



**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

*2100 Evergreen Park Dr SW - P.O. Box 40916 - Olympia, Washington 98504-0916
(360) 956-4600 - FAX (360) 956-4785*

June 16, 2022

Ms. Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosure for Investors

Dear Ms. Countryman,

The Washington State Investment Board (WSIB), representing \$192.3 billion in invested assets on behalf of more than 552,000 retirement plan beneficiaries and many other public trust stakeholders, welcomes the opportunity to respond to the Securities and Exchange Commission's (SEC's) request for public comment amendments to its rules under the Securities Act of 1933 ("Securities Act") and Securities Exchange Act of 1934 ("Exchange Act") that would require registrants to provide certain climate-related information in their registration statements and annual reports.

In our letter dated June 2, 2021, in response to then Acting Chair Allison Herren Lee's request for input on climate-related financial disclosures (see appendix), we emphasized that, based on the SEC's authority to provide investor protection, maintain fair and orderly markets, and facilitate capital formation, the SEC is the appropriate authority to regulate financially material climate-related disclosures. We emphasized that the SEC should rely on existing sustainability standards and frameworks, focus on climate, and mandate greenhouse gas reporting. We believe the currently proposed rule largely aligns with these key features.

The WSIB supports the SEC's proposal because it would result in relevant, comparable climate risk information that is vastly improved compared to disclosures that are currently available. We appreciate the SEC's integration of nearly all the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into its proposal, because the TCFD recommendations cover many of the essential elements of climate risk disclosure that we use for our decision making. The TCFD recommendations are also broadly supported and used by companies, investors, and securities regulators worldwide.

Secretary Countryman

June 16, 2022

Page 2

We also support the SEC's inclusion of a greenhouse gas (GHG) emissions reporting requirement in line with the Greenhouse Gas Protocol because this information is critical to our understanding of the quality of a company's earnings in the face of climate change and the energy transition.

Benefits to the WSIB

In the face of systemic climate issues, the WSIB is developing a roadmap to effectively address climate-related risks and opportunities in line with its fiduciary duty and Board-approved Investment Beliefs. It will prioritize alignment of agency climate goals, investment portfolio activities, and industry participation. Many elements of the SEC's proposed climate disclosures could assist the WSIB in obtaining relevant financially material information that will assist with this key strategic initiative, which we will describe in further detail below.

Greenhouse Gas Emissions

A key element of our work on climate will include measuring the WSIB's total portfolio GHG emissions. We believe that GHG emissions - admittedly not a perfect metric - are a better indicator of our climate-related risks and opportunities than, for instance, our exposure to specific industries, which have historically been the focus of climate activists. This focus on specific industries rather than the entire ecosystem may lead to investors to overlook key climate-related risks while also missing out on potentially valuable investment opportunities involving solutions that may have positive financial and environmental outcomes over the long term.

The commonly accepted formulas for calculating portfolio carbon emissions and emissions intensity require scope 1 and scope 2 emissions data from the underlying securities. To date, the WSIB has not calculated its portfolio carbon footprint, primarily due to the lack of emissions data available for its private assets, which represent more than 50% of its \$156.6 billion commingled retirement funds portfolio as of March 31, 2022. However, the WSIB does use an external data provider to calculate the estimated emissions of the public equity component of these assets. As of April 30, 2022, the provider reported that it was using either full or partial reported GHG emissions data for 42% of the companies in the MSCI ACWI IMI, with the remaining 58% being modeled using estimated data. The provider noted that it sometimes uses estimated data even when a company discloses its emissions if it finds that the data does not cover a company's entire global operations or if it is normalized and no aggregating factor is available, and that carbon emissions disclosures vary by industry and region. As a result of these estimations, our public equity investment team has expressed hesitancy over formally incorporating this data into the investment decision-making process, and instead uses the information to identify high-level trends and exposures. The SEC's proposal to require public company disclosure of scope 1 and scope 2 emissions data would improve the WSIB's confidence in the public company emissions data supplied by external data providers, because it would lead to an increase in actual versus estimated data.

