

*Submitted via email to rule-comments@sec.gov*

June 14, 2022  
Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: Enhancement and Standardization of Climate-Related Disclosures for Investors (S7-10-22)**

Dear Ms. Countryman,

We write today on behalf of Parnassus Investments (“Parnassus”) in support of Proposed Rule S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (“Proposed Rule”, “Rule”). Parnassus commends the Commission for its work to improve climate-related disclosures for use by investors in capital allocation, proxy voting and engagement activities. We commend the Commission for understanding the urgency and materiality of the disclosure categories addressed in the Proposed Rule. This demonstrates a recognition that the decisions companies and investors make today regarding emissions and climate-related matters can have financial impacts in the short-, medium-, and long-term. In addition, we believe the Proposed Rule will further the SEC’s objectives to maintain fair, orderly, and efficient markets.

**Parnassus supports Proposed Rule S7-10-22 as it would improve the availability, quality and comparability of decision-useful emissions data and data on company management of climate-related risks and opportunities.**

Parnassus Investments follows an integrated and active investment process, analyzing issuers based on fundamental factors, valuation, and environmental, social and governance (“ESG”) factors. As of March 31, 2022, we managed over \$50 billion in client assets across four equity strategies and one fixed income strategy. Parnassus believes that high-quality companies with solid fundamentals offer compelling long-term investment opportunities. Our investment team defines high-quality companies as businesses that have increasingly relevant products or services, sustainable competitive advantages, quality management teams and positive ESG profiles. We believe that incorporating ESG research – including climate-related research – into the decision-making process improves both investment and societal outcomes.

At Parnassus, we consider climate change and related issues in portfolio construction, in proxy voting, and in engagements with companies held in our funds. Currently, we believe there is inadequate climate-related disclosure across and within industries. Inconsistent and patchy emissions and climate-risk reporting by issuers reduces investment, engagement, and proxy voting decision quality and may introduce hidden risk to our portfolios.

**In furtherance of our interests as active investors, we urge the SEC to include in the final rule:**

- Mandatory Scope 1 and 2 emissions reporting for all issuers.
- Mandatory Scope 3 emissions reporting, with reasonable safe harbor provisions, for all companies regardless of materiality, *except* for small reporting companies (“SRCs”) and

emerging growth companies, as defined by the SEC. We believe that SRCs and emerging growth companies should, however, disclose Scope 3 emissions when such emissions are considered material and/or when they have public net zero or greenhouse gas emissions reduction targets.

- The decision of whether to disclose Scope 3 emissions should not be conditioned on individual company materiality given the broad impact of emissions and the demands of the market for Scope 3 emissions disclosure.
- Mandatory reporting by all companies on their climate-related governance, strategy, risk management, and targets in alignment with recommendations of the Task Force on Climate-Related Financial Disclosures (“TCFD”), *except* for SRCs and emerging growth companies.
  - It is important that companies’ strategic and operational decisions incorporate direct physical risks of climate change and the risks and opportunities introduced from the necessary transition to a low-carbon economy.
- Mandatory disclosure of the financial impacts of severe weather events, other natural conditions, and transition activities on the consolidated financial statements, unless the aggregated impact of the events and activities is less than one percent of the total line item for the relevant fiscal year.
  - It is important to consider the quantitative impact of climate change and transition activities on issuers’ financial statements in order to understand their climate-related risks and opportunities in our pre- and post-investment evaluations.

We suggest strengthening the Proposed Rule to better incorporate the potential impacts of transition activities on company stakeholders. This includes company impacts on their workforces, Indigenous Peoples, and local and fence-line communities. These impacts, if unconsidered or unmitigated, may pose material risks to the company and by extension their investors.

We support the proposed timeline for compliance and the graduated phase-in of reporting and assurance requirements.

**We believe inclusion of the above provisions would improve Parnassus’ investment, engagement, and proxy voting decision quality and promote more efficient use of investor and issuer resources.**

For example, as part of Parnassus’ process, companies of interest undergo an ESG assessment prior to investment and at least annually post-investment. This assessment includes an evaluation of a company’s Scope 1 and 2 emissions, emissions intensity, relative performance, and commitment to reduce emissions over time. We also evaluate our portfolio’s exposure to Scope 3 emissions using modeled data from a third party. We use data to analyze our overall emissions profile and our emissions exposure relative to relevant benchmarks. Improved Scope 1, 2 and 3 greenhouse gas emissions data disclosure will directly improve our ability to assess relative risks and opportunities, and better manage our portfolios’ overall carbon footprint. We would particularly benefit from mandatory Scope 3 emissions disclosure, as these emissions are currently modeled due to the low availability and quality of data directly reported from issuers. In addition, benchmarking our funds’ emissions footprint is an important consideration for us. The required disclosures would not only benefit the accuracy of the direct data we use, but it would also increase the accuracy of commonly used benchmarks and level the playing field for reporters within and across sectors.

In addition, as part of Parnassus' formal issuer engagement program, we identify portfolio companies that lag in their climate-related disclosures, commitments or goal setting as candidates for engagement. Engagement is a critical part of our high conviction ESG investment strategy. Because disclosure is uneven across the market, our valuable staff time is frequently directed toward establishing a baseline of disclosure and targets. The Proposed Rule would establish orderly and consistent corporate disclosure of climate metrics, allowing our staff time to be used more efficiently. Rather than asking issuers to establish rudimentary climate disclosure, time can be reallocated to analyzing meaningful disclosures and engaging where we see investment opportunities or risks. For example, in this engagement season, Parnassus engaged around 10% of the companies in our portfolio on climate risks, including requesting improved disclosure. We estimate that this involved approximately 150 hours of staff time.

The Proposed Rule would also streamline and strengthen the quality of our proxy voting decisions. We consider board oversight of and response to material ESG risks, including climate, in our votes for directors and when evaluating relevant shareholder proposals. The time spent analyzing and responding to climate disclosure-related shareholder proposals is not an efficient use of time for Parnassus or for issuers. The clear guidance and structure offered by the Proposed Rule would ease the burden on investors and companies alike by eliminating time-consuming and counterproductive guesswork and reduce staff time spent analyzing and responding to climate-related proxy matters. Robust mandatory and standardized disclosure will limit this ineffective use of time for all concerned.

Finally, we appreciate the Commission's integration of the recommendations of the TCFD into the Proposed Rule. The TCFD framework aligns with our belief that climate change is a strategic business issue that can impact the financial performance of issuers in the short-, medium-, and/or long-term.

**We believe the Proposed Rule would benefit large and small investors and issuers, the economy, and further the SEC's mission to protect investors; and maintain fair, orderly, and efficient markets.** We therefore extend our support of the Rule and suggest the SEC strengthen it in the previously identified ways. We urge the Commission to implement a strong climate disclosure rule as soon as practical.

Parnassus Investments is grateful to the Commission for the attention it is giving to this important investment and market issue. Thank you for your time and consideration of our comments.

Respectfully,

Marian Macindoe  
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