

June 17, 2022

**Submitted electronically via SEC.gov**

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

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

Dear Ms. Countryman:

Calvert Research and Management (“Calvert”) was pleased to see the SEC release and then vote in favor of the proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22). As an asset manager with \$37.7 billion in assets under management as of March 31, 2022, we both appreciate the importance and the release of the proposed rule and are supportive of its release. We believe it will result in decision-useful, comparable climate-risk information for investors that will significantly improve the quality of company disclosures over the information available today. The proposed rule strongly supports investors’ needs to access material climate-related financial information while strengthening the SEC’s mission “to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation”.

We welcomed that many of the items raised in our earlier June 1, 2021 comments to the SEC are addressed in the proposed rule. While we support the majority of provisions within the proposed rule and believe it will strongly increase our ability to access more detailed climate-related data on registrants, we also share below some strategies for how we think the rule could be strengthened and modified.

**Calvert Perspective**

Calvert has been focused on responsible investing and corporations’ environmental, social and governance (ESG) performance for 40 years. In our investment decisions, we incorporate information about corporations’ (and other issuers of securities) exposure to, and management of, financially material ESG across global capital markets. We have long recognized the significance of identifying the risks that companies face and have then sought information on how an issuer addresses such risks.

We believe carbon and other greenhouse gases are currently largely externalities to the cost of doing business, and that the markets are at the initial stage of pricing those externalities. The price ultimately

must reflect the value society places on a stable environment and climate versus a more volatile world generally more hostile to the human species over a particular time period. In that context, to price such future scenarios and direct capital to better outcomes, and to protect investment portfolios from downside risk from climate change, investors must have accurate information disclosure on climate change. Further, we believe climate change poses a systemic risk to markets, the economy, and society and intersects with a wide array of ESG issues. While it may not be possible to price these many interconnected issues, we uphold the responsibility of registrants to be forthcoming with investors and other stakeholders on how these issues are being met and addressed.

Much of the climate-related information disclosure is useful for long-term investors as it can impact costs and revenues over the long-term. Access to such information also addresses a wide range of investor needs and beliefs beyond investors focused on ESG or “green investment”. In fact, climate information aids all investors, regardless of their perspective, to understand better the current risks to investment portfolios and how to better manage such exposures.

As an investor, we need consistent and comparable information to make informed decisions for our clients and our portfolios. This type of data includes climate-related risks and opportunities and disclosure around the steps a company has taken or will take to address them. We believe disclosure on climate change metrics needs to match the same practices used for financial disclosures, including attestation and assurance as well as being auditable and comparable across peers. We applaud and recognize the important steps the SEC has taken to make that a reality through this proposed rule.

#### **Specific Comments on the Proposed Rule**

Calvert’s comments on this proposed rule (RIN: 3235-AM87) are focused on the following key areas:

#### **I.D.1. and 2. Development of a Climate-Related Reporting Framework**

#### **II.A.2. Location of the Climate Related Disclosure**

#### **II.C.4. Disclosure Regarding Climate-Related Impacts on Strategy, Business Model and Outlook: Disclosure of Scenario Analysis if Used**

#### **II. E. Risk Management Disclosure**

- II.E.1. Disclosure of Processes for Identifying, Assessing, and Managing Climate-Related Risks
- II.E.2. Transition Plan Disclosure

#### **II.F. Financial Statement Metrics**

#### **II.G. Greenhouse Gas Emissions Metrics Disclosures**

- Scope 1 and 2
- Scope 3

#### **II. H. Attestation of Scope 1 and Scope 2 Emissions Disclosure**

#### **II.I. Targets and Goals Disclosure**

#### **Intersecting Issues of Concern for Further SEC Action**

- Indigenous Peoples’ Rights
- Climate Change Refugees and Modern Slavery
- Just Transition

#### **The Benefit of More Efficient Access to Accurate Data**

### **I.D.1. and 2. Development of a Climate-Related Reporting Framework**

We support the integration of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and Greenhouse Gas (GHG) Protocol into the SEC's proposed rule as we believe it covers the essential elements of climate risk disclosure. As noted in the SEC's proposed rule, these frameworks are widely supported and used by companies, investors and securities regulations around the globe, with other regulators committing to implement them in the next few years. Due to its widespread adoption, the TCFD framework offers the opportunity for consistency of reporting across jurisdictions and regions. This may make it easier for companies to adopt and implement as the TCFD framework already has broad coverage. We also support the use of the GHG Protocol as it is the most widely used global greenhouse gas accounting standard.

### **II.A.2. Location of the Climate Related Disclosure**

As we noted in our June 21, 2021 comments to the SEC, we believe the disclosures mandated by the SEC in the proposed rule should be filed in annual reports, as well as quarterly reports where appropriate, rather than in furnished reports. We generally are in favor of filed disclosure as it is supported by disclosure controls, CEO/CFO certification, audit requirements and a level of scrutiny by management appropriate for climate risks – and therefore we believe this regime will lead to the most accurate set of information coming to the market. We also believe that, while the nature and quantum of impact of climate risks on company business models differ, ultimately all companies face varying levels of material risks from changes in the natural environment and atmosphere.

