory climate risk disclosure as a necessary means to provide investors, companies, and other market participants with the consistent, comparable, and decision-ready information needed to assess climate-related risk.

The SEC is charged with a three-part mandate: to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.² In accordance with this mandate, the SEC's proposal will provide investors and other market participants with clear, consistent, and comprehensive information, so they can make informed investment decisions as markets navigate the complex financial impacts of climate change and the transition to a low-carbon future.

Financial risks posed by climate change have been well documented by numerous government studies, financial industry experts, business leaders, and economists alike.³ These financial risks are now indisputable and there is broad, multi-stakeholder consensus on the need for increased disclosure as the necessary first step in equipping market participants with the information required to navigate this new set of risks. These risks are not hypothetical – in fact financial consequences of climate change are already manifesting in markets around the world.⁴

¹ Securities and Exchange Commission, "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors" (March 21, 2022), Available from: <https://www.sec.gov/news/press-release/2022-46>.

² Securities and Exchange Commission, "About the SEC", Available from: <https://www.investor.gov/introduction-investing/investing-basics/role-sec>.

³ Kahn, Matthew E., et al., *Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis*, National Bureau of Economic Research (2019), Available from: <https://www.nber.org/papers/w26167>; <https://home.treasury.gov/news/press-releases/jy0426>; Financial Stability Oversight Council, Report on Climate-Related Financial Risk (2021), Available from: <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>; Group of Thirty, Mainstreaming the Transition to a Net Zero Economy (2020), Available from: https://group30.org/images/uploads/publications/G30_Mainstreaming_the_Transition_to_a_Net-Zero_Economy.pdf; Carney, Mark, "Breaking the tragedy of the horizon – climate change and financial stability", Speech by Mr Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board at Lloyd's of London (September 29 2015), Available from: <https://www.bis.org/review/r151009a.pdf>; Financial Stability Board, The Implications of Climate Change for Financial Stability, (November 23, 2020), Available from: <https://www.fsb.org/wp-content/uploads/P231120.pdf>.

⁴ *Times of San Diego*, "Priced Out of California' – How Insurance Industry is Responding to Risks Posed by Climate Change," (November 11, 2021), Available from:

Recognizing these risks, a huge number of non-governmental, industry, and investor-led standards have emerged in recent years, resulting in a broad array of voluntary climate-related disclosures across several industries and sectors. As of 2021, over 2,600 organizations, including 60% of the world's largest companies, have expressed their support for the climate reporting framework adopted by the Task Force on Climate-Related Financial Disclosures (TCFD), which the SEC rule is based on.⁵ More than 2,000 companies reviewed by the SEC already choose to disclose some climate-related information, including around 90% of companies in the S&P 500.⁶ The U.N. Principles for Responsible Investment, founded in 2005, now has more than 4,000 signatories including asset owners, investment managers, and service providers that represent more than 100 trillion in assets under management.⁷ Each signatory has committed to annually disclose and report on their approach or guidelines on ESG investing. Further, more than 13,000 companies have voluntarily disclosed climate-related information for investors through the Carbon Disclosure Project.⁸ According to the Value Reporting Foundation, nearly 1,300 companies now use the Sustainable Accounting Standards Board (SASB) reporting framework including 608 companies on the S&P 1200.⁹ Because of this global progress, climate-related disclosures have become the norm across many industries and sectors around the world. Reformation has led in these voluntary disclosures over the past several years, and we firmly believe that we need more brands to follow to drive the change required to mitigate the worst of climate change.

Although an impressive amount of disclosures have been made as a result of the global landscape of voluntary initiatives, Reformation supports the codification of these disclosure norms through regulation. Establishing a mandatory climate disclosure framework through

<https://timesofsandiego.com/business/2021/11/11/priced-out-of-california-how-insurance-industry-is-responding-to-risks-posed-by-climate-change/>; Jacques Leslie, "How climate change is disrupting the global supply chain," *Greenbiz*, (April 18, 2022), Available from:

<https://www.greenbiz.com/article/how-climate-change-disrupting-global-supply-chain>.

⁵ *Cision PR Newsletter*, "Fourth TCFD Status Report Highlights Greatest Progress to Date on TCFD Adoption," Available from:

<https://www.prnewswire.com/news-releases/fourth-tcfd-status-report-highlights-greatest-progress-to-date-on-tcfd-adoption-301400244.html>.

