June 17, 2021

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

Re: File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman:

LSEG (London Stock Exchange Group) welcomes the opportunity to respond on File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors ("Proposed Rule").

We commend the Commission for its Proposed Rule aimed at providing investors with climate-related financial information from issuers of public securities. In our response we make the case that:

1. Most large institutional investors are aiming to integrate climate into their investment strategies as they regard climate change as a highly material consideration impacting long term returns.
2. However, today there is a large-scale absence of such reported data from companies and where it does exist, can be highly variable in consistency and reliability.
3. This lack of data means investors must rely on estimated data, which leads to inefficient allocation of capital and reduces the ability of markets and investors to address climate risk.
4. Many large investors and companies operate globally and need globally consistent data, hence international alignment is critical to reduce costs and improve useability.
5. The Proposed Rule strikes the right balance between investors’ needs for climate-related information and issuers’ ability to collect and report this information.

LSEG’s Role

LSEG is a leading global financial markets infrastructure and data provider. We play a vital social and economic role in the world’s financial system. With our trusted expertise and global scale, we enable the sustainable growth and stability of our customers and their communities. We are leaders in data and analytics, capital formation and trade execution, and clearing and risk management.

We are committed to improving transparency and understanding of climate risks by promoting clear, comparable, and comprehensive data, analytical tools, and research to inform investment decision-making, deeper engagement between companies and investors and market-wide collaboration. LSEG provides customers with a wide range of climate data across different asset classes. This includes
transparent, granular ESG data on over 10,000 companies globally, drawing on over 450 metrics to drive advanced analytics. Moreover, we have partnered with asset owners since 2017 in the Transition Pathway Initiative (TPI) and are supporting the Climate Action 100+ Net-Zero Benchmark with best-in-class data on companies’ climate transition strategies.

LSEG is also a member of the United Nations Sustainable Stock Exchange (UNSSE) initiative. In June 2021, LSEG spearheaded the creation of UNSSE’s model reporting guidance for stock exchanges to guide issuers on the Task Force on Climate-related Financial Disclosures (TCFD) implementation. The London Stock Exchange was the first exchange to issue its own guidance based on the UNSSE’s model, helping companies listed in London to integrate climate risks and opportunities into operational decision-making and report performance. This includes a detailed template for companies to disclose GHG emissions reduction targets that was also included as a case study of best practice in the TCFD Guidance on Metrics, Targets and Transition Plans.

1. Investor Need for Climate-Related Disclosure

Materiality is at the core of the SEC’s disclosure framework, and it is also central to sustainable finance. Recent surveys of institutional asset owners have found:

- 98% of institutional investors take ESG and sustainability data into consideration when deciding to invest in a company and 87% agreed that climate change is already having a material impact on company equity values.4
- 88% of global institutional investors wanted more forward-looking ESG and sustainability data to be able to comply with planned regulations.5
- 82% of asset owners view sustainable investment regulation positively, seeing it as enabling or potentially enabling.6

Robust analysis of climate data has become a fundamental component of the quantification of risks and opportunities during the investment decision-making process. To fill this function, investors need climate data in the form of consistently calculable and widely applicable metrics. While most

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5 Id.
companies report sustainability information in some form, the content and quality of disclosures can vary significantly. To better interpret and utilize climate-related data, more consistent, reliable, and comparable corporate disclosures are a top priority for investors.

A vital but missing element are mandatory disclosure rules. The Commission’s Proposed Rule marks a step change in the quality and comparability of climate disclosures that is essential to an efficient market response to climate change and climate-related risks.

Therefore, we support the SEC’s Proposed Rule requiring all 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. This will significantly increase accessibility of climate-related financial information for investors seeking to understand the risks and opportunities presented by climate change.

2. Poor Availability and Quality of Corporate Data

A. Scope 1 & 2 disclosures

We fully support the mandatory disclosure of Scope 1 and 2 emissions in the Annual Report (Questions 94, 96, and 97). As shown below, recent LSEG research shows that, of the 4,000 large and mid-cap constituents in the FTSE All World Index, only just over half (58%) disclose both Scope 1 and 2 carbon emissions. Looking at the U.S. market, even lower disclosure levels are evident with the large-cap Russell 1000 at 53% and the small-cap Russell 2000 at just 10%.

Consequently, methodologies used to integrate material climate risk considerations into investment processes often have to rely on estimates, with data outputs varying significantly and sensitive to methodological choices and assumptions. These gaps in the investor use-case of carbon data hinder the assessment of transition risk (Question 93) and are outlined in detail in a recent report published by FTSE Russell in Spring of 2022.

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7 Indexes as at 12/31/2020 and using FY2019 emissions data although FTSE All World as at 12/31/2021 using FY2020 emissions data. Companies disclosing in FY2019 assumed to disclose in FY2020. Disclosure requires reporting of both Scope 1 and Scope 2 emissions.