In certain circumstances, we support the SEC allowing for a “comply or explain” approach where a registrant deems a particular climate disclosure non-material, and where a reasonable explanation must be provided for non-disclosure. In such cases, we support a company having the ability to explain why it does not or is unable to follow certain requirements at the time of disclosure. This step potentially could provide the company with the ability to offer a more thorough explanation as to why it does not disclose at the present time.

Acknowledging that not all climate information may be available for a registrant at the time of filing its annual report, we are also supportive of continuous and timely disclosure of information as it becomes available, and the cross-referencing of that information in subsequent 10K or 10Q reports in order that disclosure is brought into the filed reporting regime. This process also allows for evolving views on the materiality of certain disclosures.

### **II.C.4. Disclosure Regarding Climate-Related Impacts on Strategy, Business Model and Outlook: Disclosure of Scenario Analysis if Used**

While Calvert believes scenario analysis can aid in developing a robust climate action plan, we encourage the SEC to develop or recommend a standard set of voluntary scenarios based on well supported climate science that facilitates consistent and comparable disclosure, without mandating scenario analysis disclosure. Since the introduction of the TCFD Framework, there has been a proliferation of work on

scenarios that rely on different assumptions and inputs, and very few issuers have disclosed unfavorable scenario analysis. Offering a standard range of such scenarios would support registrants to begin conducting such analyses and disclosing information that is useful to investors.

## **II. E. Risk Management Disclosure**

### ***II.E.1. Disclosure of Processes for identifying, assessing, and managing climate-related risks***

We support the SEC’s mandated approach for registrants to describe processes for identifying, assessing and managing climate-related risks, including both physical and transition risks. In order for us to evaluate issuer risks properly, we need transparent disclosure that allows us to assess how companies are determining the materiality of climate-related risks, including how they measure the potential scope and impact of an identified climate-related risk and how the risks identified in the disclosures relate back to that issuer’s strategy, business model and outlook.

We also agree that the SEC should require a registrant to describe the actual and potential impacts of its material climate-related risks on its strategy, business model, and outlook, as proposed and require a registrant to disclose impacts from climate-related risks on, or any resulting significant changes made to, its business operations, including the types and locations of its operations, as proposed. Such information gives us decision-useful information that we integrate into our ESG investment models and approaches as we assess risk and which, as noted earlier, are in the early stages of being priced into the capital markets.

To support more comparable disclosures, we support the adoption of standard definitions of short-, medium- and long-term timeframes for registrants to use for identifying and measuring climate impacts on their business – for example, one, five and ten years.

### ***II.E.2. Transition Plan Disclosure***

Calvert strongly supports the SEC’s proposal on transition plan disclosure as it relates to risk management. The quality and robustness of a company’s transition plan in many instances is necessary in order for investors to assess the credibility of climate-related business targets, progress being made towards those targets, and the effectiveness of business resilience planning. We consider such transition plans where available and applicable as part of our ESG research process. Where a registrant has adopted a transition plan, we believe the SEC should require the registrant to describe the plan, including the relevant metrics and targets used to identify and manage physical and transition risks, as proposed. In the event a registrant believes a transition plan is not relevant to their business, they may explain why it is deemed as such.

We would also advise the SEC to incorporate the need for reporting and disclosure as it relates to the “Just Transition” in the final rule, namely, how a registrant’s transition plan addresses the impact on workers and communities. We have provided more detail on this issue below in the section on “Intersecting Issues of Concern for Further SEC Action” (on page 10).

## **II.F. Financial Statement Metrics**

We agree with the SEC's proposal for a specific note or notes to the financial statements to add necessary further disclosures on the financial impacts of climate risk. A threshold of requiring notes where such items exceed 1% of the total line item or the total expenditure expensed or total capitalized costs incurred for the relevant fiscal year may be too burdensome for certain companies to implement. Instead, we believe that implementing a 5% materiality threshold would still provide investors with the appropriate level of disclosures for significant events impacting a registrant.

Equally if not more important than the disclosure of the aggregated amounts is information on the assumptions used to generate the line item figures.

We acknowledge that inclusion of this requirement in the final rule may necessitate the extension of certain compliance dates.

## **II.G. GHG Emissions Metrics Disclosure GHG Emissions Disclosures**

Calvert supports much of the SEC's proposed rule on GHG emissions for Scope 1, 2 and 3, although we propose some modifications as noted below. We support the SEC's proposal to require issuers to disclose and describe the methodology, significant inputs, and significant assumptions used to calculate their GHG emissions metrics.

