Domini

Via email to rule-comments@sec.gov

June 17, 2022

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

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

Dear Ms. Countryman:

I am writing on behalf of Domini Impact Investments LLC ("Domini"), an investment adviser and sponsor of a proprietary family of mutual funds, to offer our comment in strong support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (the "Proposed Rule").

As an impact investor, Domini expresses its strong support for the rulemaking due to (1) its benefits for increasing the availability of standardized, comparable and reliable material climate-related financial information; (2) the relevance of the requested climate-related information to the Domini investment analysis, decision-making process, proxy voting, and engagement; and (3) the importance of this disclosure for evaluating and addressing systemic climate risk. We believe climate change is a material systemic risk to our financial system, with the potential to have significant and widespread impacts. Climate change is also an urgent crisis, and actions must be taken immediately, and at an increasing pace and scale, to limit global average temperature increase to less than 1.5 degrees Celsius and avoid tipping points that may impact the viability of long-term sustainable business. We also recognize that the impacts of climate change will be most severe on vulnerable communities, and it is important that any efforts to address climate change integrate equity, justice, and localized evaluation of impacts.

Recent research demonstrates that systemic issues such as climate change, income inequality, and biodiversity, are both highly financially material[1] and can be affected by investor action.[2] The actions needed of corporations to address climate change will require comprehensive planning, evaluation of scenarios, risk management, goal setting, and engagement with stakeholders. Given the magnitude and urgency of climate change, we believe the lack of consistent, comparable, and reliable information from issuers regarding climate-related risks is the most significant gap in current corporate disclosure. The

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[1] See, for example: Dasgupta, Partha, *The Economics of Biodiversity: The Dasgupta Review*, HM Treasury (February 21), available at: https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review and Lydenberg, Musuraca, Burkart and Clark, *Why and How Investors Can Respond to Income Inequality*, UNPRI (2018), available at: https://www.unpri.org/download?ac=5599.

[2] See, for example: Lukomnik and Hawley, *Moving Beyond Modern Portfolio Theory: 1st Edition,* Routledge (April 2021), and Burkart and Lydenberg, *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change,* Berrett-Koehler Publishers (April 2021).

voluntary nature of existing disclosure has left investors with inadequate information to fully evaluate material climate-related risks. This Proposed Rule and its guidance on how issuers should disclose climate risks, impacts, strategies, and governance is needed and will enhance our ability to evaluate companies.

In summary, we support key components of the Proposed Rule, including that companies be required to disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions and provide additional disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) framework. We support requiring companies to disclose financial metrics in a footnote to the financial statements and believe that the disclosures should be filed in the annual report, which would provide additional controls, certification, scrutiny, and assurance.

We offer several comments below identifying areas for improvement and enhancement of the Proposed Rule. Specifically, the financial risks faced by reasonable investors are not limited to company specific risks, but rather include systemic risks. Due to the systemic nature of climate change, we believe it is necessary to require climate-related disclosures, including scope 3 emissions, from all issuers, regardless of their size or industry. We also urge the Commission to include disclosures regarding Indigenous Peoples' rights and climate related risks where they are directly or indirectly impacted by listed companies' operations, business model, transition risk mitigation plans, and emissions. We also encourage inclusion of information on communities, just transition strategy, biodiversity and deforestation, and other localized information that will enable investors to better understand company impacts and the strategies to mitigate and prevent harm.

Overview of the Domini Investment Process and how Disclosures in the Proposed Rule Would be Used (Question 2)

If adopted, the disclosures will be used in Domini's investment process, proxy voting, and engagement. Domini seeks to identify investment opportunities for each Domini Fund that create positive environmental and social outcomes for people and the planet while seeking competitive financial returns ("Impact Investing"). All of the investment and/or eligibility selections made by Domini are based on the evaluation of environmental and social factors, including the core business in which a company engages and/or how a company treats its key stakeholders, such as customers, employees, suppliers, ecosystems, local, national and global communities, and/or investors ("environmental and social factors"). Domini's analysis generally includes studying the company, issuer or bond, its industry, products and services, and/or competitors, and with respect to companies that demonstrate a commitment to sustainability solutions, financial criteria, and/or quality of a company's management practices.

Research

Domini uses the following environmental and social factors in making Fund investment and eligibility selections:

- *Business Alignment.* Domini seeks to determine the degree to which a company's core business model is aligned with the fundamental goals of universal human dignity and ecological sustainability. Domini seeks investments aligned with the universal values of fairness, equality, justice, respect for human rights, and/or long-term environmental sustainability, including climate change mitigation and adaptation. Certain businesses, like manufacturing vaccines or distributing renewable energy, are fundamentally aligned with Domini's fundamental goals.

