US|SIF

The Forum for Sustainable and Responsible Investment

June 17, 2022

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

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

Dear Ms. Countryman:

On behalf of US SIF: The Forum for Sustainable and Responsible Investment, I welcome the opportunity to provide this comment letter in response to the Notice of Proposed Rulemaking "The Enhancement and Standardization of Climate-Related Disclosures for Investors" (File No. S7-10-22) ("Proposal").

US SIF supports this Proposal as an important step in providing investors with the comparable and reliable information they need to assess public companies' climate-related financial risks. According to the US SIF Foundation's 2020 *Report on US Sustainable and Impact Investing Trends (Trends Report)*,[1] climate change was the single largest environmental, social or governance (ESG) issue considered by asset managers that disclosed the specific ESG issues they consider. In 2020, asset managers reported that they analyzed climate concerns across $4.2 trillion in assets.

About US SIF and Requests for Disclosure

US SIF is the leading voice advancing sustainable investing across all asset classes. Our mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and generating positive social and environmental impacts. Our members, comprised of investment management and advisory firms, mutual fund companies, asset owners, research firms, financial planners, advisors and broker-dealers, represent more than $5 trillion in assets under management or advisement. US SIF members integrate environmental, social and governance (ESG) criteria into their investment decisions and take their responsibilities as shareowners seriously, including voting proxies and engaging with companies. Sustainable investing assets account for $17.1 trillion—or 1 in 3 dollars—of the total US assets under professional management, according to the 2020 *Trends Report.* This represented a 42 percent increase over 2018.

[1] https://www.ussif.org/trends

1660 L Street NW | Suite 306 | Washington, DC | 20036 | p (202) 872-5361 | f (202) 775-8686
www.ussif.org | info@ussif.org | @us_sif

US SIF has been a leading advocate for comprehensive ESG corporate disclosures, including climate, since 2009 when we, along with scores of other investors, sent a letter petitioning the SEC to initiate a rulemaking to create an ESG disclosure framework.[2]

Since the 2009 letter, sustainable investing has grown tremendously, and there have been multiple calls from a broad range of investors and others for enhanced disclosure:

- The Dodd-Frank Wall Street Reform Act included several provisions for disclosure, including conflict minerals, resource extraction payments, executive compensation and board diversity.
- The SEC issued "Commission Guidance Regarding Disclosure Related to Climate Change" in 2010,[3] but enforcement ebbed during the Obama Administration and has been non-existent since 2016.
- SEC Chair Mary Jo White launched the "Disclosure Effectiveness" review in 2014, which led to the Regulation S-K Concept Release in 2016. Of the 278 non-form letter responses, two-thirds of the public comments addressed sustainability issues and most of these supported sustainability-related disclosures in SEC filings. No further action has happened on this matter to date.[4]

This historic Proposal builds on these actions and is a major step toward creating a comprehensive framework to help ensure that any securities issuers report more consistent, complete and comparable information relevant to their long-term risks and performance.

Investor needs, however, are not the only reason for urgent action on greenhouse gas emissions and other climate risks. The UNEP Emissions Gap Report 2021 stated, "2021 shows that new national climate pledges combined with other mitigation measures put the world on track for a global temperature rise of 2.7°C by the end of the century. That is well above the goals of the Paris climate agreement and would lead to catastrophic changes in the Earth's climate. To keep global warming below 1.5°C this century, the aspirational goal of the Paris Agreement, the world needs to halve annual greenhouse gas emissions in the next eight years."[5]

Disclosures that assist investors in changing the practices of companies with poor climate policies and allow them to choose companies doing the best job of managing greenhouse gas emissions and other climate risks are one piece of the solution to this global crisis.

Overview

Investors strive to be as accurate as possible in assessing future risks and opportunities when determining what they are willing to pay to own a company's securities. Voluntary climate disclosures have not met the needs of investors[6]-- investors' experience with the outcome of the SEC's 2010 climate guidance to publicly traded companies are instructive. A 2020 Commodity Futures Trading Commission (CFTC) report concluded that the 2010 SEC guidance has not

[2]https://www.ussif.org/files/Public_Policy/Comment_Letters/SIF_SEC_ESG_Disclosure_Policy_Letter_and_Submission%2008142009.pdf.
[3] Commission Guidance Regarding Disclosure Related to Climate Change, Release Nos. 33-9106; 34-61469; FR-82. February 8, 2010.
[4] https://www.ussif.org/Files/Public_Policy/Comment_Letters/Sustainable_Economy_Report.pdf
[5] https://www.unep.org/resources/emissions-gap-report-2021
[6] https://www.iosco.org/news/pdf/IOSCONEWS594.pdf

resulted in public companies' high-quality disclosure of climate change risks.[7] In addition, a 2018 Government Accountability Office (GAO) study found that examples of corporate climate disclosures ranged from boilerplate language to detailed metrics.[8] Despite many firms reporting some data, the 2010 SEC climate disclosure guidance has not satisfied the needs of investors because its voluntary nature allowed firms to self-determine which climate risks are material.