Overall, the disclosure of quantifiable and comparable GHG emissions information allows investors to understand the quality of a company's earnings in light of climate change and the energy transition, which leads to an increased understanding of how those then impact a company's liquidity and capital resources. GHG emissions information can also enable a deeper comprehension of a company's actual impacts on climate change. Calvert reviews companies relative to industry peers through our research process, and having a more complete set of GHG emissions information will enhance our research process and efficiency. GHG emissions can also support us in identifying and understanding a firm's most significant financial statement risk exposure. Further, we use emissions information to determine whether the company's targets are truly addressing its most significant risks. Finally, such information informs not only our investment decisions but also supports the management of GHG emissions at the portfolio level.

In addition to GHG emissions, Calvert supports the disclosure of associated activity level data (e.g. tons of aluminum, tons of cement product) to ascertain if companies are becoming more carbon efficient per unit of good/service over time. Activity level data enables investors to obtain carbon intensity figures at the activity level (e.g. tons of CO<sub>2</sub> per ton of cement produced). Both the Transition Pathway Initiative and the International Energy Agency possess sector specific net zero decarbonization pathways with carbon intensity figures at the business activity level. With carbon intensity figures at the business activity level, investors can ascertain if companies are on a trajectory towards net zero alignment.

### ***Scope 1 and 2***

Last year, when evaluating disclosure rates of companies in our equities portfolios, we found 57% of 2,207 companies disclosed their Scope 1 and 2 emissions with a one to two year delay. We believe with regulation, this number could increase and the lag between publication and actual time frame can be

reduced. We also have concerns over how the information is gathered for Scope 1 and 2 reporting currently. Research demonstrates about 30% of companies that disclose such information in their own reporting make errors on a regular to periodic basis, despite the well-established rules and systems that already exist to ensure proper reporting of such emissions.<sup>1</sup> In many cases, this appears to stem from a lack of effective internal controls or well-functioning monitoring systems. This can be further complicated by the fact that a company may store data in ways that is not conducive to being leveraged for GHG emissions calculations. Thus, by the time this data is gathered, there may be a long lag time to the point of disclosure – it is not uncommon that GHG emissions disclosure is already 12-18 months out of date once it is actually published.

Therefore, regulation appears necessary to increase the rate of overall disclosure, and reduce the lag between corporate activity and disclosure. We offer comments on the following two aspects:

- i) **Disaggregated disclosure:** We support the requirements for disclosure of Scope 1 and 2 GHG emissions data (operational emissions, emissions related to electricity and other operational energy sources) on an aggregated and disaggregated basis for the most recently completed fiscal year. Calvert believes such granularity provides deeper insights into a company's approach and aids us in better identifying investment risks. Disaggregated Scope 1 and 2 disclosure is already adopted by many firms that disclose voluntarily, and will also be necessary for both companies and fund managers whose business activities are captured by European equivalent regulation (e.g. the Sustainable Finance Disclosure Regulation's mandated Principal Adverse Sustainability Indicators require disaggregated Scope 1 and 2 disclosure).
- ii) **Compliance deadline:** The proposed rule phases in disclosure requirements for Scope 1 and 2 reporting, requiring large accelerated filers to file in 2024, accelerated filers and non-accelerated filers to file in 2025 and smaller reporting companies to file in 2026. While we support this phase-in process, we believe that in the interests of gathering accurate information suitable and compliant for filed disclosures, it is reasonable to extend compliance deadlines by a year.

### **Scope 3**

We agree with the SEC's perspective that Scope 3 GHG emissions provide a more complete picture of climate-related risks and can aid investors in better understanding transition risks. We also recognize that being able to compare Scope 3 emissions year over year and over time offers investors a useful mechanism to track a company's progress in addressing its own climate-related risks.

We wish to provide the following perspectives on Scope 3 disclosure:

- i) **End-state of mandatory disclosure in filed documents for all registrants:** Calvert supports mandatory disclosure of Scope 3 emissions in filed documents, covering upstream and downstream emissions, including supply chain and users, and recommends the SEC eventually

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<sup>1</sup> Research Conducted by Garcia Vega, Hoepner, Rogelj & Schiemann, Michael Smurfit Graduate Business School, University College Dublin, 2022. [www.smurfitschool.ie](http://www.smurfitschool.ie)

require Scope 3 disclosures for all registrants, particularly as many issuers' largest and most material emissions are Scope 3 emissions. This end state for disclosure will depend on the further evolution in the market of industry-specific measurement methodologies, appropriate tracking capabilities, and assurance and auditing norms.

Without disclosure, investors need to rely on estimates from data vendors (amongst which there is currently a range of methodologies, resulting in a dispersion of inputs for our investment processes). Alternatively, investors need to develop in-house economic models and build detailed information about company supply chains to support estimated Scope 3 data. While possible, this approach is neither feasible at scale across the asset management industry, nor would it lead to more accurate inputs for investment decisions.

