

May 26, 2022

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File Number S7-10-22

To Whom It May Concern:

The U.S. Impact Investing Alliance (“the Alliance”) is pleased to write in support of the proposed rules put forth by the U.S. Securities and Exchange Commission (“the Commission”) to enhance and standardize climate-related corporate disclosures.

The Alliance is an organization committed to catalyzing the growth of impact investing in the United States. We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include high-net-worth individuals and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

The Alliance is broadly supportive of the proposed rule. In April, we submitted comments to the Commission alongside over 60 investor, business, philanthropic and academic organizations, including members of the Coalition on Inclusive Economic Growth. Several additional organizations have joined the letter in support of the proposal, and we have included the updated letter in the footnotes below.¹

The proposal is in line with the Commission’s mandate to protect investors, maintain fair and efficient markets and facilitate capital formation. Climate change poses significant and systemic risks to financial stability and the capital markets,² and there is growing evidence that failing to act on climate change will have profound financial consequences for the U.S. economy.³

The SEC is right to ensure that investors are protected by requiring clear, consistent and comparable disclosures of those risks, which investors themselves are demanding to better inform their allocation

¹ Coalition on Inclusive Economic Growth and Other Field Leaders, Comments to U.S. Securities and Exchange Commission, File Number S7-10-22, May 2022, <https://impinvalliance.org/cieg-sec-comments>

² Financial Stability Oversight Council, Report on Climate-Related Financial Risk, 2021, <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>

³ Deloitte, Inaction on Climate Change Could Cost the US Economy \$14.5 Trillion by 2070, January 2022, <https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/deloitte-report-inaction-on-climate-change-could-cost-the-us-economy-trillions-by-2070.html>

decisions.⁴ In fact, American investors, whether they are saving for their retirements or their children's educations, overwhelmingly support standardized reporting by companies on environmental, social and governance (“ESG”) factors like climate.⁵ Furthermore, the majority of the thousands of commenters responding to then-Acting Commissioner Lee’s Request for Input (RFI) in 2021 expressed support for mandatory climate disclosures.⁶ We applaud the Commission for responding to investor needs and market demands, and we offer our comments below in response to the proposal.

Comments on importance of specific provisions

In addition to our broad enthusiasm for the proposal, we would like to express our support for several specific provisions. First, the requirement of disclosures on Scope 1, 2 and 3 greenhouse gas emissions is critical for an investor’s understanding of a company’s climate-related risks that will impact their financial performance and long-term viability. Requiring reasonable assurance for Scopes 1 and 2 will help provide investors with rigorous, high-quality and reliable data. In a survey of retail investors, respondents indicated they would be more likely to trust corporate disclosures to the SEC that are verified by a third-party auditor.⁷ Many companies have already taken steps to obtain some level of assurance for climate-related reporting (over 70% according to one study), meaning the costs associated with implementing this provision will likely be limited.⁸

The Commission should consider strengthening the requirements for Scope 3 disclosures. Namely, we believe the materiality test should be removed and the required disclosures of indirect greenhouse gas emissions should be applied the same as Scopes 1 and 2. Scope 3 emissions often represent the largest proportion of a company’s emissions,⁹ and many companies are already measuring their Scope 3

⁴ Natixis Investment Managers, ESG Investing Reaches Critical Mass; Ongoing Momentum Depends on What’s Driving the Demand, Finds Natixis Investment Managers Survey, April 2021, <https://www.businesswire.com/news/home/20210422005347/en/ESG-Investing-Reaches-Critical-Mass-Ongoing-Momentum-Depends-on-What%E2%80%99s-Driving-the-Demand-Finds-Natixis-Investment-Managers-Survey>

⁵ JUST Capital, Survey Analysis: Americans Want to See Greater Transparency on ESG Issues and View Federal Requirements as a Key Lever for Increasing Disclosure, <https://justcapital.com/reports/americans-want-transparency-on-esg-and-federal-requirements/>

⁶ Climate Risk Disclosure Lab and Global Financial Markets Center at Duke Law, Summary of Comment Letters for the SEC’s Climate Risk Disclosure RFI, <https://climatedisclosurelab.duke.edu/2021/07/summary-of-comment-letters-for-the-secs-climate-risk-disclosure-rfi/>

⁷ Americans for Financial Reform, Report: Results of a nationwide survey: Retail investors’ support for the SEC mandating climate-related financial disclosures from public companies, April 2022, <https://ourfinancialsecurity.org/2022/04/report-results-of-a-nationwide-survey-retail-investors-support-for-the-sec-mandating-climate-related-financial-disclosures-from-public-companies/>

⁸ The Sustainability Institute by ERM, Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors, May 2022, <https://www.sustainability.com/thinking/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors/>