Domini seeks to avoid investment in companies or issuers that it determines to be sufficiently involved with certain goods or services, based on factors such as percentage of revenue, magnitude of involvement, or ownership (e.g., related to weapons and firearms and nuclear power, among others). Domini also excludes companies in the energy sector substantially involved in coal or uranium mining and oil and natural gas exploration and production, storage, transportation, refining, and related services. In addition, Domini excludes electric utility companies that have either announced plans for new construction after the Paris Agreement was adopted in 2015 or that have over 50% installed capacity from coal-fired generation.

- *Stakeholder Relations.* Domini may also seek to assess the company or issuer's relations with key stakeholders, such as the entity's customers, employees, suppliers, ecosystems, local, national and global communities, and/or investors. In its evaluation, Domini seeks to identify companies that, among other factors:
  - Enrich the ecosystems on which they depend;
  - Contribute to their local, national and global communities;
  - Produce high-quality, safe, and useful products and services;
  - Invest in the wellbeing and development of their employees;
  - Strengthen the capabilities of their suppliers; and
  - Communicate transparently with their investors.

Some of the Domini Funds invest in companies that also demonstrate a commitment to sustainability solutions and the investment analysis for these funds will be facilitated by this Proposed Rule. For purposes of this policy, a company demonstrates a commitment to sustainability solutions if, based on Domini's analysis, the company provides, invests in or creates products or services that help, among other things:

- Accelerate the transition to a low-carbon future, including through renewable energy, distributed generation, off-grid solutions, energy storage, electric vehicles, or energy-efficient technologies.
- Contribute to the development of sustainable communities, including through safe and affordable housing, eco-friendly design, low-carbon transportation systems, or climate-resilient infrastructure.
- Support more sustainable food systems, including through the improvement of, or access to, healthy, natural, organic, or plant-based food, the reduction of food waste, promotion of resource-efficient agriculture, or support for small-scale farming.

In our research process, Domini considers how companies assess, manage, mitigate and address risks related to climate change, in addition to issuers' Green House Gas ("GHG") emissions, which is the reflection of the actual implementation of stated reduction goals or strategies. We seek to evaluate both GHG emissions in absolute terms as well as emissions intensity and look for time-bound quantitative reduction targets. In the overall assessment of the board and management's ability to identify, respond to, and mitigate risks, we value disclosure of thorough transition strategies, along with TCFD aligned reporting.

Domini has developed industry specific Key Performance Indicators (KPIs) to guide its research and decision-making process. Following is an illustrative list of KPIs related to the Proposed Rule, which illustrate how the Proposed Rule will support our existing research processes and enable Domini to gather and evaluate information which may not always be available. For example, we seek to evaluate:

- Time-bound transition plans, GHG emissions reduction targets aligned with the Paris Agreement, utilizing time-bound quantitative transition/GHG reduction targets
- For the automotive sector, time-bound targets for fleet electrification and scope 3 emissions reduction targets
- Climate-related financial risk assessment, including TCFD-aligned disclosure (i.e. including transition and physical risk) and carbon foot printing of financial lending portfolio including time-bound quantitative GHG reduction targets, as well as scenario analysis
- Strategies emphasizing low-carbon transition and just transition
- Environmental and human rights risk assessment and disclosure of results in major investment decision making, including forest-related risks, land use change, biodiversity risk, and free prior and informed consent (FPIC)
- Reductions in SOx, NOx, and GHG emissions (e.g., year over year % reductions, pollution control technologies, etc.) according to the Science Based Targets
- % of electricity generation capacity from renewable sources (solar, wind, small hydro, <10MW)

Proxy Voting

Domini votes proxies on behalf of its Funds using voting guidelines that are aligned with our Impact Investment Standards. The Proposed Rule will enhance our ability to evaluate proxy items and vote proxies. In particular, climate-related risk disclosure will facilitate our ability to assess relevant climate-related proxy items. Our guidelines include evaluating board members on their responsiveness to addressing climate-related risks or taking actions in response to shareholder support of proposals. Specifically, we vote on shareholder proposals aligned with the following guidelines:

Climate Change/ Greenhouse Gas Emissions	We vote **for** shareholder proposals seeking improved climate change disclosure to align with a 1.5 °C scenario. Vote **for** shareholder proposals seeking a TCFD (Taskforce on Climate-related Financial Disclosures) or seeking information on the financial, physical, or regulatory risks it faces related to climate change on its operations and investments, or on how the company identifies, measures, and manage such risks.
	Vote **for** shareholder proposals calling for the reduction of GHG or adoption of GHG goals in products and operations, including "Say on Climate" proposals.