- ii) **Near-term mandatory disclosure for high-emitting sectors, supported by guidance:** For the purposes of the current rule, we recommend the requirement to disclose Scope 3 emissions should not be conditioned on the registrant having set a target or conducting a materiality assessment. Rather, we request the SEC require registrants in certain heavy-emitting industries (e.g. oil and gas, utilities, transportation, buildings and infrastructure) disclose Scope 3 emissions in filed documents, with the option to explain an absence of disclosure if a company in a heavy-emitting industry determines its Scope 3 emissions are not material. Further, the SEC should provide sector-specific guidance on how to do so, including highlighting the areas most critical to report.

Given the wide variance of calculation methodologies for Scope 3 emissions across sectors, we believe such guidance would prove invaluable for registrants, and lead to more investor-relevant and consistent information. Over time, the requirement for disclosure and sector-specific guidance could be introduced for all sectors and industries.

Such an approach relieves issuers from determining whether their Scope 3 emissions are material and resolves the uncertainty of whether or not they should report. We note that this approach aligns with that of the European Union, where issuers in some heavy-emitting sectors are required to publish their Scope 3 disclosures on an earlier timeframe, with ultimately all sectors being required to do so.<sup>2</sup>

Further, we believe without such an approach, market distortions may occur via an over-reliance on Scope 1 and 2 emissions disclosure for portfolio construction, penalizing companies with higher emissions concentration in Scope 1 and 2 and under-penalizing companies with meaningful Scope 3 emissions. For example, we note that the EU has also introduced legislation as of December 23, 2020 requiring that EU Climate Transition

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<sup>2</sup> Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020, Article 5 pp.4-5, Official Journal of the European Union, March 12, 2020. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&rid=1>

Benchmarks and EU Paris-aligned Benchmarks are constructed based on certain sector allocations, and using the trajectory of individual companies' scopes 1, 2 and 3 emissions.<sup>3</sup>

- iii) **Quality of Scope 3 disclosures:** The proposed rule allows a company, where reasonable, to begin with estimates and to adjust and refine Scope 3 calculations over time. Requiring issuers to describe the data sources used to calculate Scope 3 emissions, including the use of emissions reported by parties in the issuer's value chain, and whether such reports were verified by the issuer, by a third party, or are unverified – are all elements that would increase transparency of assumptions underpinning the disclosures.

We are also supportive of the work of the Partnership for Carbon Accounting Financials (PCAF) in establishing Scope 3 reporting standards for financed emissions, relevant to registrants in the financial sector.

- iv) **Safe harbor:** Lastly, we support the SEC's proposal for a safe harbor for Scope 3 disclosure, particularly as the proposed rule allows registrants to commence disclosure of estimated Scope 3 emissions information. We believe the safe harbor should last for a meaningful period of time, (e.g. from five to seven years), and then be sunsetted for most companies. Given the reliance of banks and financial intermediaries on Scope 3 reporting from other entities, a longer safe harbor period of up to 10 years could be considered for registrants in these industries.

We believe these periods of time provides an ample window for companies to begin assessing, reporting and managing their Scope 3 emissions, including medium and smaller companies.

## II. H. Attestation of Scope 1 and Scope 2 Emissions Disclosure

As investors, we believe assurance better supports the release of investor-grade, verifiable and accurate information to the marketplace. Calvert supports the SEC's approach to require assurance of certain GHG emission disclosures with a phased-in approach over time from limited to reasonable assurance. We are supportive of a longer transition period from limited to reasonable assurance, such as over the course of a decade, as we understand there may be a steep learning curve to develop this process fully, which may take multiple years. Our recommendation is informed by the understanding that major audit and accounting firms do not, for the most part, currently make reasonable assurance services available for climate disclosures – there is a major capacity gap in the assurance industry that will need to be resolved over several years.

We would also encourage the SEC to add a condition that auditors of filed GHG emissions information should be approved and voted on by shareholders at all annual meetings and that this should be a

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<sup>3</sup> European Commission EU labels for benchmarks (climate, ESG) and benchmarks' ESG disclosures, June 3, 2022, [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en)



separate ballot item for all public companies.<sup>4</sup> The rationale is to support greater choice for companies in seeking the highest quality assurance services for climate/ESG data assurance, which may not be an incumbent service provider deployed for financial information assurance, and that convergence in these two types of assurance among service providers may take some years to develop; further, we believe that disaggregating the vote on climate data assurance from financial data assurance may support the filing of higher quality climate information. Allowing shareholders to vote on this process separately would provide precise feedback to companies regarding how shareholders view that particular auditor and the quality of the assurance they provide.

## II.I. Targets and Goals Disclosure

We support the provision that requires disclosure where the issuer has set GHG reduction targets/goals or any other climate-related target or goal encompassing a range of connected issues. These may include greenhouse gas targets, but could include goals such as a percentage usage of renewable energy and whether the company intends to use carbon offsets or renewable energy certificates. We favor required disclosure for “the defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets” as we believe progress reports should include specific reference to a company’s Scope 1, 2 and 3 GHG emissions.

