

June 17, 2022

Sent via email to: rule-comments@sec.gov

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

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

Dear Ms. Countryman,

BMO Global Asset Management (brand name comprised of BMO Asset Management Inc. and BMO Investments Inc. (investment fund manager line of business), collectively termed BMO GAM or we) appreciates the opportunity to provide feedback 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.

BMO GAM is a Canadian investment fund manager and/or portfolio manager with approx. USD \$133.6 billion¹ in assets under management. We consider both the environmental and social implications of climate change through our two key themes of Climate Action and Social Equality, and disclosures on both are essential to facilitate a just transition.

Climate-related disclosures are critical to inform our responsible investment strategy, and climate-related data is used at various stages of our in-house investment processes across asset classes, including analysis and decision-making, monitoring, fund construction, issuer engagement and proxy voting.

We therefore support the SEC’s Proposed Rule requiring all public companies to file climate-related financial information with the Commission including TCFD-aligned mandatory Scope 1, Scope 2, and material Scope 3 reporting.

In addition to providing investors with the information necessary for informed investment decisions, this Proposed Rule is essential to enable an efficient market response to climate change, and maintain alignment with regulators in Canada, the European Union, Hong Kong, Japan, New Zealand, Singapore, Switzerland and the United Kingdom who have mandated or are in the process of mandating TCFD-aligned climate-related financial disclosures.

¹ \$167B CAD as of March 31, 2022

In summary, BMO GAM has found:

1) The Commission's Proposed Rule supports investor decision-making by improving climate-related data availability, quality, and capacity for comparative analysis

While many public companies currently disclose sustainability information, the content, type, and comparability of disclosures vary significantly. To better interpret and utilize climate-related information, consistent, reliable, and comparable disclosures by companies are a top priority for investors. In the absence of standardized disclosures, investors seeking climate-related information have had to collect this data from numerous sources, including companies' voluntary disclosures that are unverified, opaque in methodology, lack assurance, and often difficult to compare. This leads to the need for investors to bear significant costs to find the decision-useful information they need to reasonably price climate risks.

Through disclosure, investors will be better equipped to understand how companies are managing and addressing climate risks, allowing for informed decisions.

2) Mandating climate-related financial disclosures will help companies prepare and plan for the transition to a low-carbon economy, protecting investors and US competitiveness in the economies of the future.

Understanding how physical and transitional climate risks may impact a company is critical to inform their business strategy, capital allocation, and financial planning over the short-, medium-, and long-term. Conversely, we consider the failure to assess climate risks and how they may impact future earnings as a failure in honouring our fiduciary duty.

The Proposed Rule includes several provisions to help companies evaluate and disclose climate-related considerations in their strategy including safe harbor provisions for forward-looking information including Scope 3 emissions, and a phased-in approach based on the registrant's filer status.

Safe harbor provisions ensure issuers have shelter from liability arising from climate-related disclosures provided that such disclosures were made subject to transparent and adequate internal controls to prove rigour in reporting and ensures that investors receive disclosures that are useful and not 'boilerplate'.

We believe the phased-in approach taken in the Proposed Rule adequately recognizes the issuer's readiness for disclosure with the investor's needs.

3) The Proposed Rule's alignment with recommendations by the Taskforce on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol leverages existing frameworks, simplifying reporting processes and aligning with global initiatives.

The TCFD recommendations are widely used across the largest capital markets, with 2,600 supporters globally. 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. We recommend regular reviews of the Proposed Rule, once it is finalized, to ensure it remains relevant and consistent with international standards.

Coherence with future ISSB standards will reduce the burden of compliance on issuers as many of the largest US 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.

We have provided similar feedback to the Canadian Securities Administrators (CSA), through our response to their Notice and Request for Comment on Proposed National Instrument 51-107 Disclosure of Climate-related Matters.

We set out the further specific responses to selected questions 2, 19, 24, 46, 60, 79, 81, 93, and 98 from the Proposed Rule in detail below.

