June 17, 2022

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

Ms. Countryman:

Arjuna Capital submits this comment in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (the “Proposed Rule”). We express deep gratitude for the Commission and SEC Staff’s substantive work leading to this groundbreaking Proposed Rule that will drive standardized disclosures and provide investors with decision-useful climate-related financial information.

Arjuna Capital is a sustainable investment manager with a long history engaging with companies on issues of climate risk. These issues include methane emissions, financed emissions, and mitigating carbon asset risk, which is the risk that up to two-thirds of all fossil-fuel reserves could be stranded, unburnable, and devalued in the low-carbon future necessary to avoid catastrophic climate change. And while we have substantially divested our clients’ assets from oil and gas companies and fossil fuel burning utilities because of this serious and accelerating risk, we believe measuring the climate risk of portfolios and engaging the companies in our portfolios as “universal” diversified investors is critical. That’s because no company operates in a silo—and the externalities of a few companies will have an outsized impact on most companies, and our economy broadly.

Of note, the United States’ Commodity Futures Trading Commission stresses “climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy”. The United Nations Environment Programme Finance Initiative (UNEP FI) and Principles for Responsible Investment (PRI) reports in the paper “Universal Ownership” that over 50 percent of companies’ earnings are at risk from climate costs, creating systemic risk for diversified investors. “Universal investors”—those with highly-diversified portfolios representative of the broad economy—are exposed to growing and widespread climate costs generated by some companies and ultimately incurred by other companies.

At Arjuna Capital, we seek to measure our portfolios’ carbon footprints using the current information available and to keep portfolios emissions as low as possible. This data is both incomplete and flawed given the current disclosure landscape. We have a history of engaging oil and gas companies and utilities to proactively mitigate carbon risk and banks to set net zero financing goals.
As members of multiple organizations that seek to improve climate risk management for investors, we deeply understand the value of comparable, consistent, and reliable climate-related information. These organizations include Ceres, the Shareholder Rights Group, the Intentional Endowment Network, the Interfaith Center for Corporate Responsibility, and the Net Zero Asset Managers Initiative.

- Ceres is a founding network of Climate Action 100+—an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change. 615 investors with $55 trillion in assets under management are engaging companies on improving governance, curbing emissions and strengthening climate-related financial disclosures.
- The Shareholder Rights Group is an association of investors formed in 2016 to defend share owners’ rights to engage with public companies on governance and long-term value creation.
- The Intentional Endowment Network (IEN) connects 200+ endowments, asset managers, investment consultants, nonprofit partners, and individuals to drive best practices and partnerships toward mission-aligned, sustainable-investing.
- The Interfaith Center of Corporate Responsibility (ICCR) is a 50-year-old coalition of more than 300 faith- and values-based institutional investors representing over $4 trillion in assets under management who engage with hundreds of corporations on their environmental and social impacts.
- The Net Zero Asset Managers Initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Arjuna Capital believes climate-related disclosures are critical for effective investment analysis and decision-making. We are therefore supportive of many components of the Proposed Rule’s measures to establish a baseline of climate risk information accessible to investors of all sizes; however, we also offer recommendations for the Proposed Rule to be strengthened to improve the consistency and comprehensiveness of the disclosures that will result from the rule. We have outlined these perspectives below, but first seek to recognize the following essential elements of the Proposed Rule.

The scope and materiality of the categories covered by the Proposed Rule, including the disclosures in financial statements, is a clear reflection of the Commission’s recognition of the urgency of climate-related risks.

- The Proposed Rule comes at a time when addressing material risks related to the climate crisis has never been more urgent: the latest IPCC report from April 2022 reaffirms the need for “immediate and deep emissions reductions across all sectors” to limit global warming to 1.5 degrees Celsius.¹
- Many investors believe issuers must have clear decarbonization strategies and commitments backed up by credible science-based transition plans to mitigate climate-related risks. Decisions that companies and investors make today will have long-term impacts on emissions and climate-related matters; for example, long-lived assets that may lock in increasing emissions over the course of the asset’s life.
- We believe that disclosure of material and systemic risks of climate change will help companies and investors to understand, price, and manage climate risks and opportunities. These activities

are not only at the core of efficient securities markets, but are also essential to ensuring a just and thriving economy that works for all people and communities.