As a signatory to the Net Zero Asset Manager Initiative, we have developed our own targets to reduce the GHG emissions footprint across our identified assets to meet our own interim 2030 and 2050 Net Zero targets. However, as of 2021, only 20% of holdings in our funds had disclosed GHG emissions-related net zero targets or goals. We anticipate being able to make more robust investment decisions in support of our own targets if the implementation of the rule makes targets and goals data significantly more available.

We wish to offer these further points on this issue:

- i) **Scope of targets and goals to be disclosed:** Calvert’s preference is for registrants to disclose global, entity-level targets and goals, both long-term and interim (e.g. 5- or 10-year time horizon), and covering both Scopes 1 and 2 emissions (aggregated and disaggregated), and extending to Scope 3 if companies are required to disclose Scope 3 emissions. If for whatever reason a global, entity-level target is not appropriate, targets by division or business unit would be the next best option. Compliance with the rule should not necessitate exhaustive disclosure of all climate targets operating across large businesses (we note that in some cases, there may be hundreds of climate-related targets adopted today by some registrants).
- ii) **Suggest requiring further information supportive of the disclosed target implementation:** While some issuers presently offer more advanced disclosure regarding their targets, we find there is often a lack of disclosure around measurement, implementation and progress details, interim targets, how the targets will impact the financial statements, or even how the targets

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<sup>4</sup> This proposal was first identified by Professor Andreas Hoepner, Full Professor of Operational Risk, Banking & Finance at the Michael Smurfit Graduate Business School & the Lochlann Quinn School of Business of University College Dublin, in a phone consultation in April 2022.

will align with issuers' continued use of existing assets. For example, a registrant's more ambitious goals may signal a genuine commitment to managing and reducing their own climate risks, but disclosure of both targets and annual progress towards those targets allow us to verify that commitment. A further example is disclosure on pay performance alignment for state targets, such as when a company discloses whether or not they have any GHG-related targets tied to management compensation. Such information could also aid us in determining how a company compares to its industry or regional peers in this area. Therefore, Calvert requests that if registrants are required to disclose climate-related targets or goals, they should also provide additional disclosure on the steps already taken, planned steps and the progress made related to any such goals.

- iii) **Treatment of offsets:** There should be a distinction for the reporting of offsets/credits that form the basis of compliance with market-based measures (e.g. EU ETS, CORSIA) and voluntary offsets purchases. In addition to this, if the company offers customers the option of purchasing offsets to offset emissions from the use of sold products/service (e.g. some airline companies offer customers the option to offset their emissions via carbon offsets from third-party sources), these offset purchases should also be reported separately. Further, we request the SEC also mandate that companies disclose the average price they pay for the carbon offset, so that it may be compared to the carbon price.
  
- iv) **Comply or explain the absence of a target:** As currently formulated, the proposed rule has the potential to deter registrants from setting climate-related targets due to the need to disclose them. This may also have the unintended effect of deterring companies from constructively engaging with investors on appropriate target-setting. We believe this can be easily resolved if the rule introduces a "comply or explain" requirement for climate-related targets, allowing companies to explain why targets have not yet been set or are not deemed appropriate at the time of disclosure, or reference activities underway that support the future setting of targets and goals.

### **Intersecting Issues of Concern for Further SEC Action**

We perceive three additional areas not covered in the proposed rule which are of critical interest to Calvert as a responsible investor, given the adverse impacts climate change will have on local communities and vulnerable populations: Indigenous Peoples' rights; climate change refugees, modern slavery and human trafficking; and ensuring a Just Transition. We call on the SEC to consider either adding regulatory guidance to the final rule or taking future regulatory action on these issues.

### **Indigenous Peoples' Rights**

Corporate risks related to Indigenous Peoples' rights are not always properly understood or accurately assessed by registrants but may be of significant interest to investors. Projects that threaten Indigenous Peoples' lands, waters, and resources garner costly opposition because these actions threaten human rights and may contribute to the worsening effects of climate change by inhibiting the ability of Indigenous Peoples to steward the land in accordance with their historical best practices for increasingly valuable land management. Crucially, these harms often result in material business risk for corporations. Further,

current norms for climate disclosures relating to a registrant's assessment of either transition risk or physical risk do not include mention of the potential impacts on Indigenous Peoples. How a company chooses to assess Indigenous rights risk in relation to an identified climate and/or transition risk can furnish decision useful information for investors.