⁹ Leslie Hook, Financial Times, Companies grapple with Scope 3 emissions climate challenge, May 2021, <https://www.ft.com/content/0c6aa679-7061-4ddd-b9d8-a6b01c0c979a>

emissions.¹⁰ Leaving disclosure open to interpretation by issuers would almost certainly result in a significant gap in transparency for decision-useful information. This is evidenced by the lack of disclosure from issuers following the Commission’s 2010 climate disclosure guidance, in which principles-based disclosures led to a mismatch in what companies disclosed versus what investors would deem important for their capital allocation and proxy voting decisions.¹¹

Relatedly, we urge the Commission to consider how to require independent attestation in regard to their Scope 3 disclosures over time, as reasonable assurance for such vital information to investors will be critical. While there may be initial challenges to implementation, this requirement would help spur more market providers to service this need for assurance over time.

Second, we are supportive of the amendments to Regulation S-X that would require companies to provide in notes to their financial statements any significant impact climate change could have on a line item. A growing body of evidence suggests that climate-related risks are in fact financial risks and should be treated accordingly for the purposes of corporate reporting to investors.

Third, we are encouraged by several elements of the proposal that will help lay the groundwork for global regulatory convergence around disclosure standards. In particular, we are supportive of the Commission’s adaptation of the Task Force on Climate-Related Financial Disclosures (“TCFD”) framework, which is widely used and endorsed by investors, companies and regulators.¹² In fact, within one month of the Commission’s vote on the proposal, the new International Sustainability Standards Board (“ISSB”) issued its own proposal for climate-related disclosure standards, also drawing upon the TCFD framework.

The need for alignment across jurisdictions is more pronounced now than ever before, given that multinational issuers will be subject to regulations implementing the ISSB’s proposed standards as well as the Commission’s when finalized. With that in mind, we urge the Commission to consider how to promote further alignment between the two parallel regulatory efforts. The Alliance is supportive of the idea proposed by the Commission¹³ to allow foreign private issuers to adapt the ISSB standard as an

¹⁰ The Sustainability Institute by ERM, Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors, May 2022, <https://www.sustainability.com/thinking/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors/>; Leslie Hook, Financial Times, Companies grapple with Scope 3 emissions climate challenge, May 2021, <https://www.ft.com/content/0c6aa679-7061-4ddd-b9d8-a6b01c0c979a>

¹¹ Sustainability Accounting Standards Board, The State of Disclosure: An analysis of the effectiveness of sustainability disclosure in SEC filings, December 2017, <https://www.sasb.org/wp-content/uploads/2017/12/2017State-of-Disclosure-Report-web.pdf>

¹² Kirkland & Ellis, TCFD Issues New Guidance as Its Climate Reporting Framework Continues to Gain Traction, November 2021, <https://www.kirkland.com/publications/kirkland-alert/2021/11/tcf-new-guidance-on-climate-reporting-framework>

¹³ U.S. Securities and Exchange Commission (SEC), Notice of Proposed Rulemaking, The Enhancement and Standardization of Climate-Related Disclosures for Investors, RIN 3235-AM87, Question 189, <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>

alternative reporting method, with appropriate attestation requirements added to conform with the Commission's overall proposal.

Comments on the costs and benefits of the proposed rule

The SEC has conducted a cost-benefit analysis showing that the costs to implement this proposal are small and reasonable compared to the significant costs of climate-related risk.

These findings are validated by the fact that many companies are already tracking and disclosing said information voluntarily related to their net-zero and other climate-related targets and commitments.¹⁴ In fact, an independent study conducted in 2022 found the SEC's estimates to be in line with corporate issuers' current average spend on climate-related disclosure activities, meaning the rule is unlikely to result in significant additional costs for companies to implement.¹⁵

Furthermore, a common response from companies surveyed regarding the benefits of climate-related disclosures and assessments was "better access to data capable of enhancing corporate strategy." The study also revealed a correlation between companies that spend more on climate-related disclosures and those that cited a key benefit of these activities as "lower costs of capital," meaning those farther along in implementing this work may be reaping additional benefits. In other words, if "more comprehensive and reliable climate-related disclosure were to be required of issuers, the SEC's observation about potential benefits to capital markets may be realized."¹⁶

Currently, without mandated, standardized disclosures, the cost and burdens associated with understanding a company's material climate-related risks based on inconsistent, incomplete and unverified public information currently fall to the investor, resulting in duplicative costs and inefficiencies across investors.¹⁷ Consequently, as more investors demand this information, issuers must wade through competing reporting standards and frameworks. The Commission's proposal will help institute better accuracy and consistency for climate-related disclosure activities for issuers, in turn providing clarity to and reducing burdens on investors.

