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PUBLIC INPUT TO THE SEC: CLIMATE CHANGE DISCLOSURES

This is Third Generation Environmentalism (E3G)'s input to the call for public input from the US Securities and Exchange Commission (SEC) on climate change disclosures, closing 14th June 2021.

About E3G

E3G is a not-for-profit public interest organisation with offices in London, Brussels, Berlin and Washington DC. E3G's mission is to accelerate the global transition to a climate-safe world. E3G has a track record of experience and expertise on sustainable finance and international climate finance.

Overview

The landscape of climate change disclosure is rapidly evolving as stakeholder interest in climate change grows and companies across the world look to provide material information on climate change to these stakeholders – particularly investors and other financial institutions. The complexities and inconsistencies of climate change disclosures to date necessitate strong regulatory guidance on what should be reported by companies to ensure investor needs are being met and climate-informed financial decisions can be made.

This call for public input on the SEC's ongoing work on climate change disclosure is a welcome opportunity to articulate the need for such regulation and what it should include to drive comparable and consistent climate change disclosure from companies. We additionally acknowledge the significance of the Executive Order on Climate-Related Financial Risk made by President Biden on May 20th, including its emphasis on advancing "*consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk*".¹

In the following response to the questions posed by the SEC, we recommend several key areas for the SEC to require mandatory disclosure from registrants on climate change.

¹ <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/>



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Our recommendations include the following:

- **Requiring registrants to disclose against the full 11 recommendations made by the Taskforce for Climate-related Financial Disclosures².**
- **Mandating the disclosure of climate transition plans for net-zero by 2050, as part of disclosure on material climate-related risks and opportunities.**
These plans should include:
 - (1) 5-year plans for near-term emissions reductions targets,
 - (2) Longer-term net-zero target or end goals, and
 - (3) Any strategies for (relating prior items with) Paris Alignment
- **Requiring registrants to disclose Scope 1, 2 & 3 emissions on a phased basis, with Scope 3 reporting requirements coming into effect in Year 2 or 3 of disclosure.**
- **Requiring registrants to disclose whether climate scenarios have informed their strategy and provide detail on these scenarios including underlying assumptions and alignment with a 1.5°C trajectory.**

Outline

In the following response, we respond to 12 of the questions outlined by the SEC:

Question 1: The SEC should require registrants to disclose against the 11 recommendations of the TCFD and disclose a climate transition plan. This would build off existing voluntary disclosure against TCFD whilst ensuring requirements go beyond climate risk. It is vital that material climate-related financial information is disclosed by registrants within their regular SEC filings.

Question 2: All registrants should be required to report Scope 1, 2 & 3 data within their climate change disclosures in their SEC filings. It should also be mandatory, reflecting the proposed requirement of climate transition plans, to disclose short-, medium- and long-term emission reduction targets and annual progress against these targets.

Question 4: To ensure ease of comparability, for investors using these disclosures to make climate-informed decisions, and to make the reporting process straightforward for registrants it is important to have a common core set

² <https://www.fsb-tcf.org/recommendations/>



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of disclosure requirements for all companies to use. There, however, should also be clear signposting to complementary guidance for individual sectors to help them disclose against the requirements in an effective and comprehensive way.

Question 5: We recommend that registrants are required to disclose against the 11 recommendations of the TCFD, building off the business buy-in this framework has garnered to date. In addition to this, however, there is a need for more ambitious regulatory guidance on what good disclosure looks like across all aspects of climate disclosures, not just climate-related risks and opportunities.

Question 6: Registrants should be expected to evolve their disclosure approach as time progresses to reflect increasing action taken to address climate change. Engaging with investors and other stakeholders to understand how actionable registrants' disclosures are is key in ensuring the functionality of the requirements. We propose phased disclosure requirements where the requirement for disclosure of Scope 3 emissions and net zero aligned climate transition plans comes into effect over the first 2-3 years of enforcement.

Question 8: Public disclosure from companies on their internal governance and oversight of climate-related issues is currently insufficient, despite it being a key area of interest for financial actors such as investors. Disclosing on the connection between executive, and employee, compensation and climate change risks and impacts is an important part of this as it is a strong indication of how seriously climate change is being taken by a business.