B. Scope 3

Ultimately, company disclosures need to account not only for the emissions derived from their business operations (Scope 1) and purchased energy (Scope 2), but also for those associated with their supply chain (Scope 3). Disclosing Scope 3 emissions is currently very challenging and heavily relies on – often diverging – estimations.

We are pleased to see the SEC take bold action in this area by including Scope 3 disclosure where material, while also including safe harbor provisions and small business exemptions. The Commission also has an opportunity to play a significant role in improving accuracy and consistency, by providing more prescriptive guidance on how to determine materiality in different sectors and providing clear reporting on individual Scope 3 categories.

C. Targets and Goals disclosure

The availability of corporate climate targets is vital for investors to determine their holdings’ trajectory towards net zero. In this context, we welcome the SEC taking TCFD-aligned action on disclosures of emissions reduction targets, which also aligns with the LSEG targets disclosure template⁹ that is included in the TCFD guidance.

For investors to obtain reliable and comparable data on corporate climate targets, it is vital to spell out organizational boundaries, base years, and target scope; we believe a standard tabular format would greatly facilitate disclosures for issuers and usage by investors (Question 172). We also welcome the proposed standardization of units for GHG intensity targets, which currently can be difficult to assess.

⁹ Task Force on Climate-related Financial Disclosures, supra note 3, p. 36
and compare (Question 111). We agree that corporate targets cannot be “construed to be promises” and therefore believe that regular reporting on progress towards the target is important (Question 171).

D. Other data types / sections

The lack of data to assess physical risk is a salient concern, and we are happy to see the SEC suggesting a granular framework requiring companies to disclose this information. Similarly, we welcome greater clarity in disclosures on the use of offsets.

However, while the TCFD has listed “revenues aligned with climate-related opportunities” as a metric to disclose we do not see anything similar in the current SEC framework. We would welcome the addition of such a metric to the SEC framework. Though there is not necessarily a consensus on the definition of such revenues, this could be left to the issuer’s discretion provided that clearly articulated definitions are also disclosed.

3. Missing Corporate Climate Data Leads to Market Inefficiency

As investors increasingly build climate risk into investment strategies, the lack of reported data means adoption and use of estimated data. As the analysis set out in the table below outlines, to be able to systematically compare the impact of diverging estimation strategies, model specifications, and outputs, FTSE Russell has developed a comprehensive range of carbon emission estimation models, representing each of the major approaches. The results are stark. We find that almost half of estimated values diverge from reported data by 100%; and over a quarter of values are off by at least 200%; regardless of the estimation strategy or model specifications used.10

This re-emphasizes the need for mandatory climate reporting to address investor reliance on estimation models.

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10 FTSE Russell, supra note 8, p.13
4. Global Alignment

The Proposal’s alignment with recommendations by the TCFD and the Greenhouse Gas Protocol ensures market efficiencies, a key focus for investors. The TCFD recommendations are widely used across the largest capital markets, with 2,600 supporters globally. Furthermore, regulators have begun mandating TCFD-aligned reporting in the UK, Brazil, the EU, Hong Kong, Japan, New Zealand, Singapore, and Switzerland.

The IFRS Foundation, which sets accounting standards used in over 140 nations, recently released its own proposal for climate-related disclosures via its International Sustainability Standards Board (ISSB). The ISSB proposal similarly uses the TCFD recommendations as a baseline and has significant similarities to the SEC’s proposal.

Coherence with future ISSB standards will 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. Furthermore, globally coherent disclosure requirements will lead to better comparability of data for investors. (Question 189)

5. The Right Balance

The SEC’s decision to mandate climate-related financial disclosures by US public companies will help companies prepare and plan for the transition to a low-carbon economy and protect investors and US competitiveness in the economies of the future. It is important for investors to understand how companies are managing climate risks and following through on public statements via action towards set goals.

The Proposed Rule also includes safe harbor provisions for forward-looking information and Scope 3 emissions, and a reporting phase-in period based on the registrant’s filer status, which aims to address issuers’ concerns about compliance. The Proposed Rule could also ease the burden on companies that are currently providing this information in numerous formats in response to various investor questionnaires on climate information and shareholder proposals calling for this information.

In our opinion, the Proposed Rule strikes the right balance between investors’ needs for climate-related information and issuers’ ability to collect and report this information.

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We hope to further engage with SEC on sustainability disclosures as well as broader sustainable finance issues. We would be pleased to provide any further information or respond to any questions that the Commission or the staff may have.

Sincerely,

Claire O’Dea  
Director, Government Relations and Regulatory Strategy, Americas  
London Stock Exchange Group

cc:   Hon. Gary Gensler, Chair   
Hon. Allison Herren Lee, Commissioner   
Hon. Hester M. Peirce, Commissioner   
Hon. Caroline A. Crenshaw, Commissioner