⁶ Matthew Goldstein and Peter Eavis, "The S.E.C. moves closer to enacting a sweeping climate disclosure rule," *New York Times* (March 21, 2022), Available from:

<https://www.nytimes.com/2022/03/21/business/sec-climate-disclosure-rule.html>; Daniel Walters & William Manson, "SEC to consider climate disclosure rules for US companies," *Greenbiz* (March 16, 2022), Available from: <https://www.greenbiz.com/article/sec-consider-climate-disclosure-rules-us-companies>

⁷ Fiona Reynolds, "UN PRI to Focus on ESG Data and Reporting," *Markets Media*, Available from <https://www.marketsmedia.com/un-pri-to-focus-on-esg-data-and-reporting/>.

⁸ CDP, "CDP reports record number of disclosures and unveils new strategy to help further tackle climate and ecological emergency," (October 14, 2021), Available from:

<https://www.cdp.net/en/articles/media/cdp-reports-record-number-of-disclosures-and-unveils-new-strategy-to-help-further-tackle-climate-and-ecological-emergency>.

⁹ Ben Ashwell, "More than half of S&P Global 1200 using SASB framework," *Corporate Secretary*, (September 23, 2021), Available from:

<https://www.corporatesecretary.com/articles/esg/32723/more-half-sp-global-1200-using-sasb-framework#:~:text=Nearly%20%2C300%20companies%20now%20use,1200%2C%20608%20use%20the%20standards>.

regulation will offer uniformity, consistency, and reliability for investors already seeking this information. It will also help level the playing field for all investors – a welcome change that is responsive to investor concerns that information about climate risks is currently incomplete, unreliable, widely variable, and expensive to obtain.¹⁰ Mandatory climate disclosures allow investors to compare the management of climate-related risks between companies using comparable metrics. This will provide investors with a clearer picture of a company’s short and long-term financial health as compared to its peers which will enable investors to make well-informed and sound investment decisions.

Further, the SEC’s framework will help the U.S. align with counterparts around the world that are already working towards mandatory disclosure frameworks, including New Zealand, the United Kingdom, and the European Union.¹¹ This is an important step in the development of codified, standardized reporting norms that will help ease compliance costs and reporting burdens for companies subject to reporting rules in multiple jurisdictions. Finalizing a strong rule will also ensure U.S. investors and companies are not left in the dark and exposed to unaccounted for risks as climate threats accelerate and carbon-intensive markets become more volatile and unpredictable.

We encourage the SEC to finalize a rule that is consistent with and builds on the norms established by voluntary initiatives to date. Specifically, the final rule should include a company’s description of its climate-related risk management, strategy, and governance—including the role of management and board in this process. It should also mandate the disclosure of the following: any climate-related targets, goals, and transition plans; internal carbon prices and assumptions of future market and regulatory conditions; details related to climate-related physical risks (direct threats to a company’s physical assets due to worsening wildfires, hurricanes, flooding, extreme heat etc.); details related to transition risk (risks associated with a transition to a low-carbon economy); the disclosure of Scopes 1, 2, and 3 greenhouse gas emissions, including financed emissions, with varying Scope 3 requirements, timeline, and level of assurance relative to a company’s size; the financial impact of climate change and transition

¹⁰ International Organization of Securities Commissions, “Media Release: IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation,” (February 24, 2021), Available from:

<https://www.iosco.org/news/pdf/IOSCONEWS594.pdf>.

¹¹New Zealand Ministry for the Environment, “Mandatory climate-related disclosures,” (December 1, 2021), Available from:

<https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures>; Department for Business, Energy & Industrial Strategy, John Glen MP and the Rt Hon Greg Hands MP, “UK to enshrine mandatory climate disclosures for largest companies in law,”

(October 29, 2021), Available from:

<https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law>; Council of the European Union, “Council adopts its position on the corporate sustainability reporting directive (CSRD),” (February 24, 2022), Available from:

<https://www.consilium.europa.eu/en/press/press-releases/2022/02/24/council-adopts-position-on-the-corporate-sustainability-reporting-directive-csrd/>.

activities on the company's consolidated financial statements; and climate-related capital expenditures.¹²

Reformation congratulates the SEC for its significant contribution and encourages the Commission to swiftly adopt a strong final rule. Once finalized, companies, investors, and other market participants will finally have access to the reliable, standardized, consistent, and actionable information that only a mandatory disclosure framework can provide.

Sincerely,

Kathleen Talbot
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¹² U.S. Securities and Exchange Commission, "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," (March 21, 2022), Available from: <https://www.sec.gov/news/press-release/2022-46>.