Question 9: It will be important to ensure that US disclosure requirements are open to, and enable, international alignment. A key first step in doing so is to build disclosure requirements off existing frameworks which are internationally applicable and utilised such as TCFD. Using these recommendations as the initial basis of the SEC's disclosure requirements will provide a solid foundation for global harmonization in the future.

Question 10: For the disclosure requirements to support investment decisions aligned with a transition to a low-carbon economy and lead to a genuine increase in transparency from companies then they must be strongly enforced. Registrants must be held to account in addressing all aspects of the requirements with it ensured that the more challenging aspects of disclosing on climate change are not omitted and that reporting is accurate.

Question 12: We are opposed to non-disclosure being an option for registrants. Companies must be held to account in addressing all aspects of the disclosure requirements previously outlined.



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Question 13: Embracing the TCFD recommendations as the basis of mandatory reporting of climate-related risks and opportunities is a key next step for advancing climate disclosure in the US. The degree to which the subsequent disclosures will represent “*meaningful discussion of the registrant’s view on its climate-related risks and opportunities*” will be fundamentally tied to the quality of the disclosures and thus further guidance should be given to guide registrants in their approach to disclosure.

Question 14: The SEC should revise its rules to include large private companies in its scope for public reporting requirements, this would mirror the scope outlined by the UK in its recent consultation on mandatory climate-related financial disclosures and help stakeholders such as shareholders to hold private companies to account.

Question 15: Whilst climate change is receiving a significant amount of attention regarding public disclosures from companies, it is important to emphasise that climate change should not be regarded as a discrete issue relative to the broader ESG agenda. Registrants should look to maximise their overall positive societal impact, spanning all elements of their value chains, and be required to report on progress and strategies more broadly.

Response to SEC questions

Question 1: Form, time and place of disclosure

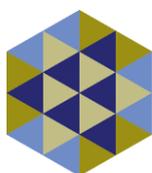
- a) *How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?*

We acknowledge that voluntary uptake of climate change disclosures has improved in both quality and quantity in recent years. The launch of the recommendations of the Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosures (TCFD) in 2017³ was a pivotal moment in driving voluntary disclosure, as have been the subsequent market signals from investors, both on an individual level such as with BlackRock⁴, and collectively as with the Glasgow Financial Alliance for Net Zero⁵. A significant proportion of the global financial system now sits under the Net Zero Asset

³ <https://www.fsb-tcf.org/about/>

⁴ <https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter> and <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

⁵ <https://racetozero.unfccc.int/wp-content/uploads/2021/04/GFANZ.pdf>



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Managers Initiative (\$37 trillion in assets under management⁶), the Net Zero Asset Owner Alliance (\$6.6 trillion in assets under management⁷) and the Net Zero Banking Alliance (\$28.5 trillion in assets under management⁸).

Progress, however, must be rapidly scaled up to provide financial institutions with the information they require to transition to net zero, to enable net zero in the real economy, and to ensure that individual companies can strategically address the climate-related risks and opportunities facing their operations as part of the net-zero transition. Disclosure regulation, on a global scale, will be essential to financial institutions delivering their net zero goals.

We recommend that the SEC set out a clear and consistent overarching set of climate disclosure requirements that all registrants are required to comply with. As detailed throughout our response this should be accompanied by detailed guidance on what should be included in the detail of such disclosures to ensure comparability and encourage rigour in the reporting of individual registrants. Such a course of action from the SEC is underpinned by core components of its mission including protecting investors and ensuring market functionality, in the face of the fundamental threat climate change presents to both⁹.

Building on voluntary uptake of reporting against the recommendations of the TCFD and replicating requirements from other countries across the world including the United Kingdom¹⁰ and New Zealand¹¹, the SEC's disclosure requirements should firstly include the rollout of mandatory climate-related financial disclosures. Registrants should be required to report against the 11 recommendations outlined by the TCFD, with actionable guidance provided on what to include under each of these recommendations.

Whilst disclosure on climate-related risks and opportunities from companies is a key step forward, it is not a silver bullet to addressing the climate crisis. It is vital that companies are taking explicit action to decarbonise their value chains and realise ambitious climate targets, which will in turn help companies tackle emerging financial risks from reputational, regulatory or litigation impacts due to environmental harm. The SEC should also require

⁶ <https://www.netzeroassetmanagers.org/>

⁷ <https://www.unepfi.org/net-zero-alliance/>

⁸ <https://www.unepfi.org/net-zero-banking/media/>

⁹ <https://www.sec.gov/about.shtml>

¹⁰ <https://www.theguardian.com/environment/2020/nov/09/uk-to-make-climate-risk-reports-mandatory-for-large-companies>

¹¹ <https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/>



registrants to disclose climate transition plans aligned to the goals of the Paris Agreement.