	Vote **for** shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change. Vote **for** shareholder proposals requesting a report on greenhouse gas emissions from company operations and/or products. Vote **for** shareholder proposals asking companies to report on if and how lobbying activities are aligned with the goals of the Paris Climate Agreement or other key sustainability policy.

Engagement

When appropriate, Domini may engage in dialogue with the management of companies or issuers encouraging them to address the environmental and social impacts of their operations. Domini may seek to raise issues of environmental and social performance with the management of certain companies through proxy voting, dialogue with management, and/or by filing shareholder proposals on behalf of a Fund, where appropriate. We have filed shareholder proposals and supported industry-wide efforts, including, to request information on scope 1, 2, and 3 GHG emissions, physical risks, risk governance, transition strategies, and adaptation strategies, among other things, and participate in collaborative engagement efforts, such as the Climate Action 100+, the Investor Decarbonisation Initiative, and Finance for Biodiversity. Thorough disclosure of material climate-related financial risks would enhance the quality and nature of our engagement, and may make engagement more effective, streamlined or efficient, among other benefits.

The Proposed Rule Will Harmonize Climate-Related Disclosure Standards and Increase Efficiencies

Given Domini's investment strategy and processes, the Proposed Rule will increase efficiency, comparability, and effectiveness of our research, analysis, proxy voting, and engagement process. The Domini investment universe includes approximately 1,466 approved issuers from approximately 41 countries. The universe includes issuers of various sizes, many of which are outside the index. Therefore, we support increased disclosure expectations of financially material information across issuers of all sizes. Due to the global nature of the investment universe, with varied expectations and regulatory frameworks, and operations in a competitive global landscape, we support the increased consistency, comparability, and harmonization of climate-related disclosure standards.

However, the current lack of consistently and broadly available information has contributed to incongruity of information and additional costs, for example related to visiting multiple websites to find information, comparing information that is provided in different formats, that companies provide different pieces of information, disclose using different standards, or provide it in a different location, resulting in efforts to fill gaps when information is not comprehensively provided. Our Research team and Director of Engagement often engage in recurring communications with companies in order to find information about the climate strategy, emissions, targets, and impacts.

In our experience, the voluntary nature of many of the disclosures, which is often not subject to verification, may limit our ability to rely on the accuracy of company statements on sustainability.

In summary, given this current state, the investment community would benefit from consistent, comparable, and reliable disclosure of material climate-related information, as contemplated by the Proposed Rule. As the quality, consistency, and availability of financially material climate-related information improves, Domini will have more reliable information to incorporate into our investment review, proxy voting, and engagement efforts. The rulemaking will help reduce costs and inefficiencies associated with our overall research process.

Feedback on Sections of the Proposed Rule Which Will Increase Efficiency, Comparability, and Effectiveness of Investor Evaluation of Climate-Related Risks

We offer specific feedback on the following elements of the Proposed Rule.

Support for the TCFD framework. (Questions 3, 40, 42, 46, 48). We appreciate the integration of nearly all of the elements of the TCFD disclosure framework, as it has become widely adopted among issuers and investors. Harmonization and close alignment with broadly accepted frameworks will enhance our ability to efficiently and consistently assess companies, especially noting our global coverage and our evaluation in the context of international markets. In addition, use of the TCFD framework may enhance alignment with European regulators, which will improve our ability to compare performance across our investment universe.

The TCFD framework covers many of the essential elements of climate-risk disclosure that we use, including in our evaluation of systemic risk related to climate change, physical risk, and how a company will contribute to the overall low-carbon transition. The information on governance and company strategy helps us to understand how a company is positioning itself within the collective global ambitions. It is also helpful to understand the role of the board and relevant committees in climate risk governance, as this is used in evaluating a company's long-term strategy, the "climate competence" of the board, and to inform our proxy voting decisions. *This will be useful as it relates to voting on board committee members and other items, in terms of board member actions to respond to and address climate related risks and opportunities; company responsiveness to shareholder support for proposals; whether appropriate committees have oversight of climate-related risks; and how incentives are aligned with climate-related objectives.*