Calvert has long been a supporter of Indigenous Peoples' Rights, having created the nation's first mutual fund criteria on this issue in 1999. We believe Indigenous Peoples have deep knowledge and understanding of climate change and biodiversity and that corporations and local Indigenous communities can both benefit from involvement with one another. However, it is only by proactively engaging such groups from the outset of project design can registrants hope for successful avoidance of or resolution of risks related to adverse impacts on Indigenous land and communities. Although not limited specifically to climate change issues, Indigenous Peoples have a long history of being ignored or disregarded when corporations develop projects that impact their land or territories. For example, in 2020, Rio Tinto destroyed sacred land Indigenous sites in Australia after it failed to follow its own policy in this regard. In a different example, failure by Energy Transfer Partners to listen to opposition from the Standing Rock Sioux Tribe led to rise of the Dakota Access Pipeline (DAPL) issue. Costs incurred by firms with an ownership stake in the DAPL are estimated to be at least \$7.5 billion and may have been higher from confidential contracts. In addition, the banks that financed DAPL ended up incurring a further \$4.4 billion in costs related to account closures.<sup>5</sup> We believe that investors' assessments of risk in this area require registrants to disclose their involvement with and impact on Indigenous Peoples.

We believe the SEC should require 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. Specifically, this should encompass how companies consider Indigenous land tenure and resource management in assessing potential transition risks and how they assess Indigenous knowledge, cultures, and traditional practices when evaluating or responding to the physical impacts of changing weather and climate on business infrastructure.

While we appreciate the close adherence to TCFD for the proposed climate change rule, Indigenous Peoples are not referenced there. The Commission could look to the language and metrics in other frameworks such as SASB and GRI – which do specifically reference the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), the Free Prior and Informed Consent (FPIC) framework, and provide Indigenous rights risk reporting guidelines – to design an appropriate disclosure regime that recognizes the interrelated nature of climate, transition, and Indigenous Peoples' rights risk. We strongly urge the SEC to have registrants explicitly reference Indigenous Peoples and local communities as well as UNDRIP and FPIC.

### **Climate Change Refugees and Modern Slavery**

Corporations will also increasingly need to respond to the issue of climate change refugees and modern slavery. At present, climate change is the primary cause of displacement globally. Up to 90% of the world's

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<sup>5</sup> Social Costs and Material Loss: The Dakota Access Pipeline, November 2018  
[https://www.colorado.edu/program/fpw/sites/default/files/attached-files/social\\_cost\\_and\\_material\\_loss\\_0.pdf](https://www.colorado.edu/program/fpw/sites/default/files/attached-files/social_cost_and_material_loss_0.pdf)

poorest individuals are dependent on the availability of natural resources for subsistence, with 75% of them relying directly on subsistence farming or fishing, for survival.<sup>6</sup> Climate change and environmental degradation can adversely impact the world's poor to such a degree that they are forced to abandon traditional livelihoods and migrate in search of subsistence elsewhere. As climate change destabilizes certain communities, particularly those reliant on forests and natural resources, it is driving people to cross-border migration, putting them at risk of exploitation and abuse as well as human trafficking.<sup>7</sup>

We believe it is important for investors to have decision useful information that requires registrants to disclose whether, due to their operations or locations where they operate, there are or may be climate refugees or displaced persons in the community or in their workforce, whether they operate in areas that have destabilized because of climate impacts and the steps they have or will take to address and prevent the potential for modern slavery, including human trafficking, in their supply chain.

### **Just Transition**

Calvert believes the SEC should add guidance to the proposed rule on disclosing the links between a corporation's response to climate change and the related human capital and community impacts, also known as the Just Transition issue. A company's disclosed position on climate change, and the speed of its transition plans, may be impacted by reputational risk and the potential loss of social license to operate; further, the decarbonization of a company's business will inevitably affect its relationships with employees, business partners, and local communities that are dependent on legacy business models. As the world shifts from traditional fossil fuels to renewable energy, we believe companies need to recognize and report on how they are addressing public and private investments in low-carbon strategies and technologies to create an inclusive, sustainable economy while they retain, retrain, redeploy and/or compensate their own workers affected by their decarbonization efforts. For example, we have engaged with Xcel, the first CA100+ utility sector company to commit to a net zero target. As part of our ongoing engagement with Xcel, we are asking the company to align its climate lobbying policy and human capital management policies, with a particular focus on the Just Transition, to support the achievement of those net-zero targets.

We encourage the SEC to incorporate and address Just Transition as part of its final rule and provide guidance on strategy, targets and transition plans regarding the materiality of societal impact and the issues of fairness in the transition of companies. Further, where a company is or should be addressing the Just Transition issue, we think it should be required to include and disclose such information in relation to its company transition plans. We believe this should be added to the section E. Risk Management Disclosure under 2. Transition Plan Disclosure.

### **The Benefit of More Efficient Access to Accurate Data**

Calvert purchases third party vendor data to support our ability to assess companies on their ESG factors and that provide specific data related to climate change, where available. Often vendor information is

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<sup>6</sup> [https://www.antislavery.org/wp-content/uploads/2021/04/ASI\\_ViciousCycle\\_Report\\_web2.pdf](https://www.antislavery.org/wp-content/uploads/2021/04/ASI_ViciousCycle_Report_web2.pdf), April 2021.

