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Friday, June 17, 2022

Ms. Vanessa Countryman
Secretary
United States Securities and Exchange Commission
100 F St. NE
Washington, DC 20549

Subject: File Number S7-10-22 – The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Secretary Countryman:

On behalf of Fiduciary Trust International ("Fiduciary Trust"), I am writing to express my support for Proposed Rule S7-10-22 on the Enhancement and Standardization of Climate-Related Disclosures for Investors.

Fiduciary Trust is an investment and wealth management firm with more than $95 billion of assets under advisement.[1] Founded 91 years ago, our firm became a wholly owned subsidiary of Franklin Templeton in 2001. We have the privilege of serving a wide range of individual and institutional clients each of whom trusts us to manage their assets with prudence and care. As a fiduciary, we have no greater responsibility than to act in the best interest of our clients.

It was with that duty in mind that, in 2021, Fiduciary Trust joined with Franklin Templeton in committing to the Net Zero Asset Managers Initiative. As both a threat to the long-term stability of financial markets and a source of investment opportunity, we believe climate change is unprecedented in its scope and scale.

Though the most catastrophic effects of climate change may be decades away, and are still avoidable, the physical risks of global warming are material to asset prices today. The real estate market offers just one example. A 2019 study published in the *Journal of Financial Economics* found that homes exposed to the risk of sea level rise, sometimes as far as fifty years into the future, sell today at a 7% discount to otherwise comparable properties.[2] A more recent 2021 study found similar effects in the municipal bond market, where sea level risk now has a

[1] As of March 31, 2022

[2] Asaf Bernstein, Matthew T. Gustafson, and Ryan Lewis, "Disaster on the horizon: The price effect of sea level rise," *Journal of Financial* Economics 134, Issue 2 (November 2019): 253-272. Accessed 5/11/22. URL: https://www.sciencedirect.com/science/article/abs/pii/S0304405X19300807

detectable influence on yields, particularly for municipalities dependent on tax revenue from a vulnerable property base.[3]

Meanwhile, in the face of these growing physical risks, policymakers, business leaders, and entrepreneurs around the world are taking action to both mitigate and adapt to a warmer future. A whole new set of investment risks and opportunities are emerging as the world transitions to a low-carbon economy. Carbon markets, electric vehicles, precision agriculture, renewable energy, alternative protein – these are all areas in which technological, business model, and regulatory innovation are reshaping the patterns of modern life.

But climate change should not be understood solely as a source of discrete risks and opportunities. It is a complex, systemic threat that will affect every business in different and often unexpected ways. Carbon emissions data are among the most basic sets of information investors need to evaluate a company's exposure to both the physical and transition risks associated with climate change.

Unfortunately, access to high-quality, consistent and reliable data is currently lacking. According to The Conference Board, only about 20% of the constituents in the Russell 3000 Index disclosed their Scope 1 and Scope 2 greenhouse gas emissions in 2021.[4] Third-party data providers correct for these gaps by gathering data from multiple sources and plugging holes with estimates. But because of differences in methodology, the providers often do not agree. Today, calculating the carbon footprint of our clients' diversified portfolios depends, in part, on which data provider we use.

The SEC's proposed rule would help solve these challenges, bringing a level of standardization to the industry that voluntary disclosure frameworks have thus far been unable to achieve. We applaud the SEC's approach of building on the work of the Task Force on Climate-Related Financial Disclosure to craft a rule that not only requires companies to disclose their direct and indirect greenhouse gas emissions, but also to explain how climate-related risks are integrated into governance and corporate oversight. The rule will ensure investors have access to critical information about the carbon-intensity of the companies in which they invest and how those companies are managing their exposure to climate risk.

However, we also encourage the SEC to clarify the proposed rule's materiality test for Scope 3 emissions. We recognize the measurement challenges associated with Scope 3 emissions, but for companies in sectors such as financials and energy, Scope 3 emissions may constitute the

[3] Goldsmith-Pinkham, Paul S. and Gustafson, Matthew and Lewis, Ryan and Schwert, Michael, Sea Level Rise Exposure and Municipal Bond Yields (October 6, 2021). Jacobs Levy Equity Management Center for Quantitative Financial Research Paper, Available at SSRN: https://ssrn.com/abstract=3478364 or http://dx.doi.org/10.2139/ssrn.3478364

[4] Thomas Singer, "Sustainability Disclosure Practices: 2022 Edition," The Conference Board, January 20, 2022. Accessed 5/11/2022. URL: https://www.conference-board.org/topics/sustainability-practices/sustainability-disclosure-practices-2022

vast majority of their emissions profile. Under the proposed rule, we fear that companies may escape scrutiny by simply declaring their Scope 3 emissions immaterial without having conducted a thorough assessment. We believe the provision could be strengthened with a requirement that companies disclose the basis of their Scope 3 materiality assessment.

We appreciate the opportunity to voice our support for the SEC's efforts in recognizing the material financial risk and opportunity that climate change represents. We look forward to seeing this rule come into effect.

Sincerely,

Ronald J. Sanchez
Chief Investment Officer
Fiduciary Trust International