Transition plans and transition risk. (Questions 9, 10, 11, 15, 43, 48). Transition plans and risk assessments are important components of a company's climate risk management. When they are disclosed, it enables Domini to assess how well the issuer is positioned to manage risks associated with the low-carbon transition. Through engagement and proxy voting, we also encourage companies to disclose their climate transition plans and associated targets, to understand the pathway to meet their climate targets, the alignment of capital expenditures with climate goals, company just transition strategy, research and development, physical risk assessment, and other associated components of the low-carbon transition. Scenario analysis helps us understand the company's ability to assess potential, significant, yet uncertain risks or opportunities related to climate change, for example as they relate to the impact on the business, supplier relationships, availability of key inputs, customer demand for products and services, impacts and dependencies on natural ecosystems, and physical risk. Scenario planning enables us to evaluate the extent to which a company understands these scenarios and how it is preparing to adjust accordingly to 'alternate' future scenarios. Our investment analysis considers both the alignment of company business models with the fundamental goals of universal human dignity and ecological sustainability and a company's relationships with stakeholders. Transition risk information will be useful for both dimensions of this analysis, including the business activities and evaluating how companies assess, manage, and mitigate adverse community impacts at the intersection of climate and community consequences. *Transition planning and risk disclosure sections could be strengthened by requiring standardized disclosure parameters, assumptions, and scenarios used in the analysis (i.e., to require a net zero scenario).*

This disclosure could also be strengthened by broadening the scope of relevant risks. There are several areas where the TCFD framework, as it relates to "transition risk" should be supplemented, including with respect to community impacts, just transition, and Indigenous Peoples. Even if a company is able to manage and mitigate its own business-related climate risks, it is important to see this information in the context of systemic and societal impacts, as it relates to communities, employees, and society. The TCFD framework does not mention Indigenous Peoples, unlike other industry standards including the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI), which contain language referring to the UN Declaration on the Rights of Indigenous Peoples (UNDRIP). *It would be beneficial to explicitly reference UNDRIP, respect for the right to self-determination of Indigenous Peoples, include reference to free, prior and informed consent (FPIC), and provide Indigenous rights risk reporting guidelines*.

Support for target-setting. (Questions 168, 169, 170). We encourage companies to adopt short-, medium-, and long-term emissions reduction targets to achieve their climate goals. We evaluate whether issuers have set a science-based target, and incorporate this into our investment analysis, engagement, proxy voting, and impact reporting. Increased oversight, consistency, and comparability of target-setting would enhance Domini's ability to evaluate targets and compare progress across similarly situated issuers, as well as to evaluate the credibility and level of ambition of issuer climate objectives.

Currently, we observe a variety of practices around goal setting and would welcome increased consistency and rigor to increase the comparability and reliability of goals. For example, companies may set targets beginning with different baseline years, may include only a portion of their business activities within scope for their target, or may not disclose their year over year progress toward meeting a target. Further, it is difficult to evaluate the targets in the context of various business decisions. For example, a company may pursue a merger or acquisition that impacts its ability to meet its emissions reduction target, but this may not be clearly explained, or a company may not disclose how it has analyzed the impact of the merger on the ability to meet a target, how this influences its business decisions, or the associated trade-offs.

Support for GHG Emissions Disclosure. (Questions 93, 98, 107, 108, 168). We support required disclosure of Scope 1, 2, and 3 emissions. This provides investors with quantifiable information to evaluate the actual activity and climate impact of a company. We have seen growing demand and response to requests to disclose this kind of information, demonstrated, for example by the fact that 13,000 companies disclose to CDP (formerly Carbon Disclosure Project).[3] From a systemic risk perspective, whether an emission is scope 1, 2, or 3, it has the same impact on the climate and must be mitigated. Having full accounting of emissions also helps investors to understand whether a company is meetings its stated objectives and making progress over time. GHG emissions data should be disclosed at the soonest available time and with assurance provided as soon as practical, and phased in over time, as needed.

In our research process, we generally find that GHG intensity information is most frequently reported. Scope 1 and 2 emissions are disclosed more frequently, while scope 3 emissions are less frequently reported across all industries. In particular with respect to indirect (scope 2 and 3) emissions, there are inconsistencies of disclosure practices across industries due to relevance of reporting and the methodology or challenges in securing accurate information among suppliers or business partners.

If emissions are reported, it is typically found in sustainability reports or detailed integrated reports, however, it is not *usually* reported in the financial reports or annual report. It is rarely audited or verified by a third-party. If we are seeking information which is not readily available, we often contact the company to request information which is relevant to our analysis. It may be difficult to reach companies, and they may or may not track or disclose GHG emissions.

This practical experience informs our conclusion that the Proposed Rule will enhance the quality and reliability of material climate-related information, and facilitate investor ability to accurately assess the full magnitude of climate-related risk posed by a company's GHG emissions and its plans for managing such risk. We appreciate the reference to reporting of emissions aligned with the GHG Protocol, which is already widely adopted. Mandatory disclosure will increase the quality, reliability, and availability of information, and will also likely lead to innovations, new technologies for measuring and monitoring emissions, or partnerships that will facilitate compliance.

