

6 May 2022

To:

Chair Gary Gensler  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090.

Subject: File No. S7-10-22

Dear Chair Gensler:

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a 501(c)3 non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

The SEC is calling for comments from the public regarding proposed changes to its rules under the Securities Act of 1933 that would require registrants to provide climate-related information in their registration statements, annual reports, and audited financial statements. We are very pleased to provide our feedback on the themes that have been raised in the consultation, building on our review of academic evidence, our own analysis, and research informed by our multi-year conversations with our members and other experts. We believe that the following points require careful consideration:

- To make smart long-term capital allocation decisions, investors need material information on how climate change affects firms' long-term business strategies and performance. This is within the remit of the SEC to mandate.
- Currently, companies do not provide consistent information on how climate change affects firm strategy, including capital allocation priorities and investments in Research and Development.
- Climate performance metrics need to accommodate how investors make long-term decisions, namely being in a quantitative form that can be consolidated with other financial analysis and disclosed in a machine-readable format.
- Compatibility with other global regulators and standard setters would advance a universally consistent climate disclosure regime and streamline adoption by both issuers and investors.

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- The market would benefit from the SEC providing guidance or explanation that clarifies how the proposed rule considers the impacts on companies, particularly vis a vis reporting of Scope 3 emissions, board expertise, and the potential reporting burden the regulation places on public companies.

**To make smart long-term capital allocation decisions, investors need material information on how climate change affects firm’s long-term business strategies. This is within the remit of the SEC to mandate.**

Climate change is leading to some of the most significant shifts in capital allocation in modern market history as investors try to navigate climate risks and gain the investment upside of a climate transition.

The companies that are most likely to succeed in the long term are integrating climate change considerations into their long-term strategic plans. That means information about how companies are approaching significant risks and opportunities to their business posed by climate change is material to long-term investment decision-making.

We therefore appreciate that the SEC’s proposed new amendments call on companies to disclose the material impacts of climate change on corporate strategy, business model and outlook.

In 2019, FCLTGlobal released [\*Driving the Conversation: Long-Term Roadmaps for Long-Term Success\*](#), which laid out a framework that corporations could use in building and articulating their long-term value creation strategy.<sup>1</sup> The long-term roadmap was developed based on surveys of investment decision makers on their priorities for long-term communication and corporate management teams on what they prioritize for board-level communications. In 2021, building on this framework, FCLTGlobal released the [\*Climate Transition Conversation Guide\*](#), which identified a series of questions that companies could use in developing an integrated climate and long-term strategic plan.<sup>2</sup>

The SEC could include the elements suggested in the Guide as ways to fulfill requirements in the proposed amendments relating to disclosure about climate impacts on corporate strategy. These include the following:

- *Corporate Purpose*: How does climate change affect the way that the company intends to create value now and in the future?
- *External environment*: How does climate change impact the company’s core drivers of growth, competitive environment, and management’s view of the market?

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<sup>1</sup> “Driving the Conversation: Long-Term Roadmaps for Long-Term Success.” FCLTGlobal, 2019. <https://www.fcltglobal.org/resource/driving-the-conversation-long-term-roadmaps-for-long-term-success/>

<sup>2</sup> “Climate Transition Conversation Guide”, FCLTGlobal, 2021, <https://www.fcltglobal.org/resource/climate-transition-conversation-guide/>

- *Strategy, Goals and KPIs*: How does climate change affect the company’s long term strategic plan? What goals and KPIs would best showcase the integration of climate into the company’s strategic plan?
- *Capital allocation and investments*: How does climate change affect the company’s capital allocation plans?
- *Risks*: How has climate change been reflected in the company’s risk management efforts?
- *Accountability and incentive alignment*: How is the company structured to allow for the integration of climate change into its strategic plan at all levels?

**Currently, companies do not provide consistent information on how climate change affects firm strategy, including capital allocation priorities and investments in Research and Development.**

FCLTGlobal’s analysis reveals gaps and inconsistencies between corporate communications on climate change goals and investor-oriented communications on long-term strategy.<sup>3</sup>

FCLTGlobal assessed the investor-oriented disclosures of the 100 largest public companies in the world (top 100 by market capitalization of the MSCI ACWI Index as of December 31, 2021). We found that while climate change goal setting and reporting are ubiquitous among large companies across sectors, the same companies provide minimal details about climate change in investor-oriented communications on their business strategy. This has resulted in inconsistent communications to investors about corporate priorities.

