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June 17, 2022

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

Re: File Number S7-10-22

Dear Madam Secretary,

Thank you for the opportunity to comment on the proposed rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors.

Globally, many countries have or are implementing some corporate sustainability reporting requirements with some countries further along than others. Many countries are requiring environment, social and governance (ESG) reporting as part of listing requirements while others employ the 'comply or explain' approach. Still there are large differences in reporting across jurisdictions due to a lack of harmonization and convergence of ESG standards. This lack of standardization is complicated by different jurisdictions holding different legal frameworks and public policy objectives. Disagreement as to the 'users' and 'use cases' across jurisdictions contributes to different approaches in the evolving regulations on ESG reporting.[2]

I welcome the Securities and Exchange Commission's (SEC) evolution in its thinking on this important issue and proposing climate-related reporting. While the proposed rule is a good first step to put the United States more in sync with the rest of the world on this important issue, I believe more should be done to achieve the efficient allocation of capital to where it is most needed to transition to a net-zero economy and mitigate the impact of climate change. Moreover, I believe disclosure should go beyond CO2. Global water stress, for example, is already leading to stranded assets at some of the world's largest companies. Lastly, I believe the rule should be expanded to

[1] Senior Fellow. Former World Bank Treasurer and Vice President; former Senior Advisor on ESG reporting to UNCTAD; former CEO of SASB. Views are those of the author and not of New York University, Development Research Institute.

[2]Antoncic, M. **Journal of Risk Management in Financial Institutions.** Is ESG Reporting Contributing to Transitioning to a Sustainable Economy or to the Greatest Misallocations of Capital and a Missed Opportunity"? 2021

include issues concerning sustainable economic growth more broadly since sustainable economic growth and development is inextricably related to climate risk; we cannot solve for one without solving for the other.

Following are several points concerning key general aspects of the proposed rule.

1. **I support the SEC's proposed climate-related disclosure framework, which is modeled in part on the TCFD's (Task Force on Climate-Related Financial Disclosures) recommendations, and also draws upon the GHG Protocol.**

   a) Deciding on which standards to use to implement the framework and provide the climate-related disclosure metrics should be left to the company to decide. As noted in the proposed rue there are several sets of standards currently used across different companies. It would be too disruptive and costly to companies to require them to switch standards and converge on using just one set of standards. Such a requirement would entail significant, unnecessary expenditures in technology and require needless employee training without providing any material benefit.

2. **Governance:**[3]

   a) While corporations now largely self-report some ESG data, sustainability must be embedded into the culture of companies and elevated to the scrutiny of the board and the C-suite of all corporations. Elevating climate-related reporting to the board level will enhance the rigor and analyses of ESG reporting and bring it on par with financial reporting.
   b) The registrant should describe the board's oversight as well as the functions of board committees with respect to their involvement in climate-related reporting and risk management.
   c) Board meetings should set aside time to discuss what the business will be 10 or 20 years hence, and what the potential risks and opportunities would be concerning climate-related issues, including from transitioning to a low-carbon economy.
   d) The Nominating Committee must be satisfied that the board's makeup includes sufficient fluency in the sustainability and climate-related issues facing the company.
   e) The Audit Committee should review the effectiveness of internal controls over climate-related information gathering and reporting to ensure data are reliable. The Audit Committee should ensure the processes and internal controls around climate-related reporting are the same as those for financial reporting. Moreover, they should ensure that climate-related reporting is held to the same standards of rigor as with financial reporting.
   f) Every company should have a Sustainability Committee of the board just as there are Risk and Audit Committees.
   g) Management or board compensation should not be tied to targets and metrics. Doing so would put the SEC at odds with its own mandate and philosophy that "accounting

[3]Antoncic,M. **Journal of Risk Management in Financial Institutions**. A Paradigm Shift in the Board Room: Incorporating Sustainability into Corporate Governance and Strategic Decision-making Using Big Data and Artificial Intelligence. Fall, 2020.

financial standards do not seek to influence the outcome of investor capital allocation decisions or management activities (but instead) are for better reporting" (Peirce, 2019).[4] Tying compensation to climate-related targets flies in the face of the SEC's position that reporting is for the purpose of disclosure and investor protection unlike in other jurisdictions such as in the EU (European Union) which requires climate-related disclosure designed to achieve specific objectives and economic activities.

3. **Reporting:**

b) The timeframe used in reporting climate-related risks should be specified so all company reports are comparable. Given climate-related risk manifest itself over time, the timeframe should reflect short-, medium- and long-term horizons.

c) Climate-related metrics should be included in tabular presentations in new financial schedules, not in footnotes.

   - Standardization of report presentation is urgently needed. Currently most of the focus on improving ESG reporting has been on harmonizing standards. However, one of the biggest challenges to obtaining climate-related and other ESG data is the lack of presentation consistency. There needs to be consistency in presentation just like there is in financial reports. Working as Senior Advisor to UNCTAD (United Nations Conference on Trade and Development) on ESG reporting we conducted extensive bottom-up research on ESG reports, including examining 7,000 company ESG/SDG reports. One of the biggest challenges in analyzing data was just finding the data in the reports. Currently, data are provided in too many different formats and places within sustainability or financial reports including with metrics embedded in narratives and text; tables; inside images and figures; graphs; pie charts; and links.

d) Scenario analyses should follow the IPCC (UN Intergovernmental Panel on Climate Change) model. This must be consistent across companies for comparability.

4. **Other matters and suggestions for additional changes:**

a) I appreciate the proposed rule as an important first step in reporting on climate-related risks and opportunities. However, we need more disclosure from the financial industry.

   - According to the CDP (Carbon Disclosure Project), only 25 per cent of financial institutions report on their financed activities, and these financed emissions are over 700 times larger than their reported operational emissions.[5]
   - CDP found half of financial institutions did not conduct any analysis of how their portfolios impact climate change, which they conclude is resulting in banks and financial institutions underestimating their credit and market risks to up to US$1tn.[6]

[4] **Scarlet Letters: Remarks before the American Enterprise Institute,** June 2019.
[5] **CDP disclosure for financial institutions from 2022, 2022.**
[6] **The Time to Green Finance, 2021.**

- Moreover, the financial industry should disclose financing of sectors such as agriculture, deforestation and other land uses which according to IPCC are the second largest contributors to GHG emissions behind fossil fuel. The financial industry should disclosure their exposure to these companies as well.
- Lastly, financial institutions should disclose their exposure to countries vulnerable to climate-related catastrophic risk especially in emerging and developing economies which incur financial losses as a percent of their GDP that, on average, are ten times larger than losses incurred by developed economies.

b) Lastly, I believe any SEC mandated climate-related or ESG reporting should be phased in gradually. This is very complex and if implemented too quickly it could cause more confusion and misinformation in financial markets than currently exists due to ESG reporting. I believe the SEC may be considering a very aggressive timetable to implement the proposed new rule. I believe it can be disruptive to expect even large, accelerated filers to be able to disclose other than Scope 3 by fiscal year 2023.

c) If, following TCFD, climate disclosure metrics are incorporated into financial data, prior period adjustments will need to be made so investors can analyze company financial data and performance over time. Those prior period adjusted data should be available concurrently with the release of financial data that include the new climate-related disclosure requirements.

Thank you again for the opportunity to comment on the proposed rule. I stand ready should you want to discuss any of my comments or need any clarification.

Sincerely,

Madelyn Antoncic, Ph.D.