June 17, 2022

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

Re: File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman,

Inherent Group, LP (“Inherent”) writes in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors. We appreciate the SEC’s hard work to ensure the proposal meets the needs of investors for material climate-related information while advancing the SEC’s mission.

Inherent is a registered investment adviser that considers various environment, social, and governance (“ESG”) matters, when deemed financially material, as a value-added tool in our investment process for core positions. Our mission is to (1) drive increased investment in sustainability-linked strategies by demonstrating superior risk-adjusted returns in our funds, (2) show businesses that they can create revenue growth opportunities and lower their cost of capital by leading on material sustainability issues, and (3) inspire business owners and managers to incorporate sustainability into their decision making.

Inherent supports the SEC’s proposal because it would result in decision-useful, comparable climate risk information that is vastly improved compared to disclosures that are currently available. We appreciate the SEC’s integration of nearly all of the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) into your proposal, because the TCFD recommendations cover many essential elements of climate risk disclosure and are broadly supported and used by companies, investors and securities regulators worldwide. The SEC has unique power to drive such harmonization to an existing standard, which is critical for comparability across companies especially in light of the proliferation of ESG reporting frameworks in the market. We also support the SEC’s inclusion of a GHG emissions reporting requirement in the proposal, because this information is critical to our understanding of the quality of a company’s earnings in the face of climate change and the energy transition.

Inherent supports the SEC’s provisions for requiring assurance of certain GHG emissions disclosures, and for the phasing in of reasonable assurance over time, because assurance is needed to ensure that we receive accurate, relevant and consistent information about emissions, which is currently very difficult to obtain. Further, because climate-related impacts or risks can materially affect a company’s financial position and operations, we support the inclusion of selected climate-related information in a company’s financial statements; this also promotes consistency in information across a company’s reporting. Finally, global alignment of climate risk disclosure standards is essential to both investors and issuers, so we support the SEC’s efforts to align its proposal with developing International Sustainability Standards Board climate risk disclosure standards.
As a founding signatory to the Net Zero Asset Managers ("NZAM") initiative, which currently comprises 273 signatories collectively managing $63 trillion,¹ Inherent currently relies upon both reported and third-party-estimated company CO₂-equivalent ("CO₂e") emissions data to understand the CO₂e emissions of the assets covered under our NZAM plan. Where financially material or otherwise relevant (e.g. to a company’s physical or transition risk), this can form an important input to our sourcing, underwriting, and portfolio management processes. As it becomes more expensive for companies to emit CO₂e under various voluntary and regulatory schemes globally, it is becoming increasingly important for investment managers to understand companies’ CO₂e emissions, especially in higher-emissions sectors, as part of basic financial underwriting of current or prospective investments. Yet company-reported scope 1 and 2 CO₂e data is inconsistently available for the universe of companies that we tend to invest in, which is even more of a challenge for scope 3 data. Accordingly, estimates by third-party data providers are often unavailable or inaccurate as well. The SEC’s proposals relating to CO₂e data reporting and assurance requirements will drive increased CO₂e data quality and availability over time.

Inherent encourages the SEC to adopt a requirement that companies disclose whether executive remuneration is tied to ESG- and climate-related performance, and if so, how. Because many climate- and other ESG-related opportunities and risks may take multiple years to play out—and/or may introduce costs in the short-term but significant benefits in the long-term—we believe that it is important to understand ESG- and climate-related drivers of executive compensation in detail. Disclosure requirements are the best way to ensure that such information is broadly available and comparable company-to-company.

We note that some critics of this proposal claim that it amounts to climate activism and that its specificity exceeds the SEC’s statutory authority. On the contrary, we believe that the proposal will help ensure consistency in reporting on various matters that are critical to understanding the strategy, operations, and financial health of any company. We view the proposal as a reasonable—and much-needed step—in advancing the SEC’s objectives to maintain fair, orderly, and efficient markets and facilitate capital formation.

Thank you very much for your consideration of our comments.

Sincerely,

Michael Ellis
Managing Director

¹ Source: https://www.netzeroassetmanagers.org/