

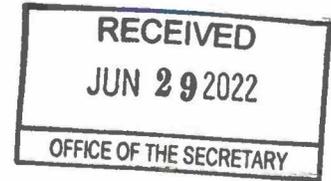
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June 3, 2022



Honorable Gary Gensler, Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Re: Comments on the Proposed Climate Change Disclosure Rule

Dear Chair Gensler:

I write as Trustee of the New York State Common Retirement Fund (Fund), which is one of the largest public pension funds in the United States, with an estimated \$279.7 billion in assets as of December 31, 2021. The Fund holds and invests the assets of the New York State and Local Retirement System on behalf of more than one million members and beneficiaries and pays over \$1 billion per month in benefits. I write in response to the Securities and Exchange Commission's request for public comment on the proposed Climate Change Disclosure Rule.

I appreciate the opportunity to provide the SEC with my perspective on the proposed rule. I commend the SEC for this more robust and comprehensive proposed rule and the SEC's leadership on this issue. I believe that the proposed rule will provide investors with more consistent, comparable, and reliable information. The disclosures mandated by the proposed rule will greatly improve the Fund's ability to assess its exposure to investment risks and opportunities.

As a long-term investor, the Fund maintains diversified investments across multiple asset classes using both active and passive investment strategies; its largest allocation is to indexed domestic equities. Consequently, the Fund holds stock in most publicly traded domestic companies and also in many non-domestic registrants. The Fund also has a significant allocation to debt instruments of domestic registrants in the Fund's core fixed income portfolio. Cumulatively, the Fund's investments in public equity and core fixed income comprise the bulk of the Fund's portfolio, with the rest of the Fund's investments in other asset classes including private equity, real estate, real assets, credit, and opportunistic/absolute return strategies.

I am deeply concerned about the risk posed by climate change to the Fund's investments, as well as its impact on the economy as a whole. I also recognize that there are significant investment opportunities in the transition to an emerging low-carbon economy. For years, the Fund has used a multifaceted approach to addressing climate-change related investment risks. In 2019, the Fund released a Climate Action Plan, which outlines the Fund's strategies including climate assessments, climate solution investments, targeted divestments, active engagements, proxy voting, and public policy advocacy. More recently, the Fund announced its commitment to transitioning its portfolio to net-zero emissions by 2040.

In response to the proposed rule, I provide the following specific comments, including suggested additional disclosures to further strengthen the proposed rule and examples of how the Fund uses the type of climate data that would be disclosed pursuant to the proposed rule's requirements.

I welcome the following disclosure requirements:

- Climate disclosures in registrant's statements and periodic reports such as Form 10-K;
- Aligning disclosure requirements with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations;
- Greenhouse gas (GHG) scope 1 and 2 emissions reporting in absolute and relative terms, not including offsets;
- GHG scope 1 and 2 emissions reporting that is subject to assurance for large and large accelerated filers;
- How any climate-related risks identified by the registrant have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term;
- How any identified climate-related risks have affected or are likely to affect the registrant's strategy, business model, and outlook;
- The registrant's processes for identifying, assessing, and managing climate-related risks and whether any such processes are integrated into the registrant's overall risk management system or processes;
- The registrant's governance of climate-related risks and relevant risk management processes;
- The impact of climate-related events (severe weather events and other natural conditions) and transition activities on the line items of a registrant's consolidated financial statements, as well as the financial estimates and assumptions used in the financial statements;
- Material physical risk and location descriptions for a physical risk that a registrant has determined has had or is likely to have a material impact on its business or consolidated financial statements; and
- The role that carbon offsets or renewable energy credits or certificates (RECs) play in a registrant's business strategy if the registrant uses carbon offsets or RECs.

Many of these disclosure requirements cover the type of data that has been used for some of the Fund's investment decision-making, prioritized engagements, and proxy analyses. For example, the Fund has committed \$4 billion to a low emissions equities index, which excludes or reduces holdings in the largest carbon emitters in the Russell 1000. GHG emission data is essential to evaluating individual portfolio companies' exposure to transition risks including regulatory risks.

By establishing a requirement that large companies report Scope 1 and 2 emissions, the proposed rule will enable the Fund to enhance its assessment of the climate-related risks these companies face. However, I believe that the proposed rule could go further and should include disclosure on Scope 3 emissions. Reliable Scope 3 data is key to fully understanding portfolio companies' emissions profiles. I thus urge the SEC to require all registrants to report scope 1, 2

and 3 emissions, all of which should be subject to assurance. These additional disclosures, with higher quality of data, would further assist our analyses.

