



June 17, 2022

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

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

Dear Ms. Countryman,

Pacific Asset Management LLC (“Pacific Asset Management”) appreciates the opportunity to comment on the U.S. Securities and Exchange Commission’s (“SEC” or “Commission”) proposed rule that would amend its rules under the Securities Act of 1933 and Securities Exchange Act of 1934 to require registrants to provide certain climate-related information in their registration statements and annual reports (the “Proposed Rule”).¹

About Pacific Asset Management

Pacific Asset Management is a registered investment adviser with the SEC and serves as such to privately offered investment pools, various registered open-end and exchange traded mutual funds, collective trust funds and separately managed accounts for institutional investors. As of March 31, 2022, Pacific Asset Management has approximately \$20.1 billion in assets under management. Pacific Asset Management actively invests in corporate credit securities on the basis of fundamental credit analysis with the objective of identifying and realizing relative value on behalf of our clients. Pacific Asset Management’s objective is to serve our clients’ interests by delivering strong risk-adjusted investment returns over the long-term.

Support for Enhanced Principles-Based Climate-Related Disclosures

We believe climate-related risks are investment risks. For this reason, Pacific Asset Management supports increased disclosure by companies to provide investors with additional information on climate-related risks that are reasonably likely to have a material impact on a company’s business, results of operations, or financial condition. Common, consistent disclosure in a uniform location and format will facilitate the efficient allocation of capital, which ultimately benefits investors and the overall market, and will ensure that investors have consistent access to comparable, decision-useful information. While we are supportive of the Commission’s efforts to encourage climate-related disclosures, we believe the SEC should continue upholding its long-standing commitment to principles-based disclosure requirements instead of adopting the rules-based disclosure requirements included in the Proposed Rule.²

Ultimately, we believe enhanced climate disclosures will help us as an investment manager improve our overall understanding of an issuer’s credit risk by: (i) addressing the information gaps in the data

¹ *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, Release Nos. 33-11042; 34-94478 (Mar. 21, 2022).

² <https://www.sec.gov/news/press-release/2020-192>

we rely on; (ii) reducing the assumptions we make on climate-related financial information; and (iii) providing a comparable framework to better understand overall exposure to climate risks and opportunities.

Our Use of Climate-Related Data

Pacific Asset Management considers the review of climate-related disclosures and information to be an increasingly important part of our investment review process. Our fundamental credit analysis, which is the foundation of our investment review process, is supplemented by third party research, including climate related data, for certain investment strategies. In the absence of a standardized disclosure framework for climate-related information, the climate-related data we incorporate can contain significant information gaps. These information gaps introduce assumptions and may lead to an incomplete understanding or misinterpretation of the material climate risks faced by the companies we analyze.

A prominent climate-related metric that Pacific Asset Management monitors in certain investment strategies is carbon intensity³. The datasets we use include both “reported” and “estimated” carbon intensity calculations. “Estimated” data is calculated by third party providers for companies that do not measure or publicly report their own carbon emissions. “Reported” data is provided directly from a company. In our analysis, we must treat “reported” and “estimated” carbon intensity data as comparable datasets. This forced comparison may result in an inaccurate understanding of company emissions. The Proposed Rule’s standard disclosure requirements would improve our ability to accurately evaluate and compare carbon intensity for the companies we analyze.

Disclosure Location, Application, Timeline, and Approach

The Proposed Rule would require public companies to file climate-related financial information with the Commission, to have this information appear alongside financial information, and to present narrative and quantitative information in XBRL tagged form. While we are supportive of the Commission’s efforts to enhance climate-related disclosure quality and accessibility, we believe only companies that have identified climate change as a material risk to their business should be required to disclose specific climate-related information alongside financial information in the XBRL tagged form.

We are supportive of the application of these requirements and the timeline presented in the Proposed Rule for “large accelerated filers.”⁴ However, we believe the timeline for compliance included in the Proposed Rule has the potential to create an undue burden for many small and medium sized issuers. If these obligations are included in the final rule, we believe the SEC should uphold its long-standing commitment to principles-based disclosure, rather than take a rules-based approach. Pacific Asset Management encourages the Commission to undertake a review process of comments submitted by small and medium issuers when determining the timeline for compliance as it applies to non-accelerated filers.

Alignment with Existing Standards Setters and Reporting Frameworks

Pacific Asset Management believes the SEC’s efforts to align with existing standard setters and reporting frameworks, particularly the Task Force on Climate-related Financial Disclosure (“TCFD”),

³ Carbon Intensity is defined as volume of CO₂ emissions per financial unit:

https://ghgprotocol.org/sites/default/files/standards_supporting/AppendixC.pdf

⁴ See 17 CFR 240.12b-2 (defining “large accelerated filer” as an issuer after it first meets the following conditions as of the end of its fiscal year: (i) the issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of \$700 million or more, as of the last business day of the issuer’s most recently completed second fiscal quarter; (ii) the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months; (iii) the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and (iv) the issuer is not eligible to use the requirements for SRCs under the SRC revenue test).