In addition, while some public companies voluntarily produce sustainability reports, there are substantial problems with the comparability, completeness and reliability of voluntary disclosures. Larger companies are the primary issuers of these reports, with far fewer from smaller companies.[9] And even among larger companies, disclosure of emissions is inadequate. A recent report found that one-third of companies in the Russell 1000 do not disclose any environmental metrics, including GHG emissions.[10]

We support the Proposal's inclusion of narrative and quantitative disclosure around companies' climate risk management, strategies and governance in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In addition, we believe the reporting of Scopes 1 and 2 greenhouse gas emissions (GHG) and reporting of Scope 3 emissions by the largest companies are critical. We support the transition from limited to reasonable assurance for Scopes 1 and 2 emissions. We also recommend that the agency consider a similar transition, after several years' experience, to report Scope 3 emissions. We support the agency's new requirement that any impact of climate change that changes an individual line item by more than 1% be reported on the company's financial statement under Regulation S-X. Without a stated materiality threshold, company determinations of material information may lead to under-reporting.

Creating a robust climate reporting framework

To ensure that the final rule provides a robust reporting framework, we recommend the following considerations and changes:

- <u>The SEC must maintain the reporting and assurance phase-in timelines in the Proposal.</u> The climate crisis is urgent and further delay in action by companies and investors will have dangerous consequences.

- <u>The SEC should require companies that have not established plans for GHG reduction to report on why they do not have such plans</u>. As written, the proposed rule will place a reporting responsibility solely on companies that have pledged to reduce emissions. Investors may make different decisions on risk pricing for companies that have reduction goals and those that do not, but without knowing why companies

[7] U.S. Commodity Futures Trading Commission (CFTC) Commissioner Rostin Behnam, Sponsor, and Bob Litterman, Chairman, Managing Climate Risks in the Financial Sector, Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission, (2020), at https://www.cftc.gov/sites/default/files/2020-09/9-920%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf.
[8] Government Accountability Office, "Climate-Related Risks: SEC Has Taken Steps to Clarify Disclosure Requirements," February 2018. https://www.gao.gov/assets/gao-18-188.pdf.
[9] https://www.conference-board.org/publications/sustainability-reporting-smaller-companies
[10] Diana Olick, "One-third of the largest US companies don't disclose any of their environmental impact," CNBC, April 28, 2022.

choose not to address their emissions, it is difficult to ascertain how these companies understand and manage transition risk.

- Companies must report the methodologies used by third-party firms that provide their disclosure assurance. In addition, the SEC should provide guidance on standards for third-party verifiers not accredited with the Public Company Accounting Oversight Board (PCAOB). It could also be useful for the SEC to require the company to report on what information was provided to the assurer during the phase-in period when only limited assurance is required. Limited assurance has a significantly higher risk of material misstatements. The conclusion of a limited assurance report simply states that nothing came to the assurer's attention that would indicate a material misstatement. However, often the only information an assurer examines comes from the company. This may not represent all the information the company has, nor would it encompass relevant outside information.

    - In addition, the SEC guidance for third-party verifiers should ensure the Public Company Accounting Oversight Board's (PCAOB) four primary duties are retained regarding the proposed GHG disclosure, which include:

        1. Registering firms that provide assurance on GHG emissions within an issuer's financial statements.
        2. Establish and/or adopt GHG auditing and attestation quality control, ethics, and independence standards.
        3. Inspect firm GHG audits and quality control systems.
        4. Investigate and discipline firms and associated persons that violate specified laws, rules, and professional standards.

- Remove the materiality test for Scope 3 reporting by the largest companies (large-accelerated and accelerated filers.) Relying on companies to determine what is a material Scope 3 emission may lead to incomplete or inconsistent reporting.

    - If the materiality provisions are not removed, the SEC must provide clear guidance to companies about their Scope 3 reporting obligations. We request that the SEC establish a threshold for company Scope 3 reporting. For example, companies whose Scope 3 emissions are more than 40% of total emissions should be required to report Scope 3 emissions with no materiality threshold.[11]

- Scope 3 assurance for large-accelerated and accelerated filers should be phased in the future. Reporting of Scope 3 has already greatly improved in recent years. It is not unreasonable to believe that this will continue to improve over time. The SEC should use the existing assurance framework for Scopes 1 and 2 by phasing in limited first and then moving to reasonable assurance for Scope 3 reporting. We

[11] Consistent with the Science Based Target Initiative (SBTi) Scope 3 threshold. https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf

understand if a longer phase-in period is necessary for this assurance since Scope 3 reporting is currently significantly lower than reporting of Scope 1 and 2 emissions.

Conclusion

The first step to managing any problem is to understand it. In the case of climate change, knowing how companies understand and manage GHG emissions and climate-related risk is essential to making informed investment decisions, conducting productive company engagements, and informing proxy voting. We understand that the learning curve may be steep for companies that do not report emissions now. Still, we also understand that the time and effort needed to begin reporting are front-loaded. As firms gain experience with counting, reporting and reducing emissions and other climate-related risks, the reporting burden will become lighter.

The SEC should move quickly to strengthen this framework and finalize, implement and enforce detailed climate disclosure requirements for public companies.

Thank you for considering these comments.

Sincerely,

Lisa Woll
CEO