MONARCH
PRIVATE CAPITAL

May 19, 2022

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Climate-Related Financial Disclosures

Dear Chair Gensler:

Monarch Private Capital LLC ("MPC") respectfully submits these comments concerning the March 21, 2022, request for public input on proposed amendments to climate-related disclosures from the Securities and Exchange Commission ("SEC" or "Commission"). MPC manages investments in ESG-focused funds that positively impact communities by transforming neighborhoods, creating jobs, reducing our carbon footprint and advancing economic progress across the United States.

ESG and sustainability are not just an afterthought today but a driving initiative transforming the corporate landscape and how corporations direct their dollars. Adopting aggressive sustainability targets, businesses throughout the United States are recognizing that collectively we must work together to achieve lofty goals set by Congress. Corporations are driving these efforts through direct investments in renewable energy projects that are enabling our Nation to reach its energy transition goals.

Renewable energy is an increasingly critical component of the U.S. power mix, outcompeting fossil sources of electricity in much of the Nation, delivering tangible economic benefits and putting Americans to work. The sector enhances the security, reliability and resilience of the electric grid and is readily deployable and available even during extreme weather conditions. With more than $40 billion in U.S. investment last year, renewable energy is also one of the Nation's most important economic drivers. Over the longer term, renewable energy has a vital role to play in achieving the emissions reduction that scientists say is necessary to mitigate the worst impacts of climate change. The increase in U.S. renewable energy generation between 2005 and 2019 led to a decrease of approximately 248 million metric tons of greenhouse gas emissions.[1] Expanding the role of renewable energy in the Nation's economy is a stated goal of the Biden administration.

Most major renewable energy projects have two types of equity investors: the developer and the tax equity investor. The tax equity investors provide around 70-90 percent of the equity capital needed to create a renewable energy project. Congress has incentivized the development of renewable energy projects by providing generous tax credits and rapid depreciation of the projects for tax purposes. Unfortunately, most developers cannot use the resulting tax credits and tax losses efficiently due to these generous provisions.

Developers rely on corporate investors who can efficiently use these tax credits and tax losses to invest in their projects. The tax equity partners' return is largely derived from the receipt of the bulk of the tax credits and tax losses generated by the project. Tax equity capital is committed to a project before the project is complete. Therefore, it is critical for a developer to have tax equity lined up in order to access debt to complete a project. Without the investment by the tax equity corporate investor, few, if any, of these renewable energy projects would come to fruition. Similar Congressional incentives apply to low income housing and the restoration of historic buildings.

We would like to bring to the Commission's attention that the current omission of any explicit discussion of direct investment in renewable energy, either as a developer or as a tax equity investor, by the proposed SEC and SASB disclosure guidelines impedes, forward progression on climate-related goals. Congress purposely created incentives for companies to invest in renewable energy, low income communities, and the rehabilitation of historically significant buildings, but the current non-

[1] https://www.eia.gov/todayinenergy/detail.php?id=48296

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recognition of these direct investments as part of a corporation's ESG goals, disclosures and/or ratings dissuades many corporate investors from supporting these initiatives.

Increased demand for information on climate change-related initiatives at corporations from the investment community has heightened the need for updates and changes to be made to the 2010 interpretive release by the Commission that provided guidance to issuers as to how existing disclosure requirements apply to climate change matters. The purpose of the proposed amendments would be to require information about a registrant's climate-related risks that are reasonably likely to have a material impact on its business, results of operations or financial condition to be disclosed.

We believe direct tax equity investments in renewable energy projects are climate-related financing instruments, helping meet corporate and global energy transition targets that incorporate a level of risk/reward for the ultimate investor. Unlike synthetic financial instruments (like Renewable Energy Credits "RECs") which fail to generate any incremental renewable energy for the Nation or the world, direct investment in renewable energy projects by developers and tax equity investors actually generate incremental clean energy, which is the purpose of sustainability mandates and ESG initiatives. The fact that a developer and tax equity investor have not acquired RECs to enable them to make the claim that they are using renewable energy flowing from the grid should not override or negate the simple reality that it was the developer and tax equity investor who made it possible for the grid to receive the renewable energy in the first place. We understand the role that RECs have played in subsidizing both utilities and developers in making renewable energy more viable in some markets. In fact, RECs are not even available in all U.S. markets. However, that should not blind regulatory authorities to the essential role both developers and tax equity investors play in helping corporations and the Nation reach their climate and sustainability goals. If that means double-counting the same renewable energy production, in some cases, most users of these reports would strongly support it. The constituents being served by climate-related disclosures are shareholders, and in most cases, individual shareholders. These same shareholders are also ardent supporters of generating incremental clean energy. They care more about creating clean energy and less about who gets to claim the credit for using clean energy.

Climate-related financial disclosures that only give credence to a corporation's efforts to be CO2 neutral through recognition of synthetic financial instruments will itself be guilty of greenwashing. Under such an approach, a company could do nothing with respect to its CO2 emissions but simply buy enough RECs to offset their emissions and qualify as carbon neutral. But in reality, nothing has changed. The company is still emitting CO2 as it was before. Likewise, a company that invested in renewable energy installations either as a developer or tax equity investor has contributed to the creation of CO2-free renewable energy for domestic use. However, that same company receives zero credit in their climate-related disclosures because they didn't use a synthetic financial instrument to claim the usage of CO2-free energy. Such regulatory policy would be a travesty and contrary to the global and U.S. sustainability goals of the Biden administration.