The WSIB also believes that the proposed rule would have an add-on effect of encouraging private companies to begin to calculate their own carbon emissions, because many private companies would be included in public company scope 3 requirements. In speaking with our private equity general partners (GPs), we already are seeing some evidence that private companies are increasingly disclosing their scope 1 and scope 2 emissions to their investors. Furthering this

Secretary Countryman

June 16, 2022

Page 3

effort, leading limited partners (LPs) and GPs worked together during 2021 to launch the ESG Data Convergence Project (https://ilpa.org/ilpa_esg_roadmap/esg_data_convergence_project/) in an attempt to align on a global standardized set of ESG metrics and mechanism for comparative reporting. The Project's objective is to streamline the private investment industry's historically fragmented approach to collecting and reporting ESG data in order to create a critical mass of meaningful, performance-based, comparable ESG data from private companies. To create this convergence, the project's participating firms have agreed to report on a core set of ESG metrics across six categories and drawn from existing frameworks. Scope 1 and scope 2 emissions are key metrics included in this project, and scope 3 emissions reporting is optional. As of May 5, 2022, the ESG Data Convergence Project comprised of 59 LPs and 121 GPs and support for the project continues to grow. We believe this project will further strengthen the demand for reported scope 1 and scope 2 emissions data by private companies.

Proxy Voting and Engagement

Additionally, as part of its strategic climate initiatives, the WSIB is undertaking a review of its proxy voting and engagement activities related to public company actions on climate. Proxy voting and engagement activities are critical components of asset stewardship and our core fiduciary duty to our beneficiaries. The WSIB is responsible for voting its proxies in its U.S. public equity funds and delegates to its subadvisors the proxy voting of its global public equity funds in accordance with WSIB-approved voting policies. Details of our proxy voting activity is reported [here on our website](#).

We believe that our voice and influence as long-term, responsible owners benefits from our collective engagement with like-minded owners, and therefore we rely heavily on partnerships with organizations like the Climate Action 100+ and CDP (formally Carbon Disclosure Project). These collaborative engagements increasingly call for enhanced governance on climate matters, analysis and disclosure of climate-related risks and climate-related lobbying activities, and disclosure of emissions (including scope 3 where currently possible and financially material).

Disclosure of these activities as outlined in the proposed SEC regulation would greatly assist the WSIB's proxy voting and engagement decision making and analysis. We also support the proposed approach to data tagging in proxies – an issue the SEC has considered perennially for various investor-useful matters – and view it as additive to the proposed data disclosures. Consistent, ingestible access to data will allow the WSIB to enhance our rules-based initial assessment of climate-related shareholder proposals, as well as director-level accountability on those issues, as relevant, during the busy proxy season. Our approach will continue to include a qualitative assessment of these matters, but consistent data provides enhanced flagging and monitoring of issues. Consistent climate-related data will also facilitate tracking progress on engagements, such as those we co-lead within the Climate Action 100+.

Alignment with the IFRS Foundation's International Sustainability Standards Board (ISSB)

As we indicated in our June 2, 2021 letter, the WSIB is supportive of the SEC's alignment with existing sustainability standards. In particular, we believe that the SEC's proposal and the IFRS Foundation's International Sustainability Standards Board (ISSB) Climate Disclosure Draft

Secretary Countryman


June 16, 2022

Page 4

Standard are well aligned. In both, investors are the primary users, TCFD recommendations are largely integrated, emissions disclosure requirements are based on the GHG Protocol, and they emphasize the importance of consistency between climate reporting and financial statements. The WSIB supports the SEC's efforts to align its proposal with the ISSB's draft standard because of the importance to issuers and investors of aligned global disclosure expectations and the strength of the ISSB's draft and their standards creation process. The WSIB also supports allowing the use of ISSB climate disclosure standards as an alternative reporting provision if it is substantially equivalent to the SEC's rule, and its use is limited to foreign private issuers. The WSIB is a global investor and is therefore impacted by the 144 jurisdictions that require the use of IFRS' accounting standards, which are now positioned to adopt the ISSB's standards.

Thank you for this opportunity to provide our views on this important topic. While we are strongly supportive of the elements of the proposal as described above, we acknowledge that some elements of the rule may pose significant costs to companies, particularly smaller listed entities, and may be of limited use to investors who are focused primarily on risk and return. While we have opted not to list those concerns in detail in this letter, we ultimately hope that the SEC achieves a regulatory balance of suitable disclosures and pragmatic rulemaking with full consideration of the companies and investors who will be most impacted.

Sincerely,

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Tucker

Chief Executive Officer

cc: WSIB Board

Appendix: Public input on climate-related financial disclosures issued by then Acting Chair Allison Herren Lee on March 15, 2021.



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2100 Evergreen Park Dr SW - P.O. Box 40916 - Olympia, Washington 98504-0916
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June 2, 2021

Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Submitted via <https://www.sec.gov/cgi-bin/ruling-comments>

Dear Chair Gensler,

The Washington State Investment Board (WSIB), representing \$170 billion in invested assets on behalf of more than 538,000 retirement plan beneficiaries and other public trust stakeholders, welcomes the opportunity to respond to the Securities and Exchange Commission's (SEC's) request for public input on climate-related financial disclosures issued by then Acting Chair Allison Herren Lee on March 15, 2021.