2. If adopted, how will investors utilize the disclosures contemplated in this release to assess climate-related risks? How will investors use the information to assess the physical effects and related financial impacts from climate-related events? How will investors use the information to assess risks associated with a transition to a lower carbon economy?

The basis of informed decision making starts with disclosure. As part of our evaluation of climate-related risks, we seek to understand both physical and transitional risks. The location-based information requested through the Proposed Rule enables a stronger assessment of physical risks associated with climate change, including storm events, flooding, water shortages, and drought, can have on the company and its supply chain. Disclosure of scope 1, 2, and material scope 3 emissions is fundamental to our analysis of a company's performance and risk exposure. Considering that many investors including BMO GAM have made their own net zero commitments through the Net Zero Asset Manager Initiative (NZAMI) and have developed internal tools to track progress on this commitment across portfolios, the disclosures can inform various investment-related decisions, including weightings, scenario-analysis, investment considerations for funds with specific ESG or climate-related mandates, proxy voting, and flagging priority companies for engagement.

19. Should we require a registrant to describe the actual and potential impacts of its material climate-related risks on its strategy, business model, and outlook, as proposed? Should we require a registrant to disclose impacts from climate-related risks on, or any resulting significant changes made to, its business operations, including the types and locations of its operations, as proposed?

Yes. Identifying and disclosing material risks provides the investor with assurance that climate-related risks are being managed, while providing the issuer with security on forward-looking information. The disclosures on potential impacts and outlook aide investors in planning, identifying engagement priorities and informing internal net zero tools that track and project progress against investor net zero commitments.

Material climate-related risks are not limited to environmental risks. Material climate-related social and governance risks must also be disclosed. At BMO GAM, we consider strong relationships with Indigenous Peoples, and respecting the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), as essential to a just transition.

24. If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the role that the offsets or RECs play in its overall strategy to reduce its net carbon emissions, as proposed? Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way? Are there specific considerations about the use of carbon offsets or RECs that we should require to be disclosed in a registrant's discussion regarding how climate-related factors have impacted its strategy, business model, and outlook?

Disclosure of offset information is necessary to evaluate a company's own activities relative to reliance on external instruments. Offsets based on external emission reductions, while pertinent to maintaining carbon neutral commitments, are not indicators of a company's internal progress or transition activities. Differentiation between emissions reductions and emissions removals is also required to assess alignment with net zero aligned initiatives such as the Net Zero Asset Manager's Initiative, in which 236 asset managers with \$57.5 trillion in assets, have committed to achieve net zero alignment by 2050.

46. If a registrant has adopted a transition plan, should we require the registrant to describe the plan, including the relevant metrics and targets used to identify and manage physical and transition risks, as proposed? Would this proposed disclosure requirement raise any competitive harm concerns and, if so, how can we mitigate such concerns? Would any of the proposed disclosure requirements for a registrant's transition plan act as a disincentive to the adoption of such a plan by the registrant?

Transition plans will need to be described, including relevant metrics and targets used, for investors to be able to determine whether such plans are credible and to understand the direction the company aims to take over time. We therefore assert that transition plans should be incorporated on a "comply or explain" basis. A transition plan does not benefit from or require the registrant to divulge trade secrets, proprietary IP, or any items that would cause competitive harm. Looking forward, we anticipate the disclosure of transition plans will play an increasing role in positive investor analysis and ESG risk ratings.

60. Would the impact from climate-related events and transition activities yield decision-useful information for investors?

Yes. Impact data informs whether the risk management strategy employed by the company is satisfactory, while transitional activities informs progress relative to peers and our investor objectives.

