HARVARD
MANAGEMENT
COMPANY

June 6, 2022

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

Re: File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman:

Harvard Management Company, Inc. ("HMC")[1] appreciates the opportunity to respond on File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors, released March 21, 2022 (the "Proposed Rules"). As further described in this response, HMC reiterates its support for required climate-related disclosures by public companies.[2] The information required by the Proposed Rules is necessary to protect investors, maintain fair, orderly and efficient markets, and promote capital formation.

As a fiduciary for Harvard University's endowment, HMC considers all risks that could impact the performance of our investments. These considerations require HMC to integrate financially material environmental, social, and governance ("ESG") factors into our investment process. We also collaborate with other investors to promote industry-wide responsible investing. Recognizing the need for high quality, consistent, and comparable climate-related data, the Harvard endowment has been a signatory to CDP (formerly the Carbon Disclosure Project) since 2014 and an active participant in its annual Non-Disclosure Campaign, which seeks to encourage greater voluntary reporting of climate-related data. In 2020, we publicly supported the Task Force on Climate-Related Financial Disclosures ("TCFD"). Harvard University extended its efforts to combat climate change to include its endowment portfolio, which is committed to achieving net-zero greenhouse gas emissions by 2050.

For the reasons discussed below, **we support the Commission's Proposed Rules** requiring all public companies to file climate-related financial information with the Commission, to have this information appear alongside other financial information, and to present narrative and quantitative information in XBRL tagged form. This will make climate-related financial information more useful to investors seeking to understand the risks and opportunities presented by climate change, since the information will be presented in context.

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[1] HMC was formed in 1974 as a wholly owned support organization of the President and Fellows of Harvard College. HMC manages Harvard University's endowment and related financial assets.
[2] *See* Letter from Kathryn I. Murtagh, Chief Compliance Officer and Managing, Director for Sustainable Investing, Harvard Management Company, Inc. (June 11, 2021).

1. **Existing rules inadequately address material risks relating to climate change and greenhouse gas ("GHG") emissions**

We have known for quite some time that climate change poses significant risks to both individual businesses and the financial system as a whole.[3] Disclosure of material, climate-related financial information by corporations is essential for investors to be able to identify and manage climate risks effectively.

Existing disclosure rules largely are principles-based and designed to elicit tailored information from companies regardless of the source or cause of the risk.[4] Climate-related information can be and is disclosed by companies in a variety of ways, including pursuant to existing items under Regulation S-K. However, this highly bespoke framework has led to a patchwork of low quality, incomplete, and inconsistent data reported in a wide array of qualitative and quantitative formats and media. Among the companies that do report, significant variations persist in the scope, breadth, and quality of the information disclosed, making it extremely difficult for investors to understand exposures and appropriately price climate-related risks.

At the same time, there is an immediate need for this information. We are experiencing the impacts of climate change in ecosystems and human systems today. While investors may consider physical and transition risks at the macro level, we know the effect on corporations will not be distributed evenly and that management is not always in the best position to assess these macro risks. Investors must be able to apply their macro understanding of climate-related risks at the issuer level. Understanding a company's climate risk and strategy for climate adaptation and/or mitigation is necessary for investors to accurately price risk and adjust portfolio capital allocation.

For this analysis, investors must have clear, reliable, and transparent company-level GHG emissions data. The existing rules do not require GHG emissions reporting and thus fail to account for the disparate financial impacts of climate-related risks over the short-, medium-, and long-terms. Many companies reasonably omit GHG emissions data from their current disclosures made under the Commission's principles-based standards on the basis that such emissions are not material to the company's business operations. While management may genuinely believe this to be true for a given company, that determination is often made using a framework that fails to account for the much longer time horizon that financial markets use when pricing risk.

2. **The Proposed Rules address the current climate-related disclosure gap**

The Commission's proposal to mandate climate-related financial disclosures by public companies will help investors by closing this disclosure gap. First, it will mandate reporting of Scope 1 and 2 emissions for all public companies. Second, it will ensure that public companies

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[3] The first Intergovernmental Panel on Climate Change Assessment Report was released in 1990.
[4] *We are Not the Securities and Environment Commission - At Least Not Yet*, Commissioner Hester M. Peirce (March 21, 2022).

disclose information regarding their use of offsets or renewable energy credits (RECs) as part of their climate strategy. Third, it will require companies to report on their governance and management of climate-related risks. All of this information is important for investors to understand how companies are managing climate risks and following through on public statements via action towards set goals and is currently used by investors to make investment and voting decisions.

The Proposed Rules will ease the burden on companies that are currently providing this information in numerous formats in response to various investor questionnaires on climate information and shareholder proposals calling for this information. Although far from regulating particular environmental outcomes, the enhanced disclosure rules will encourage companies to prepare and plan for the transition to a low-carbon economy and protect investors and US competitiveness in the economies of the future.

While we support the proposal to mandate Scope 1 and 2 emissions reporting, we urge the Commission to exercise caution before adopting a broad-based requirement for Scope 3 emissions. It is reasonable to require registrants that have set a GHG emissions reduction target or goal that includes Scope 3 emissions to annually report their Scope 3 emissions. But for the rest, we believe that the difficulties in obtaining the necessary data from third parties and methodological uncertainties around calculating Scope 3 emissions are real and could make the required materiality determination quite costly for registrants, even those for which Scope 3 emissions are not material, in excess of the benefit to investors. We encourage the Commission to take more time to conduct a thorough cost-benefit analysis before adopting a non-sector-specific requirement for Scope 3 emissions reporting for all registrants.

