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

Submitted electronically via [www.sec.gov/rules/submitcomments.htm](http://www.sec.gov/rules/submitcomments.htm)

June 17, 2022

Dear Ms. Countryman,

**The Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22)**

The Alternative Investment Management Association (AIMA)<sup>1</sup> appreciates the opportunity to comment on the U.S. Securities and Exchange Commission's (SEC or Commission) proposed rule that would amend its rules under the Securities Act of 1933 (Securities Act) and Securities Exchange Act of 1934 (Exchange Act) to require registrants to provide certain climate-related information in their registration statements and annual reports (the Proposed Rule).<sup>2</sup>

AIMA's members acknowledge the significant challenges posed by climate change are increasingly focused on the management of the climate-related risks to which their investments are exposed and

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<sup>1</sup> AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than \$2.5 trillion in hedge fund and private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage \$600 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialized educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).

<sup>2</sup> SEC, Proposed Rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors, [87 Fed. Reg. 21334](https://www.federalregister.gov/documents/2022/04/11/2022-07834-the-enhancement-and-standardization-of-climate-related-disclosures-for-investors) (Apr. 11, 2022).



are heavily reliant on the availability of consistent and comparable corporate disclosures to be able to analyze and manage those risks. The Commission is right to highlight that there is at present considerable variation in the content, detail, and location of climate-related disclosures, as well as significant inconsistency in the depth and specificity of those disclosures.<sup>3</sup> This can make it significantly more challenging for investors to meaningfully understand an investee company's exposure to climate risks, which could ultimately harm the effectiveness of investment decision-making.

We therefore very much welcome the Commission's proposal to require registrants to provide certain climate-related information in their registration statements and annual reports, while emphasizing the importance of quality of data over the quantity of data. This will provide additional material information to our member base, ensuring that they can best serve the needs of their ultimate end investors, which include endowments, charities and pension funds. We do not believe that an alternative approach, based on voluntary disclosure, can achieve the improvement in quality of disclosures that is needed. We also strongly favor efforts to achieve greater coherence and consistency globally when it comes to disclosure of climate-related information.

We also note that the Commission is conscious of the need to mitigate the reporting burden that will fall on registrants, through inclusion in the Proposed Rule of features such as such as phase-in periods for the proposed climate-related disclosure requirements, a safe harbor for certain emissions disclosures, and an exemption from certain emissions reporting requirements for smaller reporting companies.<sup>4</sup> AIMA welcomes this focus on ensuring that the regime is ultimately workable and does not give rise to undue burdens that could, in the extreme, adversely affect the value of the securities of companies subject to the rules, or lead to disclosures that are misleading or unreliable for end investors.

We also note the importance of ensuring that registrants should have sufficient time to implement the new obligations. We welcome the Commission's consideration of how to phase in aspects of the framework, differentiating between certain obligations and participant type and size. To the extent that the process of developing and finalizing rules is more protracted than envisaged in the Proposed Rule, the Commission should adjust applicable compliance dates to ensure that companies can implement the new requirements properly. It should also acknowledge that reporting on climate-related matters is gradually maturing, such that rules should leave space for innovation and should be refined in future as new best practices emerge. To this end, we encourage the Commission to ensure that a comprehensive review is undertaken after the initial round of disclosures to ensure that the regime is operating as envisaged, with changes made as necessary.

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<sup>3</sup> 87 Fed. Reg. 21339

<sup>4</sup> 87 Fed. Reg. 21337



These points are discussed in further detail below in the attached Annex. We would be happy to elaborate further on any of the points raised in this letter. For further information, please contact Adam Jacobs-Dean, Global Head of Markets, Governance and Innovation, by email at [ajacobs-dean@aima.org](mailto:ajacobs-dean@aima.org).

