LONGFELLOW

June 17, 2022

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

Re: Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman,

Longfellow Investment Management Co., LLC ("LIM") welcomes the opportunity to provide this comment letter in response to the Proposed Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors [File No. S7-10-22]* ("Proposed Rules"). As further detailed in this response, LIM is supportive of consistent and comparable climate-related disclosures from public companies where such disclosures are financially material and we believe the Proposed Rules will serve to enhance the SEC's protection of investors.

LIM is an independent, employee-owned investment firm managing $17 billion in diversified fixed income, equity, and alternative strategies. LIM's fixed income investment strategy is based on the premise that outperformance can be delivered by consistently focusing on the risks of a portfolio. In our view, building diversified portfolios that focus on avoiding sectors and securities with heightened risk metrics should reduce the volatility of a portfolio. LIM's environmental, social, and governance (ESG) integration approach is focused on identifying and mitigating material risks often overlooked in traditional fundamental fixed income credit research. We believe that incorporating the analysis of ESG factors, including climate-related information, provides a more nuanced picture of an issuer's risk profile and allows us to more accurately price risk.

With respect to our assessment of environmental risk, LIM integrates climate-related information through both quantitative and qualitative methods in our fixed income portfolios. Our quantitative approach is comprised primarily of proprietary ESG ratings and scenario analysis. Our qualitative approach involves evaluation of a company's strategy and susceptibility to climate transition and physical climate risks. For these reasons, LIM is supportive of consistent and comparable disclosure of climate-related information so that we can accurately and effectively identify risks and assess valuation across companies.

*Greenhouse gas emissions:* Our proprietary ESG score considers various datapoints that companies may disclose or are collected by third parties. These datapoints include greenhouse gas (GHG) emissions intensity, which may vary between scope 1, 2, 3, or total depending on a company's industry. In many industries, we believe that disclosure of GHG emissions is material to financial performance and valuation. Such disclosures are currently inconsistent, and we believe the Proposed

Rules are sufficient to help close the disclosure gap and provide investors additional decision-useful information, including the Proposed Rules' requirement of all issuers to disclose scope 1 and 2 emissions. Enhanced disclosure of such metrics provides insights to investors to evaluate climate transition risk regardless of the issuer's industry. We appreciate the requirement of the Proposed Rules for issuers to gain assurance on GHG estimates, which will help enhance comparability. While we would be concerned about the cost and difficulty of obtaining assurance for certain issuers, we think the Proposed Rules' phased approach is necessary while reporting mechanisms are developed and improved upon.

Regarding scope 3 emissions, we urge the Commission to proceed with caution in its consideration to require disclosure for all companies. While scope 3 emissions are material to many companies' performance, scope 3 presents several challenges related to obtaining data and ensuring completeness of estimates. We would support a more informal approach to scope 3 that would promote voluntary disclosures where needed. Where scope 3 emissions are material, and where companies have included scope 3 emissions in target-setting, we do support mandatory disclosure of scope 3 emissions.

<u>Physical risks of climate change</u>: We feel that an area in particular need of enhanced disclosure is the management of physical climate risks. Financial losses from the increasing frequency and severity of climate-related events are material to many issuers, and as such, investors need additional detail regarding risk exposures. We believe the Proposed Rules address this need for enhanced disclosures but would emphasize the importance of location-based facility and supply chain data disclosures from companies where such information is material.

*<u>Principles-based regulation</u>:* As a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD), we appreciate the Proposed Rules' adoption of a principles-based approach to disclosures rather than prescribed rules which could be seen as overly burdensome for some issuers. Climate risk takes many forms, and it would not be useful for companies in different industries to report on the same topics. Without a principles-based approach, we worry that the value of climate-related language in filings might be diluted if companies were to "disclose everything" in an effort to avoid liability.

*<u>Materiality:</u>* Additionally, we would like to emphasize the importance of a materiality-driven approach to the Proposed Rules. We believe the SEC's definition of materiality is sufficient and should not expand to what might be characterized as 'double materiality', whereby issuers would be evaluated for their impact on the environment and society, rather than simply evaluating the effect of ESG factors on the issuer's financial performance. While there are merits to 'double materiality', we believe it falls outside the scope of the SEC's mandate of investor protection.

Thank you for the opportunity to provide feedback on the Proposed Rules. We hope this feedback is useful to support an eventual rule on climate-related financial disclosures and welcome any questions or clarifications we may be able to provide regarding the views outlined in this response. Please do not hesitate to reach out to [redacted] with any questions.

Respectfully,

Barbara McKenna

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