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Via Email

June 15, 2022

Vanessa A. Countryman

Secretary

Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549

**Re: Proposed Rules for The Enhancement and Standardization of Climate-Related Disclosures for Investors, File No. S7-10-22**

Dear Madam Secretary:

The Minnesota State Board of Investment (MSBI) writes to submit the following comment on the SEC's proposed rules for climate-related disclosures. The MSBI broadly supports the proposed rules and believes that their implementation will result in better transparency and enhanced due diligence for investors. The focus of our comment is on the importance of disclosing projected and actual impacts of climate-related physical events separate from the impacts of transition activities. For all other topics, especially the importance of and details related to emissions disclosures, the MSBI refers the SEC to the detailed comments submitted by the Council of Institutional Investors<sup>1</sup>, Ceres, and the Principles for Responsible Investment, all of which the MSBI supports.

As background, the MSBI is entrusted with managing \$131.383 billion (as of March 31, 2022) on behalf of state pension plans, state government funds, non-retirement programs, and state-sponsored savings plans. The primary mission of the MSBI is to maintain the long-term viability of these plans, funds, and programs, which are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

As part of its fiduciary duties, the MSBI maintains a set of investment beliefs, which includes a belief that "Utilizing engagement initiatives to address environmental, social, and governance-related (ESG) issues can lead to positive portfolio and governance outcomes." Over the past several years, it has become increasingly apparent to the MSBI that climate change is likely to be a significant investment risk over the course of the next several decades. In 2019, the MSBI engaged Meketa Investment Group to review the potential impact that climate change may have on the long-term investment risks to the MSBI's investment portfolio<sup>2</sup>. On February 26, 2020, the MSBI passed a resolution that included

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<sup>1</sup> See Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Vanessa Countryman, Secretary, U.S. Securities and Exchange Commission (May 19, 2022), [https://www.cii.org//Files/Correspondence/May%2019%202022%20CII%20Comment%20Letter%20on%20Climate%20Disclosure%20for%20SEC%20\(final\).pdf](https://www.cii.org//Files/Correspondence/May%2019%202022%20CII%20Comment%20Letter%20on%20Climate%20Disclosure%20for%20SEC%20(final).pdf)

<sup>2</sup> Meketa Investment Group, SBI Climate Risk Investment Discussion (Nov. 2019), [https://msbi.us/sites/default/files/2021-02/sbi\\_climate\\_risk\\_investment\\_discussion\\_-\\_november\\_2019.pdf](https://msbi.us/sites/default/files/2021-02/sbi_climate_risk_investment_discussion_-_november_2019.pdf)

directing the Executive Director to evaluate options for reducing long-term carbon risk exposure<sup>3</sup>. On May 29, 2020, the MSBI adopted a resolution directing the Executive Director to remove all publically traded companies from the portfolio which derive more than 25% of their revenue from extraction of thermal coal<sup>4</sup>. As of May 2022, the MSBI is in its second engagement with Meketa Investment Group to review potential impacts that climate change may have on the long-term investment risks to the MSBI's investment portfolio<sup>5</sup>.

The MSBI commends the SEC's attention to and consideration of the challenges that investors face with respect to measuring climate-related risk. We believe uniform disclosure rules provide a consistent framework through which investors may manage risk. To date, all MSBI efforts to measure and engage on climate-related risk have been constrained due to lack of consistent, reliable and comparable information. The MSBI broadly supports the disclosures proposed and believes that fundamentally there is value tied to this information for investors.

The MSBI is a universal owner focused on the long-term performance of its large and highly diversified portfolio. The MSBI's existing obligations to beneficiaries extend out for many decades and its time horizon continues to extend as new employees join the defined benefit plan. The MSBI believes that it is extremely challenging for a large institutional investor to add significant value over market representative benchmarks,<sup>6</sup> and broad market returns have been, and are expected to continue to be, the primary driver of its returns. Market returns depend on the long-term health of the economy, which in turn depends on the productivity of social and environmental systems. Given the scientifically-based projections that climate change will disrupt these systems, the MSBI is bound by fiduciary duty to attempt to manage this risk. As such, the enhancement and standardization of climate-related disclosures as proposed by the SEC would help address the following questions:

What is the portfolio's risk to climate-related physical events?

How diversified is our exposure to physical risk across the different regions and investments in our portfolio?

Is it possible for the MSBI to construct a portfolio that has limited net negative exposure to physical risk?

Current disclosures by many companies and promoted by various organizations, though well-intentioned, vary significantly and do not sufficiently address this question. A robust implementation of 210.14-02(b)(1), 210.14-02(c), 229.1502(a)1, and 229.1502(f), would improve and standardize information for the MSBI to evaluate the physical climate-related risk of different investment choices. For these rules to be decision-useful for investors, the SEC should require the disaggregation of

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<sup>3</sup> Minnesota State Board of Investment, Resolution of the Minnesota State Board of Investment Concerning Environmental, Social, and Governance Initiatives (adopted Feb. 26, 2020), [https://msbi.us/sites/default/files/2021-02/msbi\\_resolution\\_on\\_esg\\_-\\_february\\_26\\_2020.pdf](https://msbi.us/sites/default/files/2021-02/msbi_resolution_on_esg_-_february_26_2020.pdf)

<sup>4</sup> Minnesota State Board of Investment, Resolution of the Minnesota State Board of Investment Concerning Reduction of Investments Associated with Thermal Coal Production (adopted May 29, 2020), [https://msbi.us/sites/default/files/2021-02/msbi\\_resolution\\_on\\_thermal\\_coal\\_investments\\_-\\_may\\_29\\_2020.pdf](https://msbi.us/sites/default/files/2021-02/msbi_resolution_on_thermal_coal_investments_-_may_29_2020.pdf)

<sup>5</sup> Meketa Investment Group, Climate Change Investment Analysis – Phase II: Public Pension Climate Leaders Survey (May 16, 2022), <https://msbi.us/sites/default/files/2022-05/Climate%20Change%20Investment%20Analysis%20-%20Phase%20II%20-%20Public%20Pension%20Climate%20Leaders%20Survey.pdf>

<sup>6</sup> Minnesota State Board of Investment, Investment Beliefs (adopted Sep. 8, 2017), <https://msbi.us/investment-beliefs>

physical risks from transition risks and adopt standard definitions of the terms used by firms to measure these risks.