Additionally, we believe the proposals to include safe harbor provisions for forward-looking information and Scope 3 emissions and a reporting phase-in period based on the registrant's filer status appropriately address issuers' concerns about legal liability and compliance. We understand there is significant issuer concern over liability for GHG emissions data since methodologies and assumptions continue to evolve. Although we do not believe additional safe harbors are necessary, we are supportive of additional safe harbors or selected information being furnished rather than filed to the extent those rule-making approaches tip the balance in favor of investors receiving the climate-risk disclosure they need, and disclosures being made sooner.

3. The Proposed Rules will lead to comparable, consistent, and reliable disclosures

One of the main shortcomings of the existing rule framework is that it provides issuers with little guidance on how or what to disclose in respect of climate-related risks and opportunities. Many voluntarily make quantitative disclosures in "non-financial" sustainability reports in alignment with the SASB framework or make both quantitative and qualitative disclosures to third parties like CDP. However, reported information is largely limited to high-level qualitative statements in the MD&A or Legal Proceedings sections of their quarterly and annual financial filings or in the annual proxy statement.

HMC strongly supports the Commission's decision to largely align the proposed disclosure requirements with the TCFD and Greenhouse Gas Protocol frameworks. The TCFD recommendations are widely used across the largest capital markets, with 2,600 supporters globally. Furthermore, regulators have begun mandating TCFD-aligned reporting in the UK, Brazil, the EU, Hong Kong, Japan, and elsewhere, making them the internationally recognized standard. Coherence with international standards will reduce the burden of compliance on issuers subject to disclosure requirements in other jurisdictions. Furthermore, globally coherent disclosure requirements will lead to better comparability of data for all investors.

With this benefit in mind, we encourage the Commission to also consider alignment with the International Sustainability Standards Board ("ISSB") standards as those continue to be developed. We commend the Commission for its active participation in the working group of jurisdictional representatives to establish dialogue for enhanced compatibility between the ISSB's exposure drafts that are currently open for comment and ongoing jurisdictional initiatives on sustainability disclosures. However, we believe it is important for the Commission to adopt the Proposed Rules as soon as possible and do not advocate waiting for the ISSB standards to be finalized.

4. The Proposed Rules are consistent with the Commission's three-part mission

There is no greater testament to the significance and relevance of a financial disclosure than whether an investor considers the information when making an investment decision or in deciding how to vote. HMC engages with hundreds of investment managers each year, employing every type of investment strategy and method imaginable, and so hear for ourselves from managers who are actively using climate-related information of the sort called for under the Proposed Rules. The demand for more and better climate-related data is not aspirational or hypothetical – investors use this information today in asset pricing models, assessments of company management, and their asset allocation decisions. For some managers, it represents a small portion of a larger set of inputs; but for others it reflects a key component of their strategy.

Unfortunately, today, reliable climate-related data is only available for a subset of the security universe. Outside of the 1,000 or so largest companies, much of the existing information is heavily modeled, requiring investors or data service providers to make assumptions about companies' performance and operations. Requiring direct company reporting will enable better investment decision-making and more efficient asset allocation beyond the S&P 500®. Requiring companies to report climate-related information in their formal 10-K and 10-Q filings, as opposed to bespoke sustainability reports or separate CDP disclosures, will ensure that all investors, regardless of size or sophistication, have access to the same data.

In recent years there has been a proliferation of climate-related announcements, disclosures, and pledges by companies. While recognizing that companies set targets and make announcements for a variety of reasons, it is reasonable to assume that at least some hope that investors will rely on the information to buy more (or sell less) of their stock. Yet, many companies do not provide investors with sufficient information to understand how they intend to achieve these

commitments or the progress made towards them. Requiring disclosure of this information is necessary to protect investors from being misled by registrants that seek to solicit investment with green promises that they have no real plan or intention to meet.

We recognize the Proposed Rules – like many other new disclosure requirements – will place new compliance burdens on issuers. For the reasons stated in this letter, the information that would be required by the Proposed Rules is important to investors. However, we are supportive of reducing the burden on issuers where it does not compromise the informational needs of investors. We are therefore supportive of the information that would be required in a financial statement footnote[5] instead being provided in the MD&A. We believe this will be equally useful to investors. We also are supportive of limiting the assurance requirement to negative assurance and/or allowing for a longer phase-in or deferral of the assurance requirement[6] to allow issuers and assurance providers sufficient time to develop processes, procedures and capacity to support assurance.

5. The Proposed Rules will help investors

In 2020, Harvard University extended its efforts to combat climate change to include its endowment portfolio, which is committed to achieving net-zero GHG emissions by 2050. As Harvard University President Lawrence Bacow wrote when announcing the commitment, “We believe that this approach, which considers the investment portfolio as a whole, rather than simply targeting the suppliers and producers of [one industry], is the right one for the University to pursue.” This is because, as Commissioner Peirce eloquently put it, “Attempting to drive long-term capital flows to the right companies ex ante is a fool’s errand.” The market is the best arbiter of long-term success and for the market to work its wonders, participants need high quality information. The Proposed Rules strike an appropriate balance between embracing the need for a modern 21st century climate-disclosure regime and the “fool’s errand” of mandating specific pathways to decarbonization.

We are not alone in taking a portfolio net-zero approach to address climate change. To manage this portfolio commitment, HMC and its external managers will benefit from understanding the corporate climate-related goals and targets that shape future emissions in the real economy.

HMC welcomes the opportunity to discuss the views outlined in this letter with SEC staff. Please reach out to Kate Murtagh at [redacted] with any questions.

[5] Proposed Article 14 of Regulation S-X.
[6] Proposed Item 1505 of Regulation S-K.

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Respectfully submitted,

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Chief Compliance Officer and Managing
Director for Sustainable Investing
Harvard Management Company, Inc.

cc: The Honorable Gary Gensler, Chair
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
Securities and Exchange Commission