

June 17, 2022

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

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

Dear Ms. Countryman,

Breckinridge Capital Advisors writes in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors.

Breckinridge is a Boston-based, independently owned asset manager specializing in investment grade fixed income portfolio management. Working through a network of investment consultants and advisors, we serve a wide variety of clients ranging from high-net-worth individuals to large institutions.

At Breckinridge, we integrate analysis of material Environmental, Social and Governance (ESG) data as a means of discerning long-term value. While our analysis of an issuer's creditworthiness begins with fundamental bottom-up research, we also evaluate material ESG information and trends to garner a broader, more comprehensive investment mosaic of each corporate bond issuer. We believe that thoughtful and forward-looking risk assessments are incomplete absent consideration of material ESG factors.

Breckinridge is a strong proponent of standardized ESG reporting from bond issuers. We are a signatory to the Task Force on Climate Related Financial Disclosure (TCFD), CDP, and the Principles for Responsible Investment (PRI). We are a longtime supporter of the Value Reporting Foundation (formerly SASB), having joined its Investor Advisory Group (IAG) as a founding member. Breckinridge also supports the Municipal Securities Rule Making Board's (MSRB's) recent efforts to explore the feasibility of standardized ESG disclosure in the municipal bond market (see Breckinridge's response to MSRB Notice 2021-17).

Additionally, Breckinridge applies an ESG risk assessment on itself, just as our analysts do when evaluating investments. We publish an annual sustainability report that includes TCFD, SASB, and Global Reporting Initiative metrics and risk-based narratives. The latest is available [here](#).

Breckinridge's Approach to ESG Integration

The practice of ESG analysis across the investment industry has evolved tremendously since we first began systematically considering ESG issues in our investment research over eleven years ago. Our own approach has also matured with time. A fundamental change has been an increased emphasis on the material drivers of credit risk and/or enterprise value, including climate-related metrics.

Our ESG assessments can influence our independent credit opinions. However, weak ESG disclosure practices inhibit our, and other investors', ability to assess companies' risk exposures. By contrast, we find that companies with a strong commitment to ESG disclosure tend to provide investors with better information. Often, these companies' disclosure practices adhere to SASB and/or TCFD standards. When a company's peers also publish the same types of ESG information, investors' ability to discern material risk from ESG information improves even more. We believe that consistent, comparable, reliable disclosure of material

sustainability information is an important element in a rigorous and thoughtful assessment of a company's exposure to ESG risks and its ability to manage those risks.

Corporate borrowers seem able to manage the burden of ESG disclosures. The number of companies using the SASB framework has soared from 39 in 2017 to 1,858 in 2022.ⁱ Roughly 92% of the companies in the S&P 500 published a sustainability report in 2020, up from 20% in 2012.ⁱⁱ We commend corporate management teams for their efforts to develop and explain their sustainability strategies. We think these efforts communicate important information to investors.

Despite the dramatic growth in ESG disclosure, significant challenges remain. Company reporting of ESG information and metrics remains inconsistent and may lack comparability. In addition, at times the reliability of the data can be called into question. Most sustainability disclosure is not audited or attested by an outside party. The data quality and availability problems notably present themselves in climate change related disclosure. Consistent, comparable, and reliable climate data is lacking. This inhibits investors' ability to develop high-precision assessments of companies' climate risk exposures.

Climate Risks are Intensifying

In the meantime, climate risks are intensifying due to the persistent rise in temperatures driven by greenhouse gas (GHG) emissions caused by human activity.ⁱⁱⁱ Climate change and its consequences — extreme weather including hurricanes, typhoons, cyclones, and tornadoes; rising seas; melting ice caps; wildfires; deadly urban heat; coastal flooding; persistent droughts — are constant threats to commerce and activities of daily living. The more than 200 scientists convened by the UN to develop the IPCC report concluded that nations can no longer stop global warming from intensifying over the next 30 years.

As a result, we view climate change as a material risk that is already impacting financial markets today and could become more systemic across asset classes as these risks are likely to accelerate and scale over time.

In turn, regulatory responses to climate risk are also material for investors. We anticipate governments will act as the risks accelerate. SASB estimates that 89% of the market capitalization of the S&P 1200 is exposed to climate risks.^{iv} The carbon transition poses risks to carbon-producing assets and creates opportunities in cleaner technologies. The physical risks associated with climate change presents challenges to municipal and corporate infrastructure asset-owners. Lack of attention or poor management of these risks could create challenges for investors. Moody's Investor Service concluded that if private and public sector action on carbon emissions is delayed until the 2030s, corporate default rates could rise by as much as 10%, across sectors, by the 2050s.^v

Support for SEC's Proposal Rule for Climate Risk Disclosure

Given our views that climate change is a systemic market hazard and the current state of corporate climate disclosure is inadequate, Breckinridge strongly endorses the SEC's proposal. The proposed reporting guidelines would promulgate decision-useful, comparable climate information that is vastly improved compared to the disclosures that are currently available. The new information would greatly enhance our ability to assess a material and pervasive credit risk.