### **Disaggregated Physical and Transition Risk Information**

In response to questions 59, 60, 66, 67, and 81, the MSBI supports the SEC's proposal to require registrants to report physical and transition risk-related impacts on financial metrics separately. For both current reporting period and future projections, presenting physical risk-specific and transition risk-specific impacts separately is key for investors like the MSBI to evaluate investments. Physical risk and transition risk have starkly dissimilar characteristics. For most businesses, transition risk is highly uncertain in the short-term, but transitory, relatively predictable in its costs, which can be spread over several years, and manageable in the sense that strong corporate leadership should be able to mitigate harm via proactive strategies. Physical risk, on the other hand, is a durable, long-term threat generating both increased risk of random catastrophic events and increased likelihood of prolonged adverse environmental conditions that no management team can fully plan or prepare for. Investors must have detailed information on both risk types to make informed decisions, especially if that investor has a long-term time horizon. For example, one investor might expect the Paris Climate Agreement to result in significant regulations on greenhouse gas emissions, while another investor might expect the signatories of the Paris Climate Agreement to neglect their pledges. The first investor would likely value potential investments with the expectation that costs would increase, or revenues decrease for companies, with large amounts of emissions. An investor skeptical of the Paris Climate Agreement would value investments with the expectation that the likelihood and severity of physical risks are increased. This information could then be used by those investors for both individual investment decisions as well as portfolio risk management. In cases where disaggregation is not practicable, registrants should be required to make a reasonable estimate and provide disclosures about the assumptions that resulted in the estimate. This is important for investors, like the MSBI, who wish to aggregate this information in such a way that allows for the separate measurement of physical and transition risks at the portfolio level. In addition to these disclosures to facilitate measurement, the MSBI supports the portions of the proposed rule addressing how companies are managing these risks, again emphasizing the difference between physical and transition risks. Regarding the disclosure threshold and calculation methodology for financial impact, the MSBI encourages the SEC to implement reporting thresholds for physical events separately from reporting thresholds for transition activities and not allow netting in either the physical or transition risk categories.

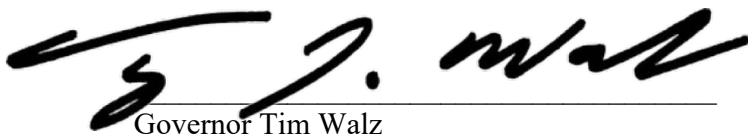
### **Definitions**

In response to questions 9, 12, 13, and 30, the MSBI supports the SECs proposed definitions and encourages additional specificity where possible. For both relative value comparisons and portfolio risk management, it is important for the information presented by different registrants to use the same definitions. Standard definitions for all physical risk-related terms should be established. Physical risks, including for different acute and chronic risks, should be defined as proposed. Requiring registrants to provide the zip code of locations subject to material physical risk, as proposed, will allow investors to aggregate these risks to the portfolio level. Flood hazard area should be defined to align with the FEMA definition. In response to question 30, the MSBI encourages the SEC to propose at a future date a standard scenario analysis for all registrants. According to research conducted by our consultant, Meketa Investment Group, the MSCI Net-Zero Tracker reports that listed companies are on track to cause average temperature to rise by nearly 3° C and the United Nations Intergovernmental

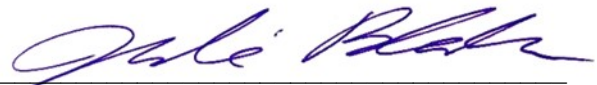
Panel on Climate Change forecasts a temperature increase of 2.6-4.8° C by 2100<sup>7</sup>. As such, we recommend companies evaluate their physical risk based on geospatial datasets assuming 3° C temperature rise when it comes to companies projecting the impact of physical risk. To have comparable scenario analyses from registrants, the same assumptions need to be used. Thus, it is important both for registrants to disclose all parameters, assumptions, and analytical choices used to project the financial impacts of climate-related risks and for the SEC to require these parameters, assumptions and analysis to be comparable.

The MSBI finds many other aspects of the SEC’s proposal to be laudable and looks forward to the full implementation of these rules. The MSBI supports the SEC’s proposal because it would result in decision useful, comparable information key to investment and risk analysis. It is the SEC’s job to set the standards, require disclosure, and confirm the reliability of this material climate-related information. As institutions continue to evaluate their response to climate-related risks, uniform disclosures enable investors to prudently assess physical and transition climate risks when constructing their portfolios. We appreciate the SEC’s consideration of the MSBI’s comments and look forward to a final rule on this issue.

Sincerely,



Governor Tim Walz  
Chair, Minnesota State Board of Investment



State Auditor Julie Blaha  
Member, Minnesota State Board of Investment



Secretary of State Steve Simon  
Member, Minnesota State Board of Investment



Attorney General Keith Ellison  
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<sup>7</sup>Meketa Investment Group, Climate Change Investment Analysis – Phase 1: Global Trends (Feb. 14, 2022), <https://msbi.us/sites/default/files/2022-02/Climate%20Change%20Investment%20Analysis%20Report%20-%20Phase%201%20Global%20Trends.pdf>