- 84 out of the 100 companies have set climate change goals – 69 of these goals are “net zero” or “climate neutral”, which represent corporate ambition to decarbonize their businesses in significant ways. 73 companies set or updated their climate goals after January 1, 2020, reflecting the pressure they face to ratchet up their climate ambition.
- 90 companies have a stand-alone ESG or Sustainability Report which incorporates climate change.
- Despite a growth in climate change goals over 2020 and 2021, only 27 companies even reference climate change or ESG in presentations to investors about their long-term strategic plans. Most of the references (19 out of 27) were minimal or siloed.
- 26 companies reference climate or ESG in their latest quarterly or semiannual reports as of Dec 31, 2021. However, only 7 of them provide substantive details on how their climate-integrated strategic plans are being implemented, such as capital being allocated or advancements in R&D.
- 79 out of the 100 companies that we assessed discussed climate change in their annual report. The discussion was largely high level, with a focus on climate as a part of the operating environment, rather than details on how climate was making a substantive difference to the

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<sup>3</sup> “Sustainability or Strategy: Linking Climate Transition Planning with Long Term Business Strategies”, FCLTGlobal, Forthcoming (anticipated in May 2022)

business strategy. Only 25 companies disclosed their plans to take advantage of climate change business opportunities in their annual reports. Only 13 companies provided details on planned capital allocation in support of climate change efforts.

By issuing detailed expectations on how climate change should be reflected in annual reports and financial statements, the SEC will help drive consistency in corporate communications on climate change across disclosure formats as well as ensure that the most material information is included in the 10-K and financial statements and treated with the appropriate level of care. By providing a detailed focus on climate impacts on strategy, the SEC will help generate information that investors find useful for long-term investment decisions.

**Climate performance metrics need to accommodate how investors make long-term decisions, namely being in a quantitative form that can be consolidated with other financial analysis and disclosed in a machine-readable format.**

We appreciate the SEC's efforts to identify climate-specific metrics to facilitate consistent climate disclosure from companies. We recommend that the metrics that are chosen are aligned with how investors incorporate key long-term value drivers in the investment process.

Over 2020, FCLTGlobal partnered with the World Economic Forum, the International Integrated Reporting Council, SASB and others to engage global institutional investors on [how companies can consistently disclose ESG information in a way that allows investors to measure progress towards long-term objectives](#).<sup>4</sup> Key principles that emerged include the following:

- **Quantitative reporting:** While qualitative discussions of performance and strategy provide important context, the investors that we engaged overwhelmingly called for quantitative reporting, which is easier to compare and analyze and allows investors to assess whether performance against the long-term strategy is on track. The reporting should be in the form of numeric, machine-readable data.
- **Consistent reporting:** The metrics disclosed should be uniformly defined and consistently calculated, again to allow for comparability.
- **Historic actual figures:** Investors prefer historic figures that can be audited, particularly to set a baseline for performance or goal setting. While management forecasts may be useful in some realms, audited historic actuals are important to forecast and hold management accountable.
- **Investor decision relevant:** Investors are most interested in those metrics that show trends in the company's performance or risk management that are likely to have a material impact on their long-term return.

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<sup>4</sup> "Measuring what Matters", FCLTGlobal, 2020, <https://www.fcltglobal.org/resource/measuring-metrics/>

- **Assurable:** Auditor assurance is necessary over time to build credibility and reliance on new metrics, particularly at a time when many investors are concerned about “greenwashing”.

Considering the principles above will ensure the mandated climate disclosures are delivered in a format that investors deem reliable, in keeping with the modernization of capital markets information dissemination best practice.

**Compatibility with other global regulators and standard setters would advance a universally consistent climate disclosure regime and streamline adoption by both issuers and investors.**

The absence of a global climate disclosure regulatory regime has resulted in fragmented and inconsistent corporate climate disclosure, which has contributed to inefficient decision making by investors and corporates alike. We therefore appreciate the work that the SEC is doing to bring standardization into climate change disclosures, as such a rule is well within its mandate.