This would require registrants to demonstrate that they have robust science-based strategies in place to transition to a low carbon future, a key step if the US is to meet its target of reducing greenhouse gas pollution by 50-52%, from 2005 levels, in 2030 and its 2050 net zero target.¹²

The inclusion of mandatory climate transition plans is particularly salient in the context of greening finance, as increased transparency from companies on their transition plans will help financial institutions make better climate-informed decisions and manage their own transition. The launch of the Glasgow Financial Alliance for Net Zero (GFANZ) in April 2021¹³ and the associated ramp up in the quantity of net zero commitments from financial institutions underscores the need for transition plans. If these targets are to be delivered on time, then the financial sector will need expansive and robust disclosures from companies in the real economy. The need for climate transition plans is additionally underscored by recent research from CDP that found 49% of financial institutions indicate they do not conduct any analysis of how their portfolio impacts the climate at all.¹⁴

This ask for climate transition plans is beginning to build momentum on the global stage with the recent congressional approval of the Spanish Climate Change and Energy Transition law which includes a requirement for large companies (owned by the State or with a State shareholding) to have and publish climate action plans.¹⁵ Under Article 19 of the EU's new proposal for the Corporate Reporting Sustainability Directive (CRSD) companies (including small- and medium-sized enterprises) will be required to publicly disclose on the plans to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement.¹⁶ The UK has recently announced new measures that will require businesses to commit to net zero

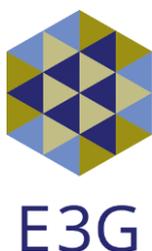
¹² <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies>

¹³ <https://unfccc.int/news/new-financial-alliance-for-net-zero-emissions-launches>

¹⁴ The Time to Green Finance, CDP

¹⁵ <https://www.lavanguardia.com/natural/cambio-climatico/20210408/6635930/congreso-punto-aprobar.html>

¹⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>



by 2050 and have published a carbon reduction plan if they are to bid for government contracts above £5 million a year.¹⁷

There is also emerging best practice on what disclosure on climate transition plans should include. This includes methodologies such as the Science Based Targets financial sector methodology¹⁸, CA100+ Net Zero Benchmark¹⁹ and the IIGCC Paris Aligned Investment Initiative²⁰. Based on this emerging best practice, we propose that registrants should be required by the SEC to disclose on the following within the proposed mandatory climate transition plans:

- (1) 5-year plans for near-term emissions reductions targets,
- (2) Longer-term net-zero target or end goals, and
- (3) Any strategies for (relating prior items with) Paris Alignment

An example of an early adopter of climate transition plans is Unilever, with its board announcing at the end of 2020 that the Unilever Climate Transition Action Plan would voluntarily be put before a shareholder vote.²¹ In doing so, Unilever joined a growing list of companies voluntarily embracing a Say on Climate.²² The result of this was that over 99% of shareholders who voted backed the plans.²³

b) Where and how should such disclosures be provided?

It is vital that material climate-related financial information is disclosed by registrants within their regular SEC filings. Ensuring that material climate-related financial information is integrated in core financial reporting, rather than populating the pages of a separate Sustainability Report or webpage, is

¹⁷ <https://www.gov.uk/government/news/firms-must-commit-to-net-zero-to-win-major-government-contracts>

¹⁸ <https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance-Pilot-Version.pdf>

¹⁹ <https://www.climateaction100.org/progress/net-zero-company-benchmark/methodology/>

²⁰ https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

²¹ <https://www.unilever.com/news/news-and-features/Feature-article/2021/why-we-are-putting-our-climate-plans-to-a-shareholder-vote.html>

²² <https://www.sayonclimate.org/supporters/>

²³ <https://www.reuters.com/business/sustainable-business/unilever-says-majority-shareholders-voted-favour-climate-action-plan-2021-05-05/>



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crucial if such disclosures are meant to help drive further climate action and climate-informed decisions – for example from financial actors.