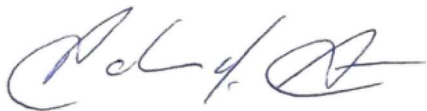
<sup>7</sup> [https://www.antislavery.org/wp-content/uploads/2021/04/ASI\\_ViciousCycle\\_Report\\_web2.pdf](https://www.antislavery.org/wp-content/uploads/2021/04/ASI_ViciousCycle_Report_web2.pdf), April 2021.

estimated when a company has not disclosed information on its climate-related risks. Sometimes the estimates are made across industries, based on what other more proactive peers have disclosed. We are concerned about the lack of accuracy fostered by estimation methodologies, and also the trend for these methodologies to under-estimate actual emissions.

This new proposed rule will yield many benefits for investors, including more efficient access to more accurate data and information across registrants. We expect the more efficient access to data will lead to reduced costs in conducting asset management activities. It will allow our analysts to be more effective and efficient in their work as this data becomes available, allowing us to assess companies more accurately and precisely, leading to improved internal climate-related investment analysis. Further, we anticipate such data will also support our proxy voting with better analysis for shareholder voting and may lead to the refinement of our climate-related proxy voting guidelines.

In sum, we believe the SEC's new rule will provide investors with a wealth of knowledge and new climate-related risk data and information that has previously been unavailable. Regardless of the changes between now and the final rule, we believe this proposed rule is a significant step in the right direction that will provide investors with the key data necessary to aid them in making better determinations regarding risk and, ultimately, better investments. We appreciate the opportunity to provide comments and look forward to seeing the final rule. In addition, we are also attaching our June 1, 2021 letter to Chairman Gensler which provides more insights and backgrounds into our perspective on climate change disclosure.

Sincerely,

A handwritten signature in blue ink, appearing to read "John Streur". The signature is fluid and cursive, with a large initial "J" and "S".

John Streur  
President and CEO  
Calvert Research and Management

June 1, 2021

Chairman Gary Gensler  
U.S. Securities and Exchange Commission  
100 F St NE  
Washington, DC 20549

Re: Comments on Climate Change Disclosures

Dear Chairman Gensler:

Thank you for the opportunity to comment on the Securities and Exchange Commission's (Commission) regulation of climate change disclosures as the Commission considers disclosure rules and potential new disclosure requirements.

Calvert Research and Management ("Calvert") is an investment management firm based in Washington, D.C., with \$33 billion assets under management (as of March 31, 2021). We incorporate into our investment decisions across global capital markets information about corporations' (and other issuers of securities) exposure to, and management of, financially material environmental, social, and governance ("ESG") factors.

We appreciate the opportunity to provide comments as the Commission evaluates its regulation of climate change disclosures. We include here our perspective on the materiality of climate change and the importance of climate-related disclosure, as well as specific recommendations for the Commission to consider in its evaluation of potential climate disclosure standards.

**Climate change is a financially material concern.**

As a responsible investor, Calvert invests in companies that meet our Principles for Responsible Investment and offers investment strategies that seek superior long-term performance and positive global impact. Calvert also sponsors proprietary indices that include securities determined by Calvert to meet our Principles. Our Calvert U.S. Large-Cap Core Responsible Index, for instance, has returned 15.45% average annual returns over the last ten years, compared to 14.22% average annual returns of the Russell 1000 Index.<sup>1</sup>

It is our perspective and experience that climate change is a financially material concern across industries. Climate change represents a systemic market risk that is both ubiquitous and undiversifiable. Research from the Sustainability Accounting Standards Board (SASB) demonstrates that nearly every industry (68 out of 77 in its Sustainable Industry Classification System) is significantly affected in some way by climate risk. This prevalence of material climate change represents a risk to 89% of the market capitalization of the S&P Global 1200, or US\$45.2 trillion.<sup>2</sup> The UN-supported Principles for Responsible Investment conducted a separate analysis that forecasts the financial impacts of a policy response to

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<sup>1</sup> <https://www.calvert.com/Calvert-US-Large-Cap-Core-Responsible-Index-CALCOR.php>

<sup>2</sup> <https://www.sasb.org/wp-content/uploads/2021/05/Climate-Risk-Technical-Bulletin2021-042821.pdf>

climate change to prepare investors for the associated portfolio risks. This analysis found that implementation of climate-related policies could erase between 3.1% and 4.5% (or \$1.6 to \$2.3 trillion) of value from a range of companies in the MSCI ACWI index.<sup>3</sup>

While climate change is a material issue in almost every sector, the particular concerns and manifestations will likely vary from issuer to issuer. For example, some issuers will experience physical risk (including the physical effects from the increasing frequency and intensity of weather events), while others will experience transition risk (including the challenges of navigating changing market forces in the transition to a low-carbon economy), and others will experience regulatory risk (including legal and regulatory requirements and costs). Most issuers will experience a combination of these risks to varying degrees over time.