For the WSIB and other large institutional investors with long time horizons, climate change is a systemic risk that cannot be fully addressed through diversification. Therefore, we must work to measure and manage the climate-related risks and opportunities of our investments as part of the effort of maximizing return at a prudent level of risk for our beneficiaries. To do so effectively, we must have comparable, consistent, and decision-useful climate-related information relevant to our investments. The SEC's involvement in the regulation of climate-related financial disclosures would be an important step toward improving investor access to this type of information.

The SEC's authority to provide investor protection, maintain fair and orderly markets, and facilitate capital formation makes it the ideal body to regulate climate-related financial disclosures. If properly implemented, the SEC's leadership in this effort could reduce the voluntary reporting burden of companies, large and small, public and private, on environmental, social, and governance (ESG) issues.

While this letter will not answer all 15 of the questions posed in your initial request for comment, we will touch on key considerations that are critical to fair and well-functioning markets as the world transitions to a lower carbon economy.

Use of existing sustainability standards and frameworks

The proliferation of various sustainability frameworks and standards that exist today confuses investors and creates an undue reporting burden on companies. Fortunately, these reporting organizations have recognized this impediment and are working together to consolidate their approaches and better explain the roles of the various organizations where differences remain. This is evidenced by the September 2020

Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, a summary of alignment discussions among leading sustainability reporting organizations that included CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), and International Integrated Reporting Council (IIRC). That statement was closely followed by an announcement of the Value Reporting Foundation, a pending merger between SASB and IIRC. While we welcome these developments, we believe that further consolidation is necessary.

Rather than increase the existing sustainability reporting burden on companies, the SEC should support disclosures that are consistent with existing voluntary frameworks and standards, such as TCFD and SASB. We highlight these organizations due to TCFD's framework that focuses on financially material climate-related risks, and SASB's focus on financially material, industry specific sustainability reporting standards. These groups represent orderly, best-of-breed approaches to the issue of evaluating ESG factors in an investment context.

Focus on climate

At the WSIB, we believe climate change is a critical systemic risk that long-term institutional investors must address as part of their fiduciary duty. Likewise, governments must face up to a similar responsibility in their policymaking duties. Therefore, we applaud the SEC's focus on climate-related disclosures as an initial focal point and encourage close collaboration with TCFD as the SEC determines what should be reported on. In addition, we would encourage the SEC to consider the current rulemaking process in the context of how it might impact an array of other financially material ESG issues in the future.

Mandatory greenhouse gas emissions reporting

Across the globe, an exponentially increasing number of governments, asset owners, investment managers, and companies are making fresh commitments to net zero greenhouse gas emissions. As a result, greenhouse gas emissions are more likely to impact company profitability and stock prices going forward.

While greenhouse gas emissions may not be directly or dramatically material to the financial health of every public company, this issue has become critical for investors who are serious about assessing the climate-related risks and opportunities across their portfolios. Reliable data on emissions should be a required part of the disclosures provided in regulated financial statements. A good starting point would be the reporting of greenhouse gas emissions in line with the TCFD, which requires disclosure of scope 1, 2, and (if appropriate) scope 3 greenhouse gas emissions.

Chair Gensler

June 2, 2021

Page 3

The SEC should consider using an existing measurement protocol in its disclosure guidance, since these are already well established and utilized by many companies globally.

With nearly half of our pension assets invested in private markets, the WSIB is aware of the burden that increased required reporting can have on smaller companies, both public and private, and we urge the SEC to consider this into its decision making and analysis. We are encouraged that some of our general partners are starting to ask their private companies to report scope 1 and 2 emissions; it is becoming more accepted as standard business practice and therefore is likely less of a burden than critics suggest. Standardized disclosure has the potential to reduce the voluntary reporting burden on private companies. Limited partners who seek emissions data from general partners would be able to point to the SEC disclosure rules as a standard for what they request.

Concluding remarks

In conclusion, the WSIB believes that the SEC has a critical role to play in evolving the state of sustainability disclosure. If executed properly, a clear set of mandated climate-related disclosures would increase investor access to financially material, comparable climate-related information that would aid in investment decision making. The initial climate-related disclosure requirements could be the foundation for financially material ESG considerations more broadly in the future. This also will help expedite the needed consolidation of various existing sustainability reporting standards and frameworks, as they would almost certainly coalesce around the SEC's guidance.

Thank you for this opportunity to provide our views on this important topic. I hope this is helpful.

Sincerely,

A handwritten signature in blue ink, appearing to read 'T. Whitmarsh', with a long horizontal flourish extending to the right.

Theresa Whitmarsh
Executive Director

cc: WSIB Board