Question 2: Metrics

- c) *Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)?*
- d) *What quantified and measured information or metrics should be disclosed because it may material to an investment or voting decision?*

All registrants should be required to report Scope 1, 2 & 3 data within their climate change disclosures in their SEC filings. Strengthening disclosure of Scope 3 data should be a key focus for the SEC. To effectively disclose on climate-related risks, as covered in Question 13, and create an effective climate strategy a full value chain perspective of a business' operations is required. Scope 3 emissions are a vital part of this and excluding them undermines the ambition of mandating such disclosures to provide investors and other stakeholders with sufficient information to assess climate-related risks and opportunities facing the company. Research from IEA found that to date 62% of S&P 500 companies do not disclose their Scope 3 emissions.²⁴

As detailed in our response to Question 1, the SEC should require registrants to publish detailed climate transition plans. A key part of this is the disclosure of short-, medium- and long-term emission reduction targets, with accompanying annual disclosure of quantitative progress made against these targets. This will allow investors and other relevant stakeholders to assess progress made to date in terms of decarbonisation and allow climate-informed decisions to be made. Registrants should also be required to detail whether and, if so, how progress against these targets is connected to executive and employee remuneration – this is detailed further in our response to Question 8.

- f) *Should disclosures be phased in over time? If so, how?*

²⁴ <https://www.iea.org/data-and-statistics/charts/number-of-companies-in-the-s-and-p-500-reporting-energy-and-emissions-related-metrics>



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Disclosure requirements for registrants, as outlined in our response thus far, should be phased to begin with mandatory disclosure against the 11 recommendations of the TCFD. This would build off existing voluntary uptake of disclosure against the recommendations to date by registrants and limit the initial reporting burden for those registrants just starting their climate disclosure journey.

As the voluntary disclosure of climate transition plans by companies is still in early stages, we suggest that this requirement would not immediately come into effect but follow in Year 2 or 3 of reporting under the requirements. This would provide registrants with sufficient time to develop the plan, embed it across their business and start taking action that could be reported on. Similarly, given the challenges companies face with collecting and reporting Scope 3 data this requirement should also follow in Year 2 or 3 of reporting under the requirements.

As detailed in our response to Question 6, we would also foresee further, or refined, disclosure requirements being implemented in subsequent years as the result of stakeholder engagement on how useful existing disclosures are in enabling climate-informed decisions to be made. These should be implemented in a timely fashion with sufficient time for registrants to familiarise themselves with the disclosure requirements ahead of the respective reporting period.

j) What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions?

Whilst scenario analysis is a challenging aspect of the TCFD recommendations it is one that companies are and should be working on. Earlier this year CDP reported a year-on-year increase from 47% to 54% of companies, that completed its climate change questionnaire, disclosing that they have used climate scenarios.²⁵ Scenario analysis helps companies build their own understanding of the climate-related risks and opportunities their business could encounter due to climate change and ensure the development of a science-informed climate strategy.

²⁵ <https://www.cdp.net/en/articles/companies/3-common-pitfalls-companies-make-when-using-scenario-analysis-and-how-to-avoid-them>



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Registrants should be required to disclose whether scenario analysis has informed their strategies and subsequent disclosures. This should include whether the scenarios used were qualitative or quantitative in nature, with quantitative scenarios preferable, and evidence of scenario alignment with a 1.5°C trajectory.

Those companies that have carried out scenario analysis should be asked to give a high-level summary of the scenarios used in relation to the climate-related risks and opportunities identified and how this has, or will, inform their strategy and targets. Further detail can be provided on detailed scenario analysis here or in the sustainability report to provide further detail to interested stakeholders. This could include information on specific geographic risks and opportunities or aspects of the business (such as products).

If scenario analysis has not been used, registrants should be required to give a timeframe for when they expect to have conducted scenario analysis and be able to report on the results of this (i.e. within the next two years). Registrants should be held to account on meeting the timeframes they give here, with repercussions possible for those that indefinitely postpone using scenarios. The SEC may want to set a deadline by which point it expects all registrants to be able to disclose on the results of scenario analysis.

Question 4: Industry standards

- a) *What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.?*
- b) *How should any such industry-focused standards be developed and implemented?*

To ensure ease of comparability, for investors using these disclosures to make climate-informed decisions, and to make the reporting process straightforward for registrants it is important to have a common core set of disclosure requirements for all companies to use.