In particular, we endorse four key sections that, in our opinion, must be included in the final directive:

- 1) TCFD alignment,
- 2) reporting of Scopes 1, 2 and 3 emissions in line with the GHG Protocol,
- 3) the requirement that the disclosures be included in financial filings, and

4) alignment with International Sustainability Standards Board (ISSB) climate risk disclosure standards (currently in development).

Breckinridge endorses the SEC's decision to model the proposed rule to the TCFD framework. TCFD has enjoyed broad based support among companies, investors, and securities regulators worldwide since it was originally published in 2017. As of October 2021, over 2,600 entities have publicly endorsed the TCFD and it is included in official reporting requirements for eight countries including the Brazil and the United Kingdom.^{vi}

When available and material to a sector, at times we may incorporate TCFD reporting in our issuer assessments. However, if the proposed rule moved forward, our analysts would utilize the broader disclosure for thoughtful climate risk comparisons, especially among industry peers. We would find great value in TCFD-aligned reporting in areas such as governance including the degree to which the board is overseeing climate risks, transition planning, and the greater clarity recommended for GHG reduction goals and targets.

Second, Breckinridge favors the SEC's recommendation to include a GHG emissions reporting requirement in its proposed rule. We also believe the reporting alignment with the GHG Protocol is as an important stipulation. This information is critical to our understanding of a company's earnings in the face of a changing climate and the looming energy transition. A company's GHG emissions also represents a starting point for transition risk analysis because it is quantifiable and easily comparable across companies and industries. GHG emission analysis, including the projected and required transition pathway for each company in a portfolio, is foundational to assessing the veracity of the public net zero GHG emission commitments made by many companies. The highly nuanced way in which many corporate Net Zero commitments were made and the current state of unaudited GHG emissions reporting may leave investors ill prepared to assess how the looming energy transition will affect the value of their investments.

Third, we agree with the SEC's proposal to require the disclosure of climate-related information in a separate section within the annual report. Inclusion in financial reporting enhances the credibility of what is being disclosed as it becomes part of the auditing process and involves certification by the CEO and CFO. Further, we agree that certain filers should be held to the standard of having Scope 1 and Scope 2 emissions attested by a third-party.

Finally, as a supporter of the Value Reporting Foundation and its merger with the ISSB, we appreciate that the SEC proposed climate rule is well aligned with ISSB's draft climate disclosure standard. Coordination of global standards is necessary to reduce disclosure complexity and confusion. It should also lead to a greater level of clarity about corporate climate preparedness across countries and regions.

Mutual Benefits of Climate Disclosure

The proposed SEC disclosure rule would provide important informational benefits to investors and other stakeholders. If enacted, it will contribute to the disclosure of consistent, comparable, and reliable climate data and related information which Breckinridge will directly incorporate into our investment decisions.

We understand that representatives of certain companies have voiced their opposition to the proposed rule characterizing it as a burdensome mandate. We spoke directly with a Fortune 500 company CFO who noted that it will be a costly exercise, requiring new employees who are versed in carbon accounting. Although we are sensitive to these objections, Breckinridge encourages companies to view the proposed rule as an opportunity. Customers, employees, and other stakeholders are urging companies to act on climate change. Either through their own ambitions or in response to outside pressure, companies have reduced their emissions or established net zero emission goals. However, a credible climate reporting construct will enable companies to

clearly show their intentions and progress to investors. Finally, in alignment with the mission of the SEC, we believe this will serve to protect investors by providing them with the tools to quantify more accurately the impact climate risk and the energy transition may have on their investments.

Sincerely,



Peter B. Coffin
President, Breckinridge Capital Advisors

ⁱ Companies Reporting with SASB Standards, Value Reporting Initiative

ⁱⁱ 2021 Sustainability Reporting in Focus, Governance & Accountability Institute

ⁱⁱⁱ IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [MassonDelmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 3–32, doi:10.1017/9781009157896.001.

^{iv} Climate Risk – Technical Bulletin, SASB Standards, April 12, 2021

^v Ready or Not? Sector Performance in a Zero-Carbon World, Moody's Investor Service

^{vi} Task Force on Climate-related Financial Disclosures, 2021 Status Report