Scope 3 emissions. *We support the mandatory disclosure of Scope 3 emissions for all registrants, due to the significance and relevance of this information for investors.* Scope 3 emissions information should be disaggregated by categories of emissions to enable investors to fully evaluate the information. Among many sectors, such as financed emissions in financial services or commodities inputs in agriculture, scope 3 emissions are typically the largest percentage of GHG emissions. In the absence of scope 3 emissions reporting, it is difficult to quantify the real climate impact of a company and climate targets may have very limited value.

While we do not support the use of a "materiality trigger" for scope 3 emissions, if the Commission determines this should be used, we encourage the Commission to provide specific guidance for issuers to determine if their scope 3 emissions are material and specific quantitative thresholds to provide consistency and comparability. It would be difficult, and of limited value, due to credibility concerns, for individual issuers to determine the materiality of its scope 3 emissions, if there is a lack of clear guidance from the SEC regarding the specific materiality test.

Location specific information for emissions. *If feasible, registrants should provide location data and zip codes for Scope 1, 2, and 3 emissions, and this may be limited by applying it to emissions over a certain*

[3] https://www.cdp.net/en/articles/media/More-than-680-financial-institutions-call-on-nearly-10400-companies-to-disclose-environmental-data-through-CDP

threshold (e.g., 25,000 metric tons CO2e annually). This will enable analysis of where emissions are the highest, fuel use and the energy mix, opportunities for reductions, understanding of potential impacts on community stakeholders or Indigenous Peoples, as well as environmental health related to air and water pollution, and environmental justice. We also evaluate issuers' biodiversity impacts and dependencies (e.g., related to water, wildlife, and natural ecosystems) and these are highly dependent on location. Therefore, location specific reporting is necessary to understand the biome and potential impacts of a company on that ecosystem. This information will likely be most useful if it is presented in a consistent, comparable, disaggregated manner, which also allows for overlaying it with different types of information, such as proximity to potentially vulnerable communities (e.g., environmental justice communities or communities that have faced disproportionate cumulative burdens of climate and environmental impacts) or sensitive locations (e.g., schools, hospitals, or sensitive ecosystems).

Offsets and Renewable Energy Credits (RECs). (Question 24). Domini supports the Commission's proposal to disaggregate GHG emissions calculations. *It is especially important to separate emissions information as it relates to the use of carbon offsets or renewable energy credits (RECs), and how these are related to a company's climate-related business strategy or to achieve a climate-related target. Information on offsets and RECs should not be counted toward achieving actual GHG emissions reductions. Issuers should also be encouraged to disclose assessment of the impacts of its offsets or RECs on Indigenous and local communities, which may be connected to land on which offsets are situated and disclose the consultation that has been undertaken to prevent or mitigate any negative impacts.* At this time, the frameworks for reporting and evaluating the quality, reliability, and community impacts of offsets and RECs are not adequately mature and lack oversight, so it is premature to rely upon this information for meeting climate targets and it should not be included within GHG emissions metrics. Definitions and clear guidance will be needed in order to evaluate, monitor, and calculate offsets and RECs in a manner that aligns with the latest reliable climate science.

Climate-related opportunities. (Question 18) Domini supports the disclosure of information on climate-related opportunities. We believe innovation and solutions are needed to address this meaningful societal challenge. *In addition to clear guidelines and definitions that will enable investors to fully understand the climate-benefit of these opportunities, we encourage the integration of considerations on access and affordability*. This will enable us to evaluate what opportunities a company provides, and how it is making these opportunities (e.g., low-carbon products and solutions, retrofitting, efficiency) accessible and affordable. This may help ensure their widespread adoption and will enhance our ability to evaluate if these efforts are equitable.

Forests and land use. (Questions 17, 104, 168). Domini has spent the last several years working deeply on the intersection of deforestation and systemic risk. Through the project we have identified companies that both impact forests while depending on forests for key services or inputs. Companies that drive deforestation while relying on forests are inherently unsustainable and also contribute to significant systemic risks for our portfolios. Nature loss is also deeply intertwined with climate change – the continued loss of forests and the disruption of ocean ecosystems will affect nature's ability to store carbon and therefore impact our pathway to a 1.5-degree scenario.

