June 16, 2022

The Hon. Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proposed Rule on The Enhancement and Standardization of Climate-Related Disclosures for Investors, Docket No. SEC-2022-06342

Dear Chairman Gensler:

The American Financial Services Association (“AFSA”) 1 appreciates the opportunity to comment on the proposed rule to require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic reports (the “Rule”). The association cautions that the Rule may be redundant and unnecessary, as there are already rules requiring the disclosure of risks to companies and their shareholders.

The Rule is focused on climate change disclosures by all public registrants, but our comments will focus on the Security and Exchange Commission’s (the “Commission”) question on applying the rule to asset-back securities issuers. AFSA strongly agrees with the Commission that the Rule should not be applied to such issuers because of the unique market structure of asset-backed securities (ABS).

As proposed, the Rule establishes a disclosure framework which requires businesses to disclose the following: climate-related risks; climate-related impact on strategy, financial statements, and estimates; processes for scenario analysis of climate-related risks; plans for transition, including the relevant metrics for the new management strategy; the direct and indirect greenhouse gas (“GHG”) emissions; and any climate-related targets or goals. In addition, the Rule requires companies to publicly set climate targets and goals. In the Rule, the Commission poses the following question:

182. The proposed rules would not apply to asset-backed issuers. The Commission and staff are continuing to evaluate climate-related disclosures with respect to asset-backed securities. Should we require asset-backed issuers to provide some or all of the disclosures under proposed Subpart 1500 of Regulation S-K? If so, which of the proposed disclosures should apply to asset-backed issuers? Are other types of climate disclosure better suited to asset-backed issuers? How can climate disclosure best be tailored to various asset classes?

1 Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including traditional installment loans, mortgages, direct and indirect vehicle financing, payment cards, and retail sales finance.
AFSA concurs with the Commission’s decision to consider asset-backed issuers exempt from the mandated climate change disclosures. The exemption makes sense because ABS disclosures focus on the quality of the obligor and underlying asset (e.g., retail installment contract, automobile, etc.), not the commitments of the sponsoring company relating to climate.

In other words, ABS disclosures are geared toward the quality of the receivable being securitized and thus focused on matters tied to credit quality and payment performance of the pools. All these important disclosures are focused on the obligor and underlying collateral. Issues regarding climate disclosures are something more appropriate in the context of a general stock or bond offering where the quality of the issuing company is at issue. As the Commission has already recognized, there are different investors for different markets. AFSA is of the opinion that these sustainability reports are not geared towards investors in the securitization markets as the ABS market is large and non-homogenous.

As of 2021, the ABS market in the United States accounted for $1.8 trillion of the securitized products market. This market is formed by a diverse pool of underlying assets, including credit card receivables, collateralized loan obligations (CLOs), student loans, personal loan receivables, equipment debt and leases, and automobile loans. Determining any effect climate change might have on those assets and the company holding those secured interests would be impracticable, useless, and likely not have a material effect on a company. At the same time, the disclosures would significantly increase compliance costs, which would have a negative effect on investors.

Additionally, there is often a large and disparate group of counterparties involved in each transaction on the ABS market, including originators, insurers, guarantors, servicers, and others. This makes collecting the relevant climate-related information challenging and likely would cause the reports to be incomplete or inaccurate, rendering them useless to the investor. Furthermore, in many cases, climate-related information would be available in other filings. For an ABS of auto loans, for example, the related auto manufacturer would provide climate-related information in its periodic reports.

AFSA looks forward to continuing to work with the SEC on this rulemaking. Should you need additional information or have any questions, please feel free to contact me at cwinslow@afsamail.org or (202) 776-7300.

Sincerely,

Celia Winslow
Senior Vice President
American Financial Services Association