Yours sincerely,

/s/

Jiří Król  
Deputy CEO, Global Head of Government Affairs  
AIMA



## ANNEX

### **1. AIMA supports the introduction of a framework for mandatory disclosure by registrants of climate-related information in their registration statements and annual reports**

Overall, we very much welcome the Commission's proposal to require registrants to provide certain climate-related information in their registration statements and annual reports. We agree with the Commission's assessment that mandating the disclosure of this information would advance the goal of providing consistent, comparable, and reliable information to investors to enable them to make informed judgments about the impact of climate-related risks on current and potential investments.<sup>5</sup>

AIMA's members are increasingly focused on the management of the climate-related risks to which their investments are exposed and are heavily reliant on the availability of consistent and comparable corporate disclosures to be able to analyze and manage those risks. The Commission is right to highlight that at present there is considerable variation in the content, detail, and location of climate-related disclosures, as well as significant inconsistency in the depth and specificity of those disclosures.<sup>6</sup> This can make it significantly more challenging for investors to meaningfully understand a company's exposure to climate-related risks, which could ultimately harm the effectiveness of investment decision-making.

We similarly endorse the Commission's view that better disclosure of climate-related risks and opportunities is likely to benefit the economy at large, making for more efficient capital allocation as investors would be better able to price climate-related risks.<sup>7</sup> In the context of the significant global impact of climate change, those economies that have in place superior approaches to the assessment and disclosure by companies of climate-related risks will likely be better able to manage the consequences of physical and transition risks. It is, however, important to ensure that the design of the requirements is workable, so as not to overburden registrants and to ensure that the rules do not adversely affect the functioning of US capital markets.

### **2. AIMA endorses the Commission's decision to reference the TCFD recommendations and GHG Protocol**

We note that the climate-related disclosure framework in the Proposed Rule is modeled in part on the TCFD's recommendations and also draws upon the GHG Protocol. In our view, this is a very welcome approach.

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<sup>5</sup> 87 Fed. Reg. 21335

<sup>6</sup> 87 Fed. Reg. 21339

<sup>7</sup> 87 Fed. Reg. 21337



The TCFD provides a clear structure for the assessment, management and disclosure of climate-related financial risks, based around disclosures about: governance; strategy; risk management; metrics and targets. It has an important standing globally and its use by other jurisdictions, including the UK and Hong Kong, in their rules on climate disclosure means that the Commission can further the goal of greater global consistency by similarly aligning its rules to the TCFD guidelines.

We also believe that following the structure of the TCFD to a degree will help reduce the burden on issuers by giving them access to a rich set of existing guidance and enabling firms that operate globally to implement global approaches to reporting on climate-related risks.

### **3. AIMA emphasizes the importance of ensuring that the framework is underpinned by the concept of materiality**

The Proposed Rule includes certain disclosures that would be required only when material, which the Commission indicates would confirm to the definition of materiality established by the Supreme Court in *TSC Industries, Inc. v. Northway, Inc.*

However, a number of disclosures required by the Proposed Rule are not conditioned on materiality or refer to a novel threshold that might not meet the existing understanding of materiality. A notable example is the proposed amendments to Regulation S-X to disclosure of certain climate-related impacts on existing financial statement line items to the extent the aggregate impact is 1% or more of the particular line item for a given year. This approach seems to conflict with the Commission's own statement in SAB 99 that "exclusive reliance on [...] any percentage or numerical threshold has no basis in the accounting literature or the law".<sup>8</sup>

In order to maximize the likelihood of successful implementation of a mandatory framework for company climate disclosures, our general preference is that the Commission should, as far as possible, work within the constraints of accepted approaches to materiality, particularly when it comes to disclosure of impacts on financial statement line items, noting the distinctions that existing between different sectors of the economy and size of company. We broadly would prefer to see a framework that leaves a degree of flexibility rather than one that is overly restrictive and not able to adapt in light of shifting best practice.

More broadly, we believe that to the extent the framework requires disclosure of information that is not material, this should be furnished rather than filed by registrants in order to preserve appropriate standards of liability for disclosed information.

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<sup>8</sup> SEC Staff Accounting Bulletin: No. 99 – Materiality. Online at: <https://www.sec.gov/interps/account/sab99.htm#foot2>.



