The Honorable Richard Gensler
Chair
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

17 June 2022

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

Dear Chair Gensler,

Robeco submits this comment in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (the "Proposed Rule"). We are pleased to see the SEC taking action on this critical issue, helping to provide investors with decision-useful climate-related financial information which is essential for these risks to be priced appropriately.

Robeco is an international asset manager that uses a combination of fundamental, sustainable, and quantitative research. We offer our clients an extensive selection of active investment strategies that cover a broad range of asset classes. As of December 2021, we managed €201bn in assets, €195bn of which is in ESG-integrated strategies. To manage climate-related risks and opportunities we act as responsible stewards to our investments. Our Active Ownership team engages with companies on how companies manage climate-related risks and seeks to improve the performance of these management systems to reduce the risk to our investments.

We consider ESG factors, and in particular climate-related information, to be material information for investors. We believe that companies that better manage climate-related risks and opportunities will perform better over the long-term and that the current risks of climate change and the energy transition are not properly reflected in asset prices. It is therefore essential for investors to have accurate, reliable and comparable information from which to base their decisions.

**The Proposed Rule's mandatory disclosures will fill essential gaps for investors, and will do so in a cost-effective manner.**

Robeco is very supportive of the current Proposed Rule, which would result in a significant improvement in the availability and consistency of climate-related information. It is clear to us that voluntary reporting mechanisms have not been sufficient in providing the information that is required by investors to efficiently make decisions. Currently, there are significant data gaps which make it difficult to appraise the risks that companies face, as well as differences in how companies report information, which may be confusing or misleading for investors. Whilst we advocate for consistent and comparable climate-related information in our engagements with companies, it is not practical for investors to engage with all of the companies in their portfolios on how climate-disclosures ought to be presented. Furthermore, this time spent engaging on the specifics of climate-related disclosures detracts from the more challenging questions of how companies should decarbonize through the implementation and ratcheting of transition plans.

Robeco is a member of the Net Zero Asset Managers initiative, setting a net zero target for our financed emissions for 2050. In addition to this commitment, we have set intermediary targets to reduce our scope 3 financed emissions by 50% by 2030 and 30% by 2025. This implies an annual reduction in our scope 3 emissions of around 7%. More details of our climate ambition can be found in our Net Zero Roadmap[1]. It is necessary for us to have emissions data available to us so that we can accurately report on our emissions each year to various stakeholders. Decisions around how we invest our capital will ultimately be influenced by our Net Zero roadmap, and so if accurate information is not available, unnecessary risks may be created for investors in relation to improper reporting. Climate-related financial disclosures therefore play a role in protecting investors while facilitating capital allocation to finance the necessary energy transition.

Our net zero commitment is ultimately about managing risks within our portfolio. The reports by the Intergovernmental Panel on Climate Change (IPCC) and other institutions have highlighted the physical risks of climate change on the economy and benefits of limiting global warming to 1.5°C compared to preindustrial levels. Policy changes continue to be ratcheted in a way that accelerates the decarbonization of the economy. We expect that this will become more pronounced as physical climate risks continue to escalate. It is therefore necessary for all investors to be decarbonizing their portfolios consistent with the requirements of the broader economy, and thus aiming to control the cumulative emissions in the economy. For this to happen, there must be clear reporting by companies in the real economy on their current and projected emissions, so that investors can assess whether these are sufficient for mitigating systemic risks to the economy.

We regard transition risks to be higher for companies which have business models which are not sufficiently aligned to low-carbon scenarios. It is therefore important that investors have the information necessary to measure the degree to which a company is currently aligned to low-carbon scenarios and how this will change over time. We use a range of metrics to measure how much risk the energy transition presents to a company, including metrics related to emissions as well as how prepared a company is for the transition.

**Robeco's comments of components of the Proposed Rule**

1. *General comments on alignment with the Task-Force on Climate Related Financial Disclosures (TCFD) recommendations*

We are pleased to see the Proposed Rule's support for the TCFD recommendations. We agree that the principles laid out by the TCFD create a useful architecture through which to disclose climate-related information. We consider this to be beneficial in driving consistency across multiple jurisdictions, where the recommendations of the TCFD have also been used as the basis for mandatory climate reporting[2]. We are encouraging of reporting in line with the TCFD recommendations in our engagements, and include this as a specific objective in our engagements and our voting guidelines for specific resolutions. More information on our voting guidelines can be found in the Robeco Stewardship Policy .