Land use change and degradation of wild land or forested lands is one of the greatest contributors to GHG emissions, and is particularly relevant for agricultural companies and consumer goods companies, whose business practices lead to conversion of land. Over 650 companies already report forest-related information to the CDP Forests Program.[4] We evaluate land use change, use of sustainable or regenerative agriculture practices, and certifications in our investment process and often conduct engagement to encourage increased disclosure or target setting to reduce land use change and deforestation. *The definition of "value chain" in the Proposed Rule could be strengthened by including land use. In particular, an issuer should be encouraged to disclose: whether it may be contributing to deforestation of high-carbon stock forests, if it has a commitment to no deforestation, and if it does have a commitment, its methods for monitoring scope 3 emissions associated with land use change and deforestation, and how it measures progress toward meeting its commitments.*

Definition of Climate-Related Risks. (Questions 9, 13, 14). Physical risk and water risk evaluation is also beneficial to inform our analysis, including related to the location of assets in flood hazard areas or areas of high or extremely high water stress. *This disclosure may be strengthened by including information on the location of high-carbon stock forests or inputs that may be impacted by climate change. It may also be strengthened by incorporating community impacts, noting that physical risks may be more severe for historically underserved communities. Strategy, Business Model, and Outlook disclosures could be enhanced by requiring water quality disclosure, including water quality risks across operations and supply chain.*

Opportunities to Strengthen Consideration of Stakeholder Impacts

Relevant to our investment process is the evaluation financially material information about the impacts of company business activities on communities and local stakeholders, where human rights may be impacted.

Community Impacts. As noted above, we encourage companies to disclose information about their evaluation of location specific climate related data for scope 1, 2, and 3 emissions, as well as their strategy to address potential negative impacts. *Information on community impacts may be included in evaluation of physical risk and transition risk, and may also be incorporated into the definition of "chronic risks".* For example, this may include information related to air pollution from GHG emissions, water pollution associated with fossil fuels or infrastructure, physical climate impacts, exposure to hazardous waste, chemicals, or toxins from manufacturing or disposal, changes to agricultural patterns due to climate change or other relevant impacts on community resilience, or community support or opposition to projects, which may impact a company's "social license to operate". *In line with the expectations of the UN Guiding Principles on Business and Human Rights, human rights due diligence processes would be beneficial to understanding a company's approach to the human rights related dimensions of climate change.* This might include company consultation with fenceline communities that live in close proximity to corporate operations, evaluation of potential impacts, development of strategies to prevent or mitigate harm, and provide remedy where necessary.

The impacts of climate change will not be equally borne. Climate change may exacerbate existing racial and economic inequities, including those that have been heightened by discriminatory laws and policies (e.g., housing). Communities of color have historically faced an increased burden of the legacy of pollution, industrial manufacturing, and may face higher levels of toxic pollution. In addition to

[4] CDP, *Global Forests Report 2020*, March 2021, p. 4.

environmental health impacts, communities of color are also more likely to be impacted by climate related heat stress.[5]

The Proposed Rule could be strengthened by broadening the definition of "transition risk" to incorporate social impacts, including those related to environmental justice, Indigenous Peoples, protections of ecosystems, health, and safety. It should also consider cumulative impacts, life cycle project management connected with business model transitions, management of hazards and stewardship of legacy pollution, and remediation, as necessary.

Indigenous Peoples. The rights of Indigenous Peoples may be impacted by company activities in ways that are relevant to the Proposed Rule. *In light of the Commission's interest in the equitable and just treatment for investors, issuers, and all market participants, it is important to specifically identify the unique impacts, rights, and role of Indigenous Peoples.* For example, a company may have operations on Indigenous land or a company's activities may impact the right to self-determination, cultural practices, health, and well-being of Indigenous Peoples.

The low-carbon transition may increase demand for some transition minerals such as lithium. These minerals may be located in land that may also overlap with Indigenous lands and territories. Failure to evaluate the presence of Indigenous Peoples or the impacts of business on communities may result in financially material conflicts, land grabs, project delays, increase in project costs, or loss of the social license to operate.

The Proposed Rule could be strengthened by incorporating consideration of emissions impacts on Indigenous Peoples within Scope 1, 2, and 3 emissions disclosures. Explicit reference to evaluation and alignment with the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) would enhance clarity of expectations and consistency. In addition, climate transition plans should be broadened in scope to include information such as: the names of any Indigenous communities that would be impacted by corporate activities; a description of any process in which a company is seeking to consult with or obtain consent of Indigenous Peoples or tribal entities (e.g., FPIC) and the outcomes of that process; and a list of any projects that require the relocation of Indigenous or local communities.

