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Via Electronic Mail

June 16, 2022

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

Re: Public Input on Climate Change Disclosures

Dear Chair Gensler:

On behalf of Parametric Portfolio Associates LLC ("Parametric"), I am pleased to submit this letter in response to the Commission's March 21, 2022 request for public comments on the exposure draft regarding proposed "Rules to Enhance and Standardize Climate-Related Disclosures for Investors." We appreciate that the Commission took into consideration our June 2021 comment letter regarding the Commission's efforts to comprehensively address climate change disclosures. The Commission's proposal clearly considered many points of view and reflects substantial research on climate-related risk disclosure.

Parametric invests more than $415 billion on behalf of individual and institutional clients largely in rules-based strategies that invest in thousands of companies with headquarters and operations around the world. We recognize the growing importance of environmental and social issues generally, and climate in particular, to corporate financial performance. Given the systemic nature of climate risk and its substantial variability among industries and companies, climate risk is both a systematic and non-systematic risk for client portfolios. Whether to reflect their personal principles or because they aim to hold a portfolio of companies with perceived out-performance potential, investors are increasingly considering climate and other environmental, social, and governance ("ESG") issues in their investment decisions.

We are supporters of the Task Force on Climate-related Financial Disclosures ("TCFD"), members of the Sustainability Accounting Standards Board ("SASB") Alliance, and members of Climate Action 100+. Our proxy voting policies and voting record strongly favor corporate climate disclosure and forecasts that include short, medium and long-term targets with periodic progress reports.

We respectfully submit comments in three primary areas below:

1. Aspects of the proposal that Parametric supports and wants to see in the final rule:
    a. **TCFD-aligned reporting**: The TCFD climate reporting framework is widely accepted by issuers, investors and securities regulators globally as it is an essential building block for consistent and comparable reporting among issuers listed both in and outside of the US. Importantly, International Sustainability Standards Board ("ISSB") proposed climate reporting standards are also TCFD-aligned.

    b. **GHG Protocol and financial boundaries**: The greenhouse gas ("GHG") protocol emissions reporting standard is widely accepted by issuers and investors globally, evidenced by the fact that 92% of issuers reporting their GHG emissions to CDP use the GHG Protocol. The GHG Protocol is therefore the de-facto reporting standard for quantitative data underlying corporate GHG emissions reporting. We agree with the commission's decision to require different reporting boundaries than the options offered by the GHG Protocol with boundaries that align with those used for financial reporting purposes. Aligning GHG and financial reporting boundaries makes GHG reporting more decision useful as it facilitates direct and unadjusted comparisons. We therefore disagree with the ISSB exposure draft that allows issuers to select their boundaries approach for the purpose of their GHG Protocol reporting.

    c. **Exclude carbon offsets and RECs from GHG reporting**: Parametric views carbon offsets and Renewable Energy Credits ("RECs") as lower quality approaches to reducing GHG emissions, a view shared by the Science Based Targets Initiative ("SBTi") and many others. Requiring registrants to disclose and quantify the role of these vehicles in meeting emissions goals would provide decision-useful information. This information would be essential to Parametric clients looking to make informed investment decisions as to the cost, quality and sustainability of emissions reductions strategies.

    d. **Scope 3 emissions safe harbor**: Scope 3 emissions are either created by an issuer's suppliers who will increasingly measure and report their scope 1 and 2 emissions or they are the direct result of the use of issuer products and services, which can be reasonably estimated by issuers. Though Parametric views issuers as having substantial indirect control over their scope 3 emissions, they do not have the level of control or degree of accuracy for measuring these emissions as they do for scopes 1 and 2 emissions. We therefore believe a scope 3 safe harbor is consistent with these issues.

    e. **Link climate risks to financial statements**: The exposure draft connects climate risks and opportunities to financial statements by requiring registrants to report specific income statement or capital spending exposures in the notes to the financial statements. Making this direct connection has been the end game for materiality-focused standards and framework developers for the last decade. This will clearly quantify climate financial impacts and is consistent with the Commission's mission.

f. **Require XBRL tagging**: Inline XBRL tagging for climate related quantitative and qualitative disclosures for all issuers is essential to facilitate accurate delivery of climate data to ESG research vendors, and for investors to parse issuer commentary with artificial intelligence ("AI") tools. Large and small issuers have already developed XBRL reporting capabilities due to XBRL financial reporting requirements, thus the incremental cost of such reporting should be low.