We also appreciate that the SEC has based the proposed amendments on the framework provided by the Taskforce on Climate Related Financial Disclosure, which has been supported by companies and investors globally, and has formed the basis of rulemaking from securities regulators in other jurisdictions including the United Kingdom, Singapore, New Zealand, and others. The TCFD also forms the foundation of the climate change exposure draft proposed by the International Sustainability Standards Board of the IFRS Foundation, which if adopted will inform financial reporting in over 140 jurisdictions worldwide. We call on the SEC to coordinate with its counterparts to finalize rules that are consistent with rules being developed in other jurisdictions and will contribute to a global climate change disclosure regime. As noted in [FCLTGlobal’s 2021 submission to the Request for Public Input on Climate Change Disclosure](#), while different jurisdictions may consider a shorter or longer list of metrics and disclosure requirements, it is important that the metrics that are chosen are consistent globally, which allows for a “building blocks” approach.<sup>5</sup>

**The market would benefit from the SEC providing guidance or explanation that clarifies how the proposed rule considers the impacts on companies, particularly vis a vis reporting of Scope 3 emissions, board expertise, and the potential reporting burden the regulation places on public companies.**

In conversations with our members and other subject matter experts, we found three primary areas of concern: feasibility and relevance of the reporting of Scope 3 emissions, unintended consequences of

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<sup>5</sup> “Comment to the SEC on Climate Change Disclosures”, FCLTGlobal, 2021, <https://www.fcltglobal.org/resource/sec-climate-change-disclosures/>

providing detail of board expertise on climate risk, and the potential reporting burden placed on public companies and smaller issuers as compared to private companies.

*Scope 3 GHG emissions:* A number of issuers have raised concerns about the reporting burdens associated with capturing and disclosing Scope 3 GHG emissions. The current phrasing of the regulation with respect to Scope 3 emissions disclosure clarifies that disclosure is mandated only if material for the business or if the issuer has set a GHG emissions target or goal that includes Scope 3 emissions. It also provides a safe harbor for liability from Scope 3 emissions disclosure and an exemption from the Scope 3 emissions disclosure requirement for smaller reporting companies. These are all very rational criteria that are intended to mitigate the burdens on reporting companies. However, this is not currently well understood by the market. The SEC could issue staff guidance, an explanatory note and/or strengthen the language in this portion of the regulation as a means of dispelling many of the current misconceptions about the requirements surrounding reporting of Scope 3 GHG emissions.

*Board governance:* There is a concern that the provisions in the proposed rule relating to Board Governance will lead to de-facto pressure on companies to include a climate expert on corporate boards. The proposed rule currently requires that companies disclose board structures for climate change oversight, board expertise in climate change, and how board oversight operates on a functional basis. Our research indicates that [strong boards include directors drawn from a wide range of backgrounds and expertise](#), including but not limited to climate related expertise and fluency when these issues are material to the enterprise.<sup>6</sup> Individual director expertise is relevant – but equally important is the fluency of the whole board on climate, as well as all issues material to corporate strategy and impact. Additionally, directors can draw on both internal and external resources or experts to stay current on topics material to the long-term success of the business strategy and resilience of the company and as a way to inform their decision making. It would be helpful if the SEC could clarify that the intention of the language in this section is not to require a designated climate expert on the board.

*Reporting burden on public companies:* Finally, as with all new additional disclosure requirements for public companies, many fear that the new regulation might discourage smaller issuers and currently private companies from entering the public markets. Public markets [create and spread wealth](#); therefore, ensuring public markets remain attractive is critical.<sup>7</sup> Climate-related reporting that is streamlined and compatible with other global disclosure frameworks and standards and explicitly

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<sup>6</sup> “Long Term Habits of Highly Effective Boards”, FCLTGlobal, 2019, <https://www.fcltglobal.org/wp-content/uploads/long-term-habits-of-highly-effective-corporate-boards.pdf>

<sup>7</sup> “Public Markets in the Long Term: How Successful Listed Companies Thrive”, FCLTGlobal, 2019, <https://www.fcltglobal.org/wp-content/uploads/public-markets-for-the-long-term.pdf>

recognized as good faith estimates for some period of time can go a long way towards reducing this potential burden.

We appreciate the opportunity to submit these remarks for consideration. Should anyone at the Commission have questions about the research or our comments, we would welcome the prospect of further discussion.

Sincerely,

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