Just transition. The climate transition will have significant impacts on communities, workers, and local economies, as businesses shift their operations, locations, and business needs, which in turn may have financially material impacts on issuers. We evaluate whether companies in high-risk sectors have a just transition strategy and how they engage with stakeholders (e.g., workers, communities) who may be impacted by the transition. This will have broader societal implications including on human capital management and the well-being of the workforce, as well as communities. *The Proposed Rule could be strengthened by including disclosures on just transition strategies, goals, and methods of consultation in transition risk and business models.*

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[5] Nature, *Racism is magnifying the deadly impact of rising city heat,* (July 14, 2021), available at: https://www.nature.com/articles/d41586-021-01881-4

We thank you for the opportunity to comment and for your attention to his important matter.

Sincerely,

Carole Laible
Chief Executive Officer
Domini Impact Investments LLC

Appendix: Domini 2021 Comment in response to the SEC Request for Information on Climate Change

June 14, 2021

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

Via email to rule-comments@sec.gov

Re: Comment in Response to RFI on Climate-Related and other ESG Disclosures

Dear Ms. Countryman,

I am writing on behalf of Domini Impact Investments LLC ("Domini"), an investment adviser and sponsor of a proprietary family of mutual funds, to offer our perspective on critical climate related and other environmental, social and governance ("ESG") corporate disclosures in response to Commissioner Lee's request for information.

Materiality

The financial risks faced by reasonable investors are not limited to company specific risks but rather include systemic risks. Systemic risks, or non-diversifiable risks, like climate change, biodiversity loss, and inequality are largely overlooked by Modern Portfolio Theory ("MPT"). MPT, which is the basis of much contemporary investing, focuses instead on reducing risk through diversification. Yet more recent research demonstrates that these systemic issues are both highly financially material[6] and can be affected by investor action.[7]

[6] See, for example: Dasgupta, Partha, *The Economics of Biodiversity: The Dasgupta Review*, HM Treasury (February 21), available at: https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review and Lydenberg, Musuraca, Burkart and Clark, *Why and How Investors Can Respond to Income Inequality*, UNPRI (2018), available at: https://www.unpri.org/download?ac=5599.

[7] See, for example: Lukomnik and Hawley, *Moving Beyond Modern Portfolio Theory: 1st Edition,* Routledge (April 2021), and Burkart and Lydenberg, *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change,* Berrett-Koehler Publishers (April 2021).

The practice of ESG investing has begun to address these risks and opportunities but has been hindered by a lack of robust, consistent, and comparable data. Disclosure requirements should capture corporate policies, practice and performance related to these systemic risks in addition to company specific ESG risks and opportunities. Doing so is vital to support the Securities and Exchange Commission's ("SEC" or "Commission") mission to protect investors, and support capital formation and fair and efficient markets.

Where and How [Questions #10, 11, 12]

Eventually, much ESG data should be audited and filed with certification by senior management. Yet because disclosure ESG data has not previously been required of corporate issuers, there are not presently universally accepted standards and methodologies for reporting ESG data. At the same time, the significant systemic risks facing our markets – and climate change in particular – demand that the Commission require disclosure before such standards and methodologies can be fully developed.

Delaying meaningful corporate disclosure on climate and biodiversity risks will also delay investors' ability to address those risks and will likely greatly increase the cost of addressing those risks. Strong action on climate risk 30 years ago could have made our "net zero" ambitions far less costly to attain and avoided or reduced the expenses already incurred due to the physical risks of climate change.[8]

For these reasons we support a phased approach that provides industries on ramps and trial periods to disclose information that rachets up in accountability and specificity over the next several years.

Metrics [#2]

Domini has previously commented on and supported comments and petitions regarding ESG disclosures, including the 2017 Petition for Rulemaking on Human Capital Management Disclosure[9], 2018 Petition for Rulemaking on ESG Disclosure[10], our 2019 Comment on the Modernization of S-K[11]**,** among others. In addition to the issues identified in those comments, we would like to highlight some key ESG metrics here.