2. *TCFD: Metrics and Targets*

When we analyze the risk exposure of a company in relation to the energy transition we look at a range of factors, many which are broadly covered by the TCFD recommendations. We have developed a proprietary Climate-alignment tool which looks at the emissions performance of a company as well as other factors, such as those

[1] Navigating the Climate Transition, Robeco (2021). Robeco's roadmap to net zero emissions by 2050. Available online at: https://www.robeco.com/media/d/8/7/d87c531fc1e3739c2ca57f2c10f9c633_20211027-roadmap-to-net-zero-hk-sg_tcm1006-32200.pdf

[2] Mandatory Climate-related Disclosures, Ministry for the Environment (2021), New Zealand. Available at: https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/

related to the governance and oversight of climate-related risks. In this framework the emissions data, both current and future, is most critical to us.

We consider it critical for companies to be reporting on all material emissions, scopes 1, 2 and 3. We recognise that it may be the case that scope 3 emissions are more material for some companies. To address the challenges with materiality, and to promote consistency in reporting, it would be beneficial for the SEC to provide guidance in parallel to the Proposed Rule around how companies should report on material climate information depending on which sector a company is in, including whether scope 3 emissions are deemed to be material. Currently, the scope 3 data available to investors is inadequate, limiting the degree to which this can be integrated into decision-making. Scope 1 and 2 data faces similar, however milder, challenges, incentivizing investors to buy data which is either estimated or modelled and which is therefore likely to be less accurate.

To address future risks, it is important for investors to understand how the emissions profile of a company will change over time. Our preference would be for all companies to have targets or goals, substantiated by relevant plans on how these will be achieved. We would encourage the SEC to strengthen the Proposed Rule so as to encourage target setting further. If this is not possible, more forward-looking information from issuers would be valued by investors, to minimize the assumptions made around the future emissions profile of a company. We are supportive of the Proposed Rule's comments to improve the consistency of targets through ensuring that the baselines and target years are disclosed.

*3. TCFD: Governance*

We are supportive of the SEC's inclusion of the disclosure of how this management takes place. The overall governance and accountability structure for managing climate risks is an important component to a transition plan. We would encourage the SEC to set further guidance around quantitative information, where relevant, on climate governance and risk management. This could be in relation to the competency of the board in climate-related matters or how climate-related metrics and targets are integrated into compensation schemes throughout each organization. There are a number of organizations, such as the Transition Pathway Initiative (TPI) and the CDP (formerly the Carbon Disclosure Project), which also provide guidance on relevant disclosures around climate governance. Both of these sources are highly valued by investors and leveraged in our analysis of companies climate transition plans.

*4. TCFD: Strategy – Scenario Analysis*

We are supportive of the Proposed Rule comments on requiring issuers who implement scenario analysis to describe these as part of their "Strategy, business model and outlook" disclosures. One of the most challenging aspects to a climate transition plan is the integration of climate-related scenarios. Those companies that do conduct scenario analysis are able to demonstrate a higher level of preparedness for the energy transition and the physical impacts of climate change. Those companies that have set greenhouse gas targets which are consistent with low-carbon scenarios must demonstrate how this is the case. This will require more assumptions to be disclosed on the scenarios used and the determination of shared responsibility around decarbonization. For companies to prove that they have credible transition strategies, it is essential that the assumptions used in the reports and accounts correspond to those in the low-carbon scenarios used or produced. This could include assumptions around the impact of current and future carbon prices or commodity prices on asset valuations and decommissioning costs. We currently look for this information in financial reports, however, there remain few companies that disclose this information. One of the challenges that is raised by companies is that it may create a competitive disadvantage for any company that discloses more than its peers. Therefore, regulatory action to ensure consistent disclosures would address this concern and allow for more efficient pricing of risk.

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5. *Assurance*

We believe it is necessary, that as financially material information, climate-related disclosures should be treated with the same level of oversight and assurance as current financial disclosures. Since the IPCC released their 2018 Special Report that assessed the impacts of 1.5°C of warming there has been a significant increase in the number of net zero targets that have been set by corporations. In some cases the scope of these targets are unclear. In many more cases, these targets are not coupled with short- and medium-term greenhouse gas reduction targets or with clear transition plans. Transition plans are necessary for investors to have more confidence in the greenhouse gas targets that companies have set. It is important that both the emissions reporting, including metrics and targets, as well as the material information in the transition plans is included within the financial reports and accounts. We recommend that the SEC amend Regulation S-K and Regulation S-X to ensure material climate-related information is included here. We would therefore expect qualitative and quantitative disclosures to be audited by an independent organization.

Thank you for considering our recommendations for improvements to the Proposed Rule. The disclosure requirements set out by the SEC is one of the most valuable tools we have for pricing climate risk appropriately and minimizing climate-related risks in the real economy. We welcome the considerable efforts made so far in drafting the rule and promoting the disclosure of comparable and accurate climate-related information.

Yours Sincerely,

Carola van Lamoen
Head Sustainable Investing