- Inclusion of climate-related disclosures in the financial statements (Reg S-X) and in accompanying (Reg S-K) disclosures regarding company strategies, financial impacts, risk management, GHG emissions data, offsets, etc. will offer greater accessibility and assurance of this information to investors.

The Proposed Rule’s mandatory disclosures will fill essential gaps for investors, and will do so in a cost-effective manner.

- Voluntary disclosures have been insufficient to meet investors’ needs for comparable, consistent, and reliable information from issuers. The lack of a regulatory mandate has led to inconsistent information across multiple reporting regimes, causing cherry-picking among companies regarding which metrics and information to disclose, as well as confusion among investors about which disclosures to trust and use.
- These mandatory disclosures will allow us to more accurately account for our clients’ portfolios’ carbon footprints and the risks associated with these emissions, while providing fuller insight into how companies are managing these climate risks. Mandated disclosures will allow Arjuna to make the best decisions for its clients, so that investments are aligned with clients’ long-term goals.
- This rule will increase our internal efficiency while decreasing the costs associated with our own internal climate risk management strategy. We spend significant resources annually to assess climate risk. These strategies include engagements with companies across all industries where we press them to accurately account for and disclose carbon emissions and climate risk practices, and the factoring of scope 1-3 emissions into the construction of our investment universe.
- Through our engagements, companies have repeatedly stated that investor requests regarding climate risks can be overwhelming, with investors requesting different, competing data points. Without standardization and government regulation, investors and 3rd party data providers have had to actively fill in the gaps. Yet, these various requests have at times cannibalized and diffused the urgency behind multiple requests, leading to less movement from large asset managers, proxy advisors, and company management itself. Standardization of disclosures and climate action plans will provide investors with the information they need to make informed decisions, while also relieving company management from managing numerous investor climate requests.
- While the shareholder engagement process has been important in developing models and best practices for climate disclosure, consistent and mandatory disclosure across the market that allows efficient and informed investor decision-making, necessitates the requested disclosures.

Arjuna Capital’s comments on components of the Proposed Rule

1) We support the requirements for disclosures of Scope 1 and 2 GHG emissions.
   a. This information is necessary as we construct our clients’ portfolios and attempt to lower overall portfolio carbon emissions. Currently, we attempt to piece together fragmented information from companies and vendors, costing us significant time and resources. Standardization of disclosure would allow us to efficiently review companies’ prospects and risks, while also supporting our engagement efforts.
   b. In the absence of these mandated disclosures, Arjuna has actively worked with energy companies to disclose this data. These disclosures would provide us the data we need to better construct portfolios with less risk and competitive returns.
2) We recommend universal disclosures for Scope 3 GHG reporting within 3-5 years of the final rule, regardless of whether companies have stated commitments or internal carbon prices at the time of the Rule. This Rule should seek to avoid punishing companies that are proactively setting targets and tracking Scope 3 emissions, while not requiring other companies to report. The Rule should set a level playing field where all companies are required to report on Scope 3 emissions in a fair time frame.

3) We recommend that the Commission enhance the proposed rule by explicitly referencing racial equity as central to climate justice; and to reference the UN Declaration on the Rights of Indigenous People as has been done in the SASB and GRI reporting frameworks; and specifically reference the need to assess impacts to Indigenous Peoples and local communities within disclosures sources of Scope 1, 2, and 3 emissions.

The climate crisis requires immediate action to mitigate the growing threats to financial markets and the economy. Therefore, we ask the SEC to strengthen the elements of the Proposed Rule to ensure investors and companies have uniform, comparable information to best manage such risks. We again applaud the Commission for its comprehensive efforts on the Proposed Rule, appreciate the opportunity to participate in this rulemaking, and thank you for your consideration of our comments. For further discussion or questions, please contact: Natasha Lamb, Managing Partner, Natasha@arjuna-capital.com.

Sincerely,

Natasha Lamb
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Arjuna Capital