<u>Carbon and Greenhouse Gas ("GHG") Accounting</u>

Mandatory corporate disclosure of Scope 1, 2 and 3 emissions as defined by the GHG Corporate Reporting Protocol is essential for investors seeking to understand and address climate risk, and is especially critical for any investors committed to GHG emissions goals (e.g. net zero by 2050 or sooner). These disclosures should include an inventory of direct and indirect emissions as well as time bound targets for emissions reductions and progress towards those targets. While offsets will play a role in net emissions, it is critical that disclosures show positive and negative emissions separately to understand shifting practices within the reporting company. Additionally, emissions data should be disaggregated to

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[8] Sanderson, B.M., O'Neill, B.C. Assessing the costs of historical inaction on climate change. *Sci Rep* **10,** 9173 (2020). https://doi.org/10.1038/s41598-020-66275-4

[9] "Petition for Rulemaking on Human Capital Management Disclosure" (2017). Available at: https://www.sec.gov/rules/petitions/2017/petn4-711.pdf

[10] "Petition for Rulemaking on ESG Disclosure" (2018). Available at: https://www.sec.gov/rules/petitions/2018/petn4-730.pdf

[11] "Domini Comment on the Modernization of S-K" (2019). Available at: https://www.sec.gov/comments/s7-11-19/s71119-6322234-194449.pdf

the zip code level both for the purposes of future auditing and to understand community, racial and climate justice impacts.

Nature Risk

While the accounting of nature related risks is less developed, the systemic risks related to nature loss are arguably far greater than those posed by climate change alone. The stability of the global food system and risks related to infectious disease are just two examples of major systemic risks related to nature loss. Nature loss is also deeply intertwined with climate change – the continued loss of forests and the disruption of ocean ecosystems will affect nature's ability to store carbon and therefore our pathway to a 1.5 degree or 2 degree scenario.

The CDP (formerly the Carbon Disclosure Project) has collected survey data from companies on forest and water risks and impacts, which offer a sound starting point for corporate disclosures on nature risks. For example, forest risk commodities – soft commodities that are responsible for large percentage of industry-driven deforestation – generally include cattle, palm oil, and soy. Issuers should disclose the total volume of forest risk commodities sourced and trace that sourcing back to the farm level. Point of origin data is essential for assessing an issuer's exposure to and contribution to biodiversity risks.

We note also the emergent work on biodiversity and nature disclosures by the Partnership for Biodiversity Accounting Financials, the Task Force on Nature Related Disclosures ("TNFD"), the Natural Capital Finance Alliance, the World Benchmarking Alliance and others. These efforts will support rapidly growing investor concern on biodiversity and nature loss as well as corporate disclosures in this area.

Taskforce on Climate Related Financial Disclosures ("TCFD") [#13]

The information generated by a TCFD report provides valuable insight into how an issuer understands climate risks to their ongoing business. TCFD reports should be mandated in such a way that includes nature related risks, in anticipation of global goals set at the 2021 Convention on Biological Diversity and the expectations set by the forthcoming TNFD. These disclosures requirements should include the underlying assumptions used in the scenario analysis and should discourage boilerplate language.

Nature Positive

Domini has spent the last several years working deeply on the intersection of deforestation and systemic risk. Through the project we have identified companies that both impact forests while depending on forests for key services or inputs. Companies that drive deforestation while relying on forests are inherently unsustainable and also contribute to significant systemic risks for our portfolios. This problem holds true for other natural capital assets as well.

One key takeaway from this work has been that companies, particularly those that depend on natural capital assets, should contribute positively to the health and restoration of those assets. Accordingly, it would be beneficial to require narrative disclosure on how issuers, particularly those that depend on natural capital assets, support the systems on which they rely. More generally, as investors we need insight into how a company's business model is adapting to align with a sustainable future or alternatively, how it is failing to adapt.

Other ESG Disclosures

As mentioned above, Domini has supported many other forms of ESG disclosure over the years. Specifically, we believe that the Commission should at this time mandate disclosure of:

- Line-item human capital metrics including workforce composition (e.g. fulltime, part time, contractor, seasonal, etc.), workforce cost, and workforce turnover rates, all disaggregated by workforce demographics;
- Principles-based human capital disclosures including workforce health and safety, workforce skills and capabilities, workforce culture, engagement and empowerment, human and labor rights, and workforce pay and incentives;
- Country-by-country tax reporting;
- Political spending; and
- Human rights due diligence, including racial justice audits and policies and practices surrounding digital rights.

Existing Frameworks [#5]

The Commission should draw on the considerable investment by issuers, investors and civil society in voluntary reporting frameworks. These frameworks include, but are not limited to the Sustainability Accounting Standards Board, the TCFD, the Carbon Disclosure Standards Board, the Principles on Carbon Accounting Financials, the Global Reporting Initiative, the CDP, the Workforce Disclosure Initiative, and the Accountability Framework Initiative as well as the emerging TNFD and Principles for Biodiversity Accounting Financials. While no framework is complete in itself, there is much to be gleaned from each of them.

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We thank you for the opportunity to comment and for your attention to his important matter.

Sincerely,

Carole Laible
Chief Executive Officer
Domini Impact Investments LLC