International Sustainability Standards Board (“ISSB”), and the Greenhouse Gas Protocol (“GHG Protocol”) will contribute to global coherence of disclosed climate-related information.

As one of 3,400 public supporters⁵ of the TCFD, Pacific Asset Management appreciates the SEC’s integration of nearly all the TCFD’s recommendations into the Proposed Rule. TCFD recommendations cover many of the essential elements of climate risk disclosure that are increasingly adopted by companies, investors, and securities regulators worldwide⁶.

We also support the SEC’s efforts to align its proposal with the ISSB climate risk disclosure standards⁷, which have been acknowledged for use by numerous regulatory bodies. We expect this alignment to reduce the burden of compliance on issuers as many of the largest U.S. issuers are global companies and will likely fall under the disclosure requirements of a jurisdiction following ISSB standards.

In addition, we support the SEC’s attention to the concepts and vocabulary utilized by the GHG Protocol, which has become the leading accounting and reporting standard for greenhouse gas emissions. We expect the Proposed Rule’s alignment with these aspects of the GHG Protocol to create efficiencies for U.S. issuers that utilize this standard to satisfy reporting in other jurisdictions.

Overall, Pacific Asset Management is supportive of the SEC’s alignment efforts as we believe global alignment of climate-related risk disclosure standards is essential to both investors and issuers to ensure quality and comparability of reported information.

Greenhouse Gas Emissions and Assurance

Pacific Asset Management encourages greenhouse gas (“GHG”) emissions reporting from issuers. We believe this information is critical to gain a more comprehensive understanding of each company’s climate risks (e.g., transition risks, physical risks, and regulatory risks) as well as the associated financial impacts of climate-related risks (e.g., how these risks impact a company’s income statement, balance sheet, and risk profile).^{8,9}

We support the SEC’s provisions for determining GHG emissions, including requiring assurance of certain GHG emissions disclosures, and for the phasing in of reasonable assurance over time. Assurance is needed to verify that we receive accurate, relevant, and consistent information about emissions. As climate-related risks and impacts can materially affect a company’s financial position, performance, and operations, we emphasize our support for the inclusion of material climate-related information, such as GHG emissions, in financial statements.

It is important to note, GHG emissions is not considered a material metric for every issuer; it is only material for issuers in carbon-intensive sectors. We encourage the Commission to reference the SASB Materiality Map, which specifies the sectors with GHG emissions identified as a material disclosure topic. Introducing the concept of *sector-specific* disclosures for GHG emissions would simultaneously increase the availability of reliable and comparable decision-useful information, while also reducing undue cost burden and reporting requirements for issuers in sectors where GHG emissions is considered an immaterial metric.

⁵ <https://www.fsb-tcf.org/supporters/>

⁶ Regulators have begun mandating TCFD-aligned reporting in the UK, Brazil, the EU, Hong Kong, Japan, New Zealand, Singapore, and Switzerland: <https://greencentralbanking.com/2021/06/08/g7-nations-mandatory-climate-related-disclosure/>

⁷ The IFRS Foundation sets accounting standards used in over 140 nations and announced the formation of its International Sustainability Standards Board (ISSB) in November 2021. The ISSB was formed to create a comprehensive, global baseline of sustainability-related disclosure standards to provide investors and other capital market participants with decision-useful information about companies’ sustainability-related risks and opportunities. <https://www.ifrs.org/groups/international-sustainability-standards-board/>

⁸ <https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/>

⁹ https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

In addition, while we encourage disclosure of GHG emissions when material, and we are supportive of the methodology outlined in the Proposed Rule, we acknowledge that an issuer's current understanding, access, and ability to evaluate this information may not be well established yet. Given this reality, we believe a principles-based approach to disclosing GHG emissions is more appropriate than a rules-based approach. We encourage the Commission to also consider the reasonability of the timelines for assurance included in the Proposed Rule, and to consider the comments submitted by issuers in reaction to these timelines.

Conclusion

Pacific Asset Management is supportive of enhanced climate-related disclosures. Additionally, as a member of the SASB Alliance, the Ceres Investor Network, and the ICI ESG Taskforce, Pacific Asset Management is generally supportive of the positions expressed in the comment letters submitted by each respective organization and urges the Commission to review the more nuanced considerations discussed in each letter. As it relates to the timeline for compliance and the application of the SEC's materiality standard discussed throughout the Proposed Rule, we encourage the Commission to review comments from issuers that will be subject to the rule upon its finalization and adoption.

We thank the Commission for its hard work to date and continued efforts to ensure the final rule will enable investors to easily obtain issuers' material climate-related disclosures. We believe the increased transparency from the final rule will be both a result of and contributor to the SEC's ability to fulfill its tri-fold mission to: (i) protect investors, (ii) maintain fair, orderly, and efficient markets, and (iii) facilitate capital formation. We are available to address any questions the Commission may have and welcome the opportunity for further engagement on these topics.

Respectfully,



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