There, however, should also be clear signposting to complementary guidance for individual sectors to help them disclose against the requirements in an effective and comprehensive way. This should cover areas that may be more challenging for, or unique to, that sector and build off the SEC's existing industry guides. It is important that this guidance is



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practical and helps to answer questions investors and other stakeholders have of registrants in these sectors. We recommend that in the initial years of disclosure requirements being implemented there is a specific workstream to monitor how different sectors are reporting on climate change and its impact on their business, to identify where further guidance may be required to strengthen disclosures.

Examples of specific sectoral guidance provided alongside that of overarching guidance or requirements includes that published by the TCFD²⁶ and the Science Based Targets Initiative²⁷ as well as the development of sector specific questionnaires by CDP²⁸, that build off its core questionnaire.

Question 5: Existing frameworks

- a) *What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?*
- b) *Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?*

As mentioned earlier in our response we recommend that registrants are required to disclose against the 11 recommendations of the TCFD. This would benefit from the growing voluntary uptake of reporting against these recommendations to date, creating a strong foundation of disclosure that could help guide others at an earlier stage of disclosure and be strengthened over time. Building off the work already done by first-movers will also provide a group of registrants that can start preparing to step up their disclosures to include climate transition plans.

Drawing on TCFD as a pre-existing framework is beneficial as it already has obtained buy-in from across business, aligns with disclosure requirements being

²⁶ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf> pg 22 onwards

²⁷ <https://sciencebasedtargets.org/sectors/>

²⁸ <https://www.cdp.net/en/articles/companies/how-cdps-move-to-sector-based-questions-benefits-companies>



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implemented elsewhere and was developed with the purpose of enabling climate-informed financial decisions to be made.

In addition to this, however, there is a need for more ambitious regulatory guidance on what good disclosure looks like across all aspects of climate disclosures, not just climate-related risks and opportunities. This includes climate transition plans as detailed in our response to Question 1.

Substantial amounts of work have been done in the voluntary sector to create detailed reporting standards that align with TCFD, and more recently to consolidate these different standards. Both the SASB and CDSB frameworks represent the result of vast amounts of input and stakeholder consultation from both industry and accountancy experts, and their use has been widely tested in the US and around the world. We recommend that the SEC consider both of these frameworks when updating its own reporting rules.

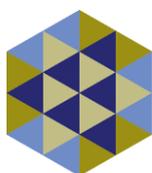
We don't recommend that SEC delegates rule setting authority to third parties, but instead create, define and enforce rules for climate disclosure based on available frameworks.

Question 6: Standard setting bodies and updates

a) How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time?

Registrants should be expected to evolve their disclosure approach as time progresses to reflect increasing action taken to address climate-related risks and opportunities and to decarbonise their value chains and realise ambitious climate targets. Engaging with investors and other stakeholders to understand how actionable registrants' disclosures are is key in ensuring the short-, medium- and long-term functionality of the requirements. This engagement should identify areas where further guidance is needed and aspects of disclosure that are not fulfilling investors' needs.

As outlined in our response to Question 2.f., there will be a short-term need to evolve requirements to make them more ambitious by requiring the disclosure of Scope 3 emissions and net zero aligned climate transition plans. This staged approach to disclosure requirements, over the first 2-3 years of the requirements enforcement, is suggested with the aim of providing registrants with time to



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evolve their own approaches to data monitoring and develop and embed climate action strategies aligned with a transition to net zero.

In general, we recommend that disclosure requirements are regularly reviewed to ensure that they remain in line with the latest understanding of climate science, and that they are producing useful information for investors that will enable climate-informed decisions to be made.

Question 8: Internal governance

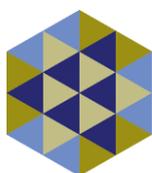
- a) *How, if at all, should registrants disclose their internal governance and oversight of climate-related issues?*
- b) *For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?*

Public disclosure from companies on their internal governance and oversight of climate-related issues is currently insufficient, despite it being a key area of interest for financial actors such as investors. For example, a Vigeo Eiris Analysts' study, referenced in the TCFD 2020 Status Report, found that only 11% of companies disclosed at least one element recommended by TCFD in the Governance pillar.²⁹ This lag in reporting on governance demands a step-up in mandatory disclosure requirements, requiring registrants to publicly disclose on how climate-related issues are being managed and fed into core-business discussions.