79. The proposed rule does not specifically address expensed or capitalized costs that are partially incurred towards the climate-related events and transition activities (e.g., the expenditure relates to research and development expenses that are meant to address both the risks associated with the climate-related events and other risks). Should we prescribe a particular approach to disclosure in such situations? Should we require a registrant to provide a reasonable estimate of the amount of expense or capitalized costs incurred toward the climate-related events and transition activities and to provide disclosure about the assumptions and information that resulted in the estimate?

Transition-related expenditures, with a particular focus on investment in R&D is a component of net zero asset evaluations and investor analysis. Disclosed expenditures need to be supported with qualitative information supporting how the expenditure is related to transitional activities as opposed to regular, or non-transition-related activities.

81. *Should we require disclosure of financial estimates and assumptions impacted by the climate-related events and transition activities (including disclosed targets), as proposed? How would investors use this information?*

Yes. Financial estimates should be included where material climate-related impacts may occur. It is expected that a company would qualify estimates with supporting assumptions and would follow GAAP principles for financial estimates of contingent liabilities. This information informs the investor of the scope, likelihood, and magnitude of potential risks as perceived by the company and comparative analysis against peers.

93. *How would investors use GHG emissions disclosures to inform their investment and voting decisions? How would such disclosures provide insight into a registrant's financial condition, changes in financial condition, and results of operations? How would such disclosures help investors evaluate an issuer's climate risk-related exposure? Would such disclosures enable investors to better assess physical risks associated with climate-related events, transition risks, or both types of risks?*

GHG emissions information, including absolute and intensity metrics, are used for comparative analysis against industry peers, industry-specific targets, and alignment with climate scenario analysis and Paris-aligned commitments. Annual disclosures are critical for the demonstration of real measured progress. Through annual disclosure, investors are better equipped to evaluate companies making progress towards their transition goals. Ultimately, companies that fail to make progress can be affected through investor action, including exercising of voting rights.

Proxy voting is integral to our stewardship and responsible investment approach, and is an important tool in our goal towards meeting net zero by 2050. BMO GAM's proxy voting policy is based on a systematic process for identifying investee companies that have fallen behind in climate risk management based on a set of criteria, including emissions data disclosure. Where we judged these companies to be climate laggards, we vote against relevant management resolutions, such as the re-election of directors. All companies in our voting universe meeting a market capitalisation threshold across high-emitting sectors are assessed against minimum standards for 1) climate disclosure and 2) strategy. Our minimum standards are informed by the assessment results of the Transition Pathway Initiative (TPI) methodology² and the Climate Action 100+ Net Zero benchmark³. TPI is in line with the recommendations of TCFD and provides data for the Climate Action 100+ initiative.⁴

98. *Should we require a registrant to disclose its Scope 3 emissions for the fiscal year if material, as proposed? Should we instead require the disclosure of Scope 3 emissions for all registrants, regardless of materiality? Should we use a quantitative threshold, such as a percentage of total GHG emissions (e.g., 25%, 40%, 50%) to require the disclosure of Scope 3 emissions? If so, is there any data supporting the use of a particular percentage threshold? Should we require registrants in particular industries, for which Scope 3 emissions are a high percentage of total GHG emissions, to disclose Scope 3 emissions?*

Registrants of particular industries for which Scope 3 emissions are a high percentage of total GHG emissions should be required to disclose Scope 3 emissions. Materiality of Scope 3 value chain

² <https://www.transitionpathwayinitiative.org/>

³ <https://www.climateaction100.org/>

⁴ <https://www.transitionpathwayinitiative.org/publications/73.pdf?type=Publication>

emissions has been well-established by the scientific community on a sector-by-sector basis, such that Scope 3 emissions are unequivocally material for non-renewable energy, transportation, and financial sectors. For other sectors where Scope 3 emissions may be material, a percentage threshold is useful as guidance. However, materiality is ultimately determined by the investor.

We thank you again for providing the opportunity to comment on the Proposed Rule. Should you have any questions, please contact me at [REDACTED]

Sincerely,



Graham Takata
Director, Climate Change, Responsible Investment
BMO Global Asset Management