SOCIAL VALUE

UNITED STATES

June 16, 2022

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

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

Dear Secretary Countryman,

Social Value US (SVUS), a non-profit organization and member of Social Value International (SVI), submits the following comments on the Securities and Exchange Commission's proposed rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors." SVI and SVUS seek to improve how society accounts for and manages social value alongside financial value.

We support the rules as proposed and endorse the comments to submitted by Public Citizen and Americans for Financial Reform Education Fund as well as Fisch et al[1]. We offer further reasons for adoption of the rules and present specific ways to strengthen them. Focused on key concepts in the proposed rules, our comments also answer some of the questions posed by SEC.

Disclosure, Risk and Long-Term Value Creation

While others have provided a sound statutory, legislative, and administrative rationale for this rule, we offer two additional documents regarding improving the management of financial risks. One of the most compelling rationales for the rule is to reduce risks to investors. A May 2021 paper by Krueger et al, "The Effects of Mandatory ESG Disclosure Around the World", assessed the impacts of mandatory ESG disclosure in 25 countries[2] and concluded,

> *Mandatory ESG disclosure increases the accuracy of analysts' earnings forecasts, lowers forecast dispersion, reduces negative ESG incidents, and lowers the likelihood of stock price crashes. Overall, our results provide evidence in support of the view that mandatory ESG disclosure regulation improves the corporate information environment and leads to beneficial real outcomes. Our results are encouraging and support more regulatory changes for other countries that do not have mandatory ESG disclosure regimes yet.*

Climate as well as broader ESG disclosure are also supported by The World Economic Forum (WEF). Its September 2020 paper, "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" states:

> *The absence of a generally accepted international framework for the reporting of material aspects of ESG and other relevant considerations for long-term value creation contrasts with the well-established standards that exist for reporting and verifying financial performance. The existence of multiple ESG measurement and reporting frameworks and lack of consistency and comparability of metrics were identified as pain points that hinder the ability of companies to meaningfully and*

[1] Fisch, Jill E. and Georgiev, George S. and Nagy, Donna M. and Williams, Cynthia A., Comment Letter of Securities Law Scholars on the SEC's Authority to Pursue Climate-Related Disclosure (June 6, 2022). Available at SSRN: https://ssrn.com/abstract=4129614 or http://dx.doi.org/10.2139/ssrn.4129614

[2] Krueger, Phillip, Zacharias Sautner, Dragon Yongjun Tang, and Rui Zhong. 2021. The Effects of Mandatory ESG Disclosure Around the World. Working Paper 754; European Corporate Governance Institute; http://ssrn.com/abstract_id=3832745

> *credibly demonstrate the progress they are making on sustainability, including their contribution to the SDGs.*[3]

Stakeholders – The Risk Considerations of Reasonable Investors

The proposed rules use the term "stakeholders" twice and only in reference to other efforts. Yet, we assert that to ensure that reasonable investors have an opportunity to understand real and possible material risks of their current or potential investments, and how those risks are identified, monitored, analyzed and managed (i.e., sufficiently accounted), a broad range of stakeholder interests need to be engaged. This includes the individuals, communities, and organizations who experience the material financial, social, or environmental risks and rewards of an investment and investees' activities.

This expanded view of who should be engaged is shared among an array of interests. Key actors from the multilateral, investor, and corporate sectors have all weighed in on this issue. For example:

- The World Economic Forum speaks to stakeholder engagement, "Effective stakeholder engagement should ensure a robust process for identifying and selecting relevant stakeholders (e.g., employees, customers, suppliers, <u>local communities</u> and shareholders) and for proactively soliciting their input, while outlining the frequency and method of engagement. Such engagement is vital in helping to frame effective, purpose-led strategy, to <u>strengthen accountability for sustainable value creation</u> and to advance trust in corporations."[4] *emphasis added*
- US Business Roundtable's August 2019 position that moved it from shareholder primacy to a more inclusive stakeholder focus when it stated, "While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:… Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.[5]
- The United Nations Development Program's Sustainable Development Goals Impact Standards for enterprises[6], private equity[7], and bond issuers[8], define stakeholders to include those most impacted environmentally and socially by investments and actions.
- The Impact Management Project ("a forum for building global consensus on measuring, managing and reporting impacts on sustainability"[9]) defines stakeholders to include "Those (people and planet) who are affected, intentionally or unintentionally, directly or indirectly, by an enterprise's activities and decisions (noting that inaction is also a decision), including local communities who are directly or indirectly affected by an enterprise's activities (e.g. unhealthy factory emissions that negatively affect surrounding local communities; or affordable housing units for underserved communities).[10]

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[3] https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation
[4] https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation
[5] https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans
[6] https://sdgimpact.undp.org/practice-standards.html
[7] https://sdgimpact.undp.org/private-equity.html
[8] https://sdgimpact.undp.org/sdg-bonds.html
[9] https://impactmanagementproject.com/
[10] https://impactmanagementproject.com/wp-content/uploads/Guidance-on-engaging-all-affected-stakeholders.pdf

To ensure reasonable investors can be reasonably assured that companies have adequately engaged all stakeholders in considering climate-related impacts of its operations, products and suppliers, we recommend that the SEC:

- Define stakeholder to include communities and individuals who are or may be affected by a company's activities and decisions as well employees, customers, suppliers, and shareholders; and,
- Require that companies report in initial and annual filings the processes for: i) identifying and engaging stakeholders, ii) the outcomes of those processes, and, iii) the use of those outcomes in:
  - Defining of what climate impacts are material, to whom, and the risks to the various stakeholders
  - Measuring, tracking, reporting, managing and addressing those impacts.

Note that we do not ask that the rules prescribe the specific processes for engaging stakeholders. We recommend that the SEC require companies to report on if and how they identified and engaged stakeholders in their efforts to:

- Identify materially important climate-related impacts,
- Establish targets for adequately addressing and managing such impacts,
- Develop and implement their plans, and
- Engage and discuss annual reports on progress towards the targets including if, how and why the targets have changed, and steps taken or to be taken to address insufficient progress towards the targets.

Investors can then decide if the quality and depth of the information provided meets or satisfies their risk assessment needs.

Furthermore, this position is intended to support and answer in the affirmative:

- The several questions (specially Qs 42-50) SEC asks in proposed rule regarding **Risk Management Disclosure**, 17 CFR 229.1503(a) and,
- The several questions (specially Qs 168-171) SEC asks in proposed rule regarding **Targets and Goals Disclosure** 17 CFR 229.1505(a)(2).

Social Value US appreciates and supports SEC's efforts to ensure investors have access to adequate information on companies' materially important climate-related risks and potential or actual impacts of those risks.

Sincerely,

John Sherman, Chair
Social Value US Policy Committee

David Pritchard, President
Social Value US