The Fund also uses climate data for its proxy voting analyses. This includes many of the data points that would be disclosed under the proposed rule, such as information about the impacts of climate risks on registrants' business strategy and consolidated financial statements, as well as registrants' risk management, governance, and TCFD reporting. Required disclosure of this data would provide more comprehensive, comparable and reliable data than that which is currently available, much of which is self-reported, but unverified, or estimated by third party data providers. The Fund's Proxy Voting Guidelines include an evaluation of if and how portfolio companies are prepared for the transition to a net-zero economy; failure of companies to appropriately manage and comprehensively report climate risk may lead the Fund to withhold support from audit committee members, directors responsible for oversight, or the entire board.<sup>1</sup> In 2021, the Fund withheld support from or voted against over 400 individual directors at over 80 portfolio companies that lacked robust climate risk management.

The Fund's 2019 Climate Action Plan included a commitment to using transition risk assessments and minimum standards to assess investment risks in high-impact sectors as identified by TCFD. Those industry-specific transition assessments and minimum standards also utilize some of the key data points that would be more completely, uniformly, and dependably disclosed under the proposed rule. The Fund's assessment frameworks focus on the following criteria:

- **Business strategies for transitioning to the net-zero economy;**
- **Capital expenditure trends consistent with the Paris Agreement's goals.** There is significant risk posed by capital expenditures spent on exploring and developing new high-risk businesses and resources, such as thermal coal reserves because they may not yield expected returns;
- **Company-wide, time bound, GHG emissions reduction targets in line with the Paris Agreement's goals, including scope 1, 2, and 3, and net-zero targets.** The Fund believes a company's time-bound and quantitative targets to reduce GHG emissions are valuable metrics in the evaluation of the company's pace and scale of transition;
- **Revenues from low-carbon or green technologies.** A company's low carbon/green business revenues trends are examined to determine if the company is actively executing on transition opportunities; and
- **Climate reporting in line with the TCFD recommendations** since comprehensive and consistent climate reporting is crucial to help the market better price climate risks and opportunities.

These assessment criteria are commonly used by investors and are also essential components of the Climate Action 100+ net-zero benchmarking assessment.<sup>2</sup> The Fund uses these metrics to inform and prioritize engagements, and if, after engagement and full assessment,

<sup>1</sup> The New York State Common Retirement Fund Proxy Voting Guidelines <https://www.osc.state.ny.us/files/common-retirement-fund/corporate-governance/pdf/proxy-voting-guidelines-2022.pdf>

<sup>2</sup> <https://www.climateaction100.org/net-zero-company-benchmark/> 700 investors, responsible for over \$68 trillion in assets under management, have joined the Climate Action 100+ to engage global high emitting companies.

companies fail to demonstrate minimal transition readiness, the Fund considers taking investment actions with respect to those companies, such as underweighting, restricting new investments, or divestment, consistent with fiduciary duty. To date, the Fund has completed reviews of over 80 companies that engaged in the thermal coal mining, crude oil production from oil sands, and shale oil and gas production, and has divested from a total of 55 companies that failed to demonstrate viable transition strategies.<sup>3</sup>

For both proxy voting and transition assessments, the Fund collects relevant data from a variety of data sources including companies' websites, sustainability reports and financial filings, CDP reporting, and third-party data providers. Although the Fund staff reaches out to individual companies to obtain such information, not every company is willing to respond to and engage with the Fund. This approach provides the Fund with fragmented and incomplete data. The proposed rule would provide much more complete data, but should go further and require mandatory reporting by all registrants on:

- transition plans;
- GHG emissions reduction targets;
- scenario analysis; and
- capital expenditures' alignment with the goals of the Paris Agreement.

Further, the SEC should provide more detailed guidance for the format and substance of these disclosures, including specific assumptions to be used in climate scenario analyses.

Investors, including the Fund, have been clamoring for comprehensive climate disclosure by registrants for years because this information is valuable to our efforts to manage climate-related investment risks and capitalize on the opportunities created by the emerging low-carbon economy. The SEC's proposed rule is an important and valuable step forward for investors, and overall, we applaud this action. By mandating climate disclosures, the proposed rule will provide consistent, comparable and reliable information for investors.

Thank you for the opportunity to provide comments on these important issues.

Sincerely,



Thomas P. DiNapoli  
Comptroller

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<sup>3</sup> More information of the Fund's transition assessment and minimum standards can be found in the Climate Action Plan Progress Report 2021 <https://www.osc.state.ny.us/files/reports/special-topics/pdf/progress-report-climate-action.pdf>, Climate Action Plan Progress Report 2022 [link](#) when available