2. Recommendations to strengthen the proposal:

   a. **Require a furnished climate report**: We believe GHG emissions (all 3 scopes) are material to a large portion of companies, however, we do not believe they are material for all companies. Requiring GHG and other climate reporting in the 10-K for all companies is therefore not consistent with the Commission's remit to address issuer reporting on material issues. At the same time, we believe investors need GHG and other climate data covered in the Commission's proposal from all companies for it to be decision useful for constructing diversified portfolios, particularly for passive managers. This report would then be incorporated by reference in filed reports that address items issuers identify as material.

   b. **Require all issuers to report scope 3 GHG emissions**: Issuers are not required to report scope 3 GHG emissions if they determine that these emissions are not material, or issuers have not set a GHG emissions reduction target that includes scope 3 emissions. There is ample precedent for issuers with clearly material scope 1 and 2 emissions not disclosing them in regulatory filings, and issuers with material scope 3 emissions not making forecasts. These precedents strongly suggest that many issuers with material scope 3 emissions risks and opportunities may not report their scope 3 emissions. A scope 3 safe harbor affords issuers an additional level of protection for incorrectly estimating their scope 3 emissions.

   Materiality requirement: The dearth of issuer scope 1 and 2 reporting since the Commission's 2010 climate guidance demonstrates that a materiality requirement will not deliver the necessary level of scope 3 disclosures needed by investors. Our 2021 public comment letter pointed out this problem as it relates to scopes 1 and 2 emissions. *"We have observed that corporate reporting on climate has been virtually nonexistent in regulatory filings despite the systemic nature of climate. Companies may be willing to voluntarily report on their material climate exposures in annual reports, standalone reports, sustainability reports or other locations, but they have not demonstrated a willingness to do so in regulatory filings."* SASB's Climate Risk Technical Bulletin indicates that the typical issuer in 68 of 77 industries is exposed to material climate risks and opportunities that cover 89% of the market capitalization of the S&P Global 1200. Despite SASB's highly informed view, a 2018 General Accounting Office report on US corporate regulatory filings on climate since the SEC's 2010 climate guidance, demonstrated that even issuers directly and substantially impacted by climate risks seldom made any mention of climate in their regulatory filings. Issuers should not be

allowed to determine that scope 3 emissions are immaterial as they have consistently, for more than a decade, failed to make accurate scope 1 and 2 emissions materiality determinations.

Scope 3 forecast requirement: We believe that this requirement might have unintended consequences. Some issuers that might have otherwise reported scope 3 forecasts outside of regulatory filings, might forgo these disclosures if it means that they have to report them in their regulatory filings. Per the March 2022 Climate Action 100+ assessment, 46 of the 167 highest GHG emissions issuers targeted by Climate Action 100+ do not target scope 3 emissions in their Net Zero forecasts. A scope 3 reporting requirement test would afford a substantial portion of the heaviest GHG emitters the opportunity to not report scope 3 emissions.

c. **Add scope 1 and 2 historic emissions safe harbor**: Historical climate information is in many cases based on estimates and assumptions due to the unavailability of and gaps in actual data and methodologies continue to be refined. Refinements in methodologies and data collection will in many cases result in adjustments to previously reported data. We therefore recommend that issuer disclosures of historic scope 1 and 2 emissions (other than current year disclosures) receive safe harbor protections.

d. **Eliminate the GHG Protocol reporting opt out**: Registrants are not required to use the GHG Protocol methodology if another methodology better suits their circumstances. Including this option will promulgate the lack of standardization that has been a significant problem for ESG reporting. Issuers should be required to report emissions using the GHG Protocol methodology (subject to our comments in 1b and 1e) and encouraged to provide GHG disclosures using alternative methodologies. Should alternative methodologies be additionally used, issuers should explain why these alternatives provide more decision useful disclosure. This approach would allow for both comparable disclosures among all issuers as well as provide investors with information that issuers believe is more decision useful.