¹⁴ Governance and Accountability Institute, 90% of S&P 500 Index Companies Publish Sustainability Reports in 2019, G&A Announces in its Latest Annual 2020 Flash Report, July 2020, <https://www.globenewswire.com/news-release/2020/07/16/2063434/0/en/90-of-S-P-500-Index-Companies-Publish-Sustainability-Reports-in-2019-G-A-Announces-in-its-Latest-Annual-2020-Flash-Report.html>

¹⁵ The Sustainability Institute by ERM, Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors, May 2022, <https://www.sustainability.com/thinking/costs-and-benefits-of-climate-related-disclosure-activities-by-corporate-issuers-and-institutional-investors/>

¹⁶ Ibid.

¹⁷ Christensen, H.B., Hail, L. & Leuz, C. Mandatory CSR and sustainability reporting: economic analysis and literature review. *Rev Account Stud* 26, 1176–1248 (2021). <https://doi.org/10.1007/s11142-021-09609-5>

More work to be done for transparency and accountability in the capital markets

In addition to these important climate-related disclosure requirements, the Alliance urges the Commission to institute a comprehensive disclosure framework that reflects the intersectionality of issues like climate change, wealth inequality, environmental racism and other major threats to the U.S. economy. Climate-related risks and impacts are only one piece of a broader set of interrelated non-financial factors that are material and affect shareholder value.¹⁸

As one important example, climate change disproportionately impacts low-income neighborhoods and communities of color, and companies that exacerbate these harms through their business practices or fail to adequately engage key stakeholders and communities on decisions that impact them, risk reputational damage, operational delays and litigation.¹⁹ Any reasonable investor, therefore, would seek to understand a company's exposure to these interrelated risks and how corporate leadership is managing for them. For this reason, we strongly urge the Commission to consider additional disclosure requirements around climate and community-level impacts.

Looking ahead, we hope the Commission's anticipated rulemaking on human capital management ("HCM") disclosures will include requirements related to a company's practices and impacts related to its direct and contingent workforce, supply chain due diligence practices around human rights, downstream impacts on consumers and communities, as well as diversity and demographic data.

The Commission should also consider the degree to which investor engagement with issuers is intermediated by asset managers and other service providers (*e.g.*, investment consultants, index providers, proxy advisors, *etc.*). Through statute (to varying degrees), these intermediaries have fiduciary duties to their clients to consider material information, such as climate-related risks, in both asset allocation and engagement with issuers through proxy voting. The Commission should examine if existing guidance and regulations for asset managers and related service providers is sufficient to account for investor concerns on climate and other systemic risk factors.

Lastly, given that the size of the private market continues to grow in comparison to the public market, the Commission should explore instituting similar reporting requirements for large privately held

¹⁸ Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). Available at SSRN: <https://ssrn.com/abstract=2508281>; McKinsey, "Five ways that ESG creates value", November 2019.

¹⁹ Sebastien Malo, Reuters, Dow Chemical agrees to \$77 million settlement in pollution lawsuit, November 2019, <https://www.reuters.com/article/us-lawsuit-dowchemical-settlement/dow-chemical-agrees-to-77-million-settlement-in-pollution-lawsuit-idUSL2N27S01Z>; Carla Fredericks, Mark Meaney, Nicholas Pelosi and Kate Finn, First Peoples Worldwide, University of Colorado Boulder, Social Cost and Material Loss: The Dakota Access Pipeline, https://www.colorado.edu/program/fpw/sites/default/files/attached-files/social_cost_and_material_loss_0.pdf

companies.²⁰ This would ease concerns cited by some that additional disclosure requirements for public companies could exacerbate the trend of companies privatizing or delaying going public. Rather than allowing these concerns to stall the advancement of this important proposal, similar reporting requirements for privately held companies would instill broader transparency and accountability across the capital markets and equip investors with the decision-useful information they require.

Conclusion

To conclude, the Commission's proposal represents a tremendous step forward in better empowering investors to account for climate-related risks, impacts and opportunities in a transparent and meaningful way. While significant in its likely impact, it is also well within the Commission's authorities to support the health and efficiency of the capital markets. The Alliance looks forward to engaging with the Commission on these issues in the future. Thank you for the opportunity to provide comment.

Sincerely,

A handwritten signature in black ink that reads "Fran Seegull". The signature is written in a cursive, flowing style.

Fran Seegull
President
U.S. Impact Investing Alliance

²⁰ Tyler Gellasch and Lee Reiners, Global Financial Markets Center at Duke Law, *From Laggard to Leader: Updating the Securities Regulatory Framework to Better Meet the Needs of Investors and Society*, February 2021, <https://web.law.duke.edu/sites/default/files/centers/gfmc/From-Laggard-to-Leader.pdf>