Disclosing on the connection between executive, and employee, compensation and climate change risks and impacts is an important part of this as it is a strong indication of how seriously climate change is being taken by a business. The need to mandate this requirement in the US context is underscored by recent research from Willis Towers Watson which showed that approximately 11% of top 350 European companies have CO₂ emissions linked to their incentive plans while only 2% of United States S&P 500 companies have done so.³⁰ In its report on *How to Set Up Effective Climate Governance on Corporate Boards*, the World

²⁹ https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf pg 15

³⁰ <https://www.willistowerswatson.com/en-GB/Insights/2020/09/Combating-climate-change-through-executive-compensation>



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Economic Forum included incentivization as one of its eight Climate Governance Principles.³¹

Question 9: Global harmonization

- a) *What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards?*
- b) *What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards?*
- e) *What should be the interaction between any global standard and Commission requirements?*

The recent report from the IEA has underscores the need for international co-operation to achieve net zero emissions by 2050, *"Making net-zero emissions a reality hinges on a singular, unwavering focus from all governments – working together with one another, and with businesses, investors and citizens."*³² We believe that climate disclosure requirements are an important part of this and collaboration on a global scale will be necessary to make corporate climate disclosures impactful at the required scale. The specific need for global harmonization of disclosure standards for climate change reporting has been repeatedly emphasised by organisations operating in the space.

An example of this was the publication of a joint statement of intent from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) in September 2020, reflecting discussions of how these sustainability and integrated reporting-focused organisations could work together towards comprehensive corporate reporting standards.³³ Earlier this year the International Organization of Securities Commissions (IOSCO) also outlined that it sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards.³⁴ Feedback received by the International Financial Reporting Standards (IFRS) Foundation as a part of its

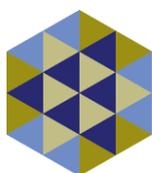
³¹

http://www3.weforum.org/docs/WEF_Creating_effective_climate_governance_on_corporate_boards.pdf

³² <https://iea.blob.core.windows.net/assets/4482cac7-edd6-4c03-b6a2-8e79792d16d9/NetZeroBy2050-ARoadmapfortheGlobalEnergySector.pdf>

³³ [Statement of Intent to Work Together Towards Comprehensive Corporate Reporting](#)

³⁴ <https://www.iosco.org/news/pdf/IOSCONEWS594.pdf>



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consultation on sustainability reporting found broad stakeholder support for globally recognised sustainability reporting standards.³⁵

A clear advantage to ensuring global harmonization of disclosure standards for climate change is that it would simplify the ask for companies operating across jurisdictions. This is important given the significant time and resource that would be required by each company to coordinate public disclosures against a potentially disparate array of reporting requirements. Having a cohesive set of disclosure requirements at a global scale would additionally help financial institutions operating across jurisdictions to make consistent climate-informed decisions. As relevant to the SEC's own mission, work towards global harmonization would help protect investors and maintain fair, orderly and efficient markets.³⁶

This will require significant coordination at a global level, for example through mechanisms such as the G20 Sustainable Finance Working Group, the International Platform for Sustainable Finance, and the International Financial Reporting Standards Foundation. Additionally, it is important that in designing and implementing disclosure requirements the SEC communicates proactively and constructively with other jurisdictions such as the UK and EU. Both of which have recently published proposals for mandatory climate change disclosures; the UK's consultation on climate-related financial disclosures³⁷ and the EU's Corporate Reporting Sustainability Directive (CRSD).³⁸

It will be important to ensure that US disclosure requirements are open to, and enable, international alignment. A key first step in doing so is to build disclosure requirements off existing frameworks which are internationally applicable and utilised, as mentioned in the framing of Question 5 and our subsequent response which focused on the value of requiring registrants to disclose against the recommendations of the TCFD. Using these recommendations as the initial basis of the SEC's disclosure requirements will provide a solid foundation for global harmonization in the future.