e. **Require PCAF disclosure for financed emissions**: Reduced financing of current and future GHG emissions is critical to addressing climate change. Per CDP, financial institution GHG emissions associated financing activities are 700 times higher than their direct emissions. GHG Protocol Category 15 financed emissions standards do not cover as many categories and are not as robust as Partnership for Carbon Accounting Financials ("PCAF") standards. We also expect PCAF standards will evolve to incorporate more financed emissions categories. 254 financial entities with $72 trillion in assets have committed to measure and disclose the greenhouse gas emissions associated with their portfolio of loans and investments using PCAF standards. Firms with $33 trillion in assets already disclose using PCAF standards, while the remaining PCAF members have committed to report. Requiring PCAF disclosure in lieu of GHG Protocol Category 15 disclosure will create consistent, comparable and high-quality financed emissions disclosure for financed emissions.

f. **Require pro-forma emissions reporting**: Registrants should be required to restate prior emissions to reflect acquisitions, divestitures and other activities that obfuscate the emissions trends of current operations. Reported issuer GHG emissions forecasts can be met in multiple ways, some of which can be misleading as to emissions trends and levels. Restating prior period results for acquisitions and divestitures provides a more accurate picture of corporate performance and would be similarly decision useful to investors as pro forma financial statements. Such information should be presented in a table or clearly labelled graph covering five or more years of history. Pro forma reporting will reduce incentives for issuers to achieve GHG emissions targets simply by selling high emissions operations.

g. **Build harmonized global climate standards**: Climate change is a global problem best addressed with international collaboration among securities regulators. The International Organization of Securities Commissions ("IOSCO") strongly supported the creation of the International Sustainability Standards Board ("ISSB"), which has published its climate disclosure exposure draft of climate related standards for the regulator filings of issuers outside of the US. The ISSB is incorporating the TCFD framework and SASB standards. We strongly recommend that the Commission, as members of IOSCO, continue to work with the ISSB to align even more closely than currently on a single set of global standards that incorporate the TCFD framework and SASB standards. Global climate and sustainability standards would substantially benefit all investors and issuers.

h. **Post-implementation review**: The Commission should review the rule 3-5 years after it is finalized, in order to determine whether the rule has achieved its objectives - reasonable cost to issuers and decision useful disclosures to allocators of capital. Soliciting and considering diverse stakeholder input and other research to evaluate the rule, similar to the FASB's Post-Implementation Review process, will identify whether there are areas of improvements the Commission should address.

3. Details on how Parametric uses climate disclosures in our investment approach, and how we will use the new required disclosures

   a. **We need scope 1, 2, and 3 data for issuers of all sizes**: Parametric manages quantitative portfolios, often with values-based exclusions or tilts, that use security characteristics such as fundamental factors, industry, and sector to provide exposure to a benchmark. We will invest in individual securities as much as 5 times their weight in the benchmark, and occasionally more, versus the benchmark weight in issuers with characteristics similar to those excluded. Since smaller issuers may be substituted for larger issuers with similar risk characteristics, we yearn for data of comparable quality regardless of the issuer size. We believe this is critical to make data decision useful for the types of client portfolios we construct.

   b. **We need scope 3 emissions for all issuers**: Due to the increased importance of Net Zero to our corporate engagement and the improved quality of scope 3 estimates, which

should be included in all Net Zero targets, we added scope 3 emissions to our GHG emissions intensity screens and tilts in 2022. This said, approximately 85% of scope 3 emissions are estimated, and the comparability of estimates among ESG research providers is relatively low. Requiring scope 3 reporting for all issuers would have a rapid and substantial impact on the quality of data we use for client portfolio construction and engagement.

c. **We need consistent, comparable, and high-quality forecasts**: Parametric has not incorporated ESG research vendor or registrant forecasts for climate related risks and opportunities, or Net Zero targets into any of our investment offerings due to the substantial lack of decision-useful data. We believe that estimates from issuers can be of substantially higher quality than that from ESG research providers as issuers are de-facto better at providing such estimates. However, estimates that are not comparable among issuers are not useful. We believe that requiring a consistent set of reporting standards would greatly improve these forecasts investment usability.

Parametric thanks the Commission for the opportunity to provide these thoughts and respectfully requests that the Commission take our recommendations into account when developing climate change disclosures. Thank you for your consideration.

Regards,

Gwen Le Berre,
Director of Responsible Investing,
Parametric Portfolio Associates, LLC