Proposed rules on climate-related disclosures that impact direct tax equity investments in renewable energy projects:

1.) <u>Climate-Related Opportunities</u>: Disclosure of climate-related opportunities is optional.
A direct investment in a renewable energy project is a climate-related opportunity for corporations and individuals. A corporation's direct investment into these project opportunities results in the generation of renewable energy to our grid, increases the number of projects built and adds renewable energy sources to our infrastructure. Therefore, they should be recognized and considered as part of climate-related initiatives by corporations and disclosed appropriately based on materiality. We are well aware of the climate-related risks that face our Nation. Why wouldn't SEC registrants recognize the different opportunities that can help mitigate those risks as part of their climate-related disclosures?

2.) <u>Financial and Expenditure Metrics</u>: Requires registrants to disclose the financial impact of any identified transaction risks and any efforts to reduce GHG emissions or mitigate exposure to transition risks (including business losses or benefits). It also requires registrants to disclose the expenditure metrics of such activities, such as reducing GHG emissions or mitigating exposure to transition risks, with the option to disclose the impact of efforts to pursue climate-related opportunities.

Direct tax equity investments in renewable energy projects are efforts to reduce GHG emissions using renewable energy sources rather than traditional fossil fuels to power our Nation. Project-level and industry-wide information is available to disclose material impact statistics related to these types of investments and their reduction of climate-related emissions.

3.) <u>Carbon Offsets and Renewable Energy Credits (RECs)</u>: Requires disclosure of the role of carbon offsets and RECs in the registrant's climate business strategy. For RECs, companies should include descriptions and locations of the underlying projects, their costs and registries/authentication.

Currently, the SEC and SASB recognize the purchase of carbon offset credits and renewable energy credits (RECs, which are separate from the legislative programs for Investment Tax Credits [ITC] and Production Tax Credits [PTC]) as part of a corporation's overall net-zero goals. However, the ITC and PTC are not currently being recognized. How can the purchase of a credit certificate that is associated with a renewable energy project carry more significance and weight than a corporation's direct investment into the actual project? Corporations are choosing to risk their liquid cash by directing those dollars into renewable energy projects as part of their net-zero goals. Shouldn't these direct investments in renewable energy projects be recognized in tandem with carbon offset credits and RECs? Make a risk-calculated direct investment in a renewable energy project or buy the credit certificate from the project once it's been built. We would argue that spurring economic growth and pushing forward toward global net-zero goals requires direct investments in these projects to get them built here in the United States, not the purchase of a piece of paper on Wall Street. A corporation's direct investment in renewable energy is actually reducing GHG emissions as the investment is necessary for the construction and operation of the project.

4.) <u>Climate-Related Financing Instruments</u>: A question under "Disclosure Regarding Climate-Related Impacts on Strategy, Business Model, and Outlook" asks whether there should be additional disclosures if the registrant leverages climate-related financing instruments, such as green bonds, sustainability linked bonds, transition bonds or other financial instruments.

A direct tax equity investment in a renewable energy project is part of the overall capital stack. Tax equity investing (in return for ITCs & PTCs) was established by Congress to fuel private sector investment for the U.S. energy transition. Without these incentives and programs, the Nation would not be able to meet its 2050 net-zero goals. So why wouldn't this capital investment be recognized as Climate-Related Financing Instruments?

5.) <u>GHG and Renewable Energy Targets</u>: Registrants with established climate goals, including renewable energy goals, will need to detail the scope and timeline of the targets, their plans to meet the target, indicators of progress toward the target, and information about the carbon offsets and RECs used.

Corporations are acknowledging the need to be a part of the change and reduce their carbon footprint every day. One of the ways that companies are doing this is through direct investments in renewable energy projects, which is necessary for our energy transition goals, reducing GHG emissions globally and spurring economic stimulus into our economy. Recognition of these GHG emissions-reducing investments should be a part of the SEC's consideration for matters related to climate change. The SEC should include direct investments, whether as a developer or a tax equity investor, as one of many approaches to achieving a company's goal of carbon neutrality.

<u>Conclusion:</u>

We appreciate the SEC's time and energy in focusing on climate-related disclosures. The initial SEC disclosure guidelines rely on principles promulgated by SASB. Those principals are inherently misleading because they focus solely on the internal sources and uses of energy by a business. SASB principals ignore the external contributions of a business toward attaining national and global sustainability goals. Recognition of direct investments in renewable energy projects, which have been set forth as one of the main drivers to meeting global carbon-neutral goals by 2050, is necessary to continue private sector engagement in combatting climate change. It would also accelerate the flow of capital into investments that Congress and the Biden administration strongly support and would have a profoundly positive impact on the transformation of communities and the transition to renewable energy in the United States.

Thank you,

George L. Strobel II
Partner, Co-Founder & Co-CEO
Monarch Private Capital, LLC