Question 10: Assurance

- a) *How should disclosures under any such standards be enforced or assessed?*

³⁵ <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf>

³⁶ <https://www.sec.gov/about.shtml>

³⁷ <https://www.gov.uk/government/consultations/mandatory-climate-related-financial-disclosures-by-publicly-quoted-companies-large-private-companies-and-llps>

³⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>



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For the disclosure requirements to support investment decisions aligned with a transition to a low-carbon economy and lead to a genuine increase in transparency from companies then they must be strongly enforced. Registrants must be held to account in addressing all aspects of the requirements with it ensured that the more challenging aspects of disclosing on climate change are not omitted and that reporting is accurate. If companies do not believe that requirements will be enforced, they will have little incentive to comply.

To deploy and enforce these disclosure requirements effectively, additional resource and funding will need to be put in place to afford scope to assess the sufficiency of disclosures made by individual companies and engage with these businesses on their reporting. This requirement will add an additional enforcement burden and should be properly resourced, as part of a wider provision of resources for enforcement.

Question 12: Comply or explain frameworks

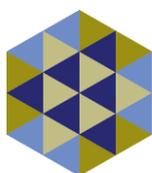
- a) What are advantages and disadvantages of a “comply or explain” framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work?*

We are opposed to non-disclosure being an option for registrants. Companies must be held to account in addressing all aspects of the disclosure requirements previously outlined. There is a significant risk that if companies believe they can get away with not complying with the disclosure rules that they will have little incentive to comply. Non-disclosure of material climate change information from companies would be to the detriment of the achievement of the SEC’s mission and ultimately could create risks for investors and destabilise markets.

Question 13: Climate related risks and opportunities

- a) How should the Commission craft rules that elicit meaningful discussion of the registrant’s view on its climate-related risks and opportunities?*

As detailed in answers throughout our response to this call for input from the SEC, embracing the TCFD recommendations as the basis of mandatory reporting of climate-related risks and opportunities is a key next step for advancing climate



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disclosure in the US. The degree to which the subsequent disclosures will represent “*meaningful discussion of the registrant’s view on its climate-related risks and opportunities*” will be fundamentally tied to the quality of the disclosures.

To date the quality and specific content of voluntary disclosure against the recommendations of TCFD has been incredibly variable, as found by an artificial intelligence study conducted by Moody’s and referenced in the 2020 TCFD Status Report.³⁹ Further guidance will be required to ensure that registrants can be effectively assessed based on these disclosures and to allow investors, regulators and other stakeholders to subsequently take action based on these assessments.

Question 14: Private companies

- a) *What climate-related information is available with respect to private companies, and how should the Commission’s rules address private companies’ climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?*

Public climate change disclosure, and ESG disclosure more generally, from private companies has been limited to date and there is a clear need for a regulatory push to drive such disclosure and associated climate change action. Without this added scrutiny in private markets it is likely that climate-related financial risks will grow to the detriment of the financial system. The SEC should revise its rules to include large private companies in its scope for public reporting requirements, this would mirror the scope outlined by the UK in its recent consultation on mandatory climate-related financial disclosures⁴⁰ and help stakeholders such as shareholders to hold private companies to account.⁴¹

Question 15: Broader ESG framework

- a) *In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework?*

³⁹ https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf pg 15

⁴⁰

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972422/Consultation_on_BEIS_mandatory_climate-related_disclosure_requirements.pdf

⁴¹ <https://web.law.duke.edu/sites/default/files/centers/gfmc/From-Laggard-to-Leader.pdf>



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- b) *How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard?*
 - c) *How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?*

Whilst climate change is receiving a significant amount of attention regarding public disclosures from companies, it is important to emphasise that climate change should not be regarded as a discrete issue relative to the broader ESG agenda. Companies should look to maximise their overall positive societal impact, spanning all elements of their value chains, and be required to report on progress and strategies more broadly. This is underscored by the cross-cutting nature of climate change impacts, including the potential impacts of transitional actions taken by companies, for example those in the areas of human rights and biodiversity.

The previously mentioned proposed EU Corporate Reporting Sustainability Directive (CRSD), expands on existing sustainability reporting requirements and in addition to requiring disclosure on metrics and strategies to align with a 1.5°C trajectory includes an expansive set of requirements spanning other environmental, social and governance issues.⁴² This includes water and marine resources, working conditions, human rights, lobbying activities and business ethics and corporate culture. An opportunity to further global harmonization, as discussed in Question 9, for the SEC is to build off the approach taken to broader ESG disclosures by the EU.

E3G, June 2021

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⁴² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>