#### **4. AIMA welcomes the Commission's decision to require disclosure of material Scope 3 emissions**

The Proposed Rule would require disclosure of Scope 3 GHG emissions and intensity, if material, or if the registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions. We support the Commission's approach to disclosure of Scope 3 GHG emissions.

In the Proposed Rule, the Commission acknowledges concerns that the calculation and disclosure of Scope 3 emissions may pose difficulties compared to Scopes 1 and 2 emissions, notably that it may be difficult to obtain activity data from suppliers and other third parties in a registrant's value chain, or to verify the accuracy of that information. It may also be necessary to rely heavily on estimates and assumptions to generate Scope 3 emissions data.<sup>9</sup>

While we acknowledge these challenges, we nevertheless believe that the existence of a mandatory disclosure framework for material scope 3 emissions – as long as coupled with appropriate safe harbors for registrants - will over time help establish greater reliability and comparability in the approaches companies take and is an essential element of the framework.

#### **5. AIMA believes that disclosure of scenario analysis would be valuable, but sees need for additional guidance**

According to the Proposed Rule, if a registrant uses an internal carbon price, it would be required to disclose: the price in units of the registrant's reporting currency per metric ton of carbon dioxide equivalent ("CO<sub>2</sub>e"); the total price, including how the total price is estimated to change over time, if applicable; the boundaries for measurement of overall CO<sub>2</sub>e on which the total price is based; and the rationale for selecting the internal carbon price applied.

The Proposed Rule would also require a registrant to describe any analytical tools, such as scenario analysis, that the registrant uses to assess the impact of climate-related risks on its business and consolidated financial statements, or to support the resilience of its strategy and business model in light of foreseeable climate-related risks.

On the matter of disclosure of scenario analysis, the Commission signals its agreement with commenters who stated that information concerning scenario analysis could help investors evaluate the resilience of the registrant's business strategy in the face of various climate scenarios that could impose potentially different climate-related risks.

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<sup>9</sup> 87 Fed. Reg. 21390



We similarly believe that scenario analysis can be helpful in the context of understanding a company's assessment of the impact of climate-related risks on its business and supports the broader goal of encouraging companies to further develop the tools and techniques they use for the assessment of climate-related risks.

The Commission rightly notes that the TCFD's most recent assessment of public companies' voluntary climate reporting found that only a small percentage of the surveyed companies disclosed the resilience of their strategies using scenario analysis as recommended by the TCFD.<sup>10</sup> This illustrates the fact that scenario analysis is not at this stage a widely understood or employed technique, suggesting a need for additional industry guidance – ideally developed at global level wherever possible – to ensure that companies can gradually develop their scenario analysis capabilities and provide investors with meaningful disclosures. The availability of high-quality guidance could also act as incentive for companies not subject to the rules, i.e. private companies, to overhaul their own approaches to climate reporting in line with what will in future be expected for public companies.

Further to our comments in respect of materiality, we also note that the Commission should ensure that it properly distinguishes between material information that should be subject to a filing requirement and information that would be furnished by issuers.

## **6. AIMA endorses the proposed timelines associated with the reporting requirements**

We note that some commenters have highlighted the challenges associated with the timelines associated with the reporting framework, given that companies' existing climate-related disclosures might be published several months after they have completed their year-end audit process and filed their annual report, allowing more time for data collection and internal or external review and validation of information. While these are legitimate challenges to highlight, we nevertheless believe that the Commission is right to pursue an approach that sees such information being reported according to a timeline that is consistent with company financial reporting, as this will maximize the value and usability of the data for investors.

## **7. AIMA believes that registrants should have sufficient time to implement the new obligations**

It is helpful that the Commission has included within the framework phase-in periods for all registrants, as well as phase in for the assurance requirements. We believe that users of the disclosed information are most likely to benefit if implementation of the regime is smooth and orderly, which necessitates sufficient lead-in time for companies to be able to apply the requirements. We encourage

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<sup>10</sup> 87 Fed. Reg. 21357



the Commission to be sensitive to any delay in the rulemaking process and ensure that it updates its proposed phase-in periods accordingly to preserve the expected lead-in times.

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