Issuers are better positioned than investors to understand their own climate-related exposures, so we need reliable, consistent, and comparable climate disclosures from issuers to reduce this informational asymmetry. Our job as investors is to make capital allocations, but we cannot make those decisions with sufficient rigor unless we can compare our investment options against one another — and that includes their climate-related opportunities and vulnerabilities. The Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board (FASB) acknowledged the importance of data consistency and comparability when they established the bedrock of our modern financial system. We now need similar levels of consistency and comparability for climate-related disclosures so we can more accurately price assets, allocate capital, run scenarios, and mitigate risk, as well as inform our issuer engagement efforts. Calvert works directly with issuers to improve in the areas most material and relevant to them and to investors, in many cases actively working with companies to strengthen their climate strategies. We need comparable and consistent climate information to more effectively evaluate risks, identify opportunities, and prioritize these engagement efforts.

We believe the Commission has an opportunity to play an essential role in standardizing climate disclosures in a way that would provide meaningful, comparable information for investors to incorporate into decision-making analysis.

### **Climate change disclosure.**

We have several suggestions for the components that we believe would be important to include in climate change disclosure rules from the Commission. We offer these suggestions for specific disclosure requirements below.

### **Climate change disclosure should mirror financial disclosure practices.**

In general, disclosure around climate change should mirror the same practices that are used for financial disclosures. Like financial disclosures, climate disclosures should be historical, auditable, and comparable against peers. Currently, climate change disclosures are largely voluntary, unverified, and idiosyncratic. While some existing disclosure requirements can apply to climate change-related issues, there is not a mandatory framework, nor is there a standardized disclosure framework. Existing disclosures are also largely hypothetical, projecting forward-looking targets rather than backward-looking accomplishments. Current disclosures do not provide investors with the consistency, detail, reliability, or completeness that is needed to effectively evaluate and compare disclosure information.

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<sup>3</sup> <https://www.unpri.org/inevitable-policy-response/implications-for-strategic-asset-allocation/5191.artide>

Furthermore, like financial disclosures, climate disclosures should appear in annual reports, at a minimum, and quarterly reports as appropriate. Annual disclosure would provide investors with the regular information necessary to make informed decisions based on climate-related risks, opportunities, and uncertainties. For industries where climate change is particularly material or companies that are particularly exposed to climate risk, climate disclosures should appear in quarterly reports to provide more frequent information.

Finally, like financial disclosures, climate disclosures should be required. Disclosures should be filed, not furnished, and automatically incorporated by reference into a reporting issuer's filings with the Commission. The European Union is already requiring certain large companies to disclose non-financial information, including on environmental matters, as directed by the Non-Financial Reporting Directive. Requiring climate disclosures in the U.S. would align with this requirement and would improve the quality and consistency of information available to investors.

### **We suggest the inclusion of specific information and data as part of climate disclosure rules.**

We understand that the Commission has asked which specific disclosures might be helpful to the market. We suggest the inclusion of both qualitative and quantitative disclosures, both of which provide valuable information to investors. The Task Force on Climate-Related Financial Disclosures (TCFD) framework recommends disclosures that are both data-based and qualitative in nature.

Qualitative disclosures, for example, could include the company's approach to addressing climate change, including its adaptation and resilience narrative, governance of climate-related issues, risk-management strategy, and integration of climate risks and opportunities into strategic planning and execution.

Quantitative disclosures could include metrics such as those catalogued below. The following list is by no means comprehensive, but it does represent a sample of the types of disclosures that we have already found useful in our analysis:

- i. Resource consumption
  - a. Energy consumption: Energy consumption can be further broken down into source of energy (oil, gas, nuclear, coal, and renewables) and the purpose of the energy use (production, transportation, etc.)
  - b. Water consumption: Including total water consumed and exposure to water stress
- ii. Physical risk: Assets or exposure of entity toward flood, drought, high fire-threat, etc.
- iii. CO<sub>2</sub>-Equivalent Emissions: Full life-cycle emissions of products created and CO<sub>2</sub>-equivalent emissions in a year (i.e., Scope 1, Scope 2, Scope 3 when possible, including upstream, Scope 3 downstream, and total Scope 3)
- iv. Mitigation targets: Reduction targets for CO<sub>2</sub>-equivalent emissions for short-, medium-, and long-term
- v. Pollution: Air, water, and other ecosystem pollutants other than CO<sub>2</sub>-equivalent emissions
- vi. Capital Expenditures & Climate Risk/Opportunity Expenditure/Investments: Capital expenditures relevant to climate goals, as well as climate-related R&D expenditures, provisions, and investments, such as in clean technology, green procurement, insurance payments, etc.
- vii. Circular Economy: Total non-degenerate-able waste produced (e.g., plastic), recycling of various materials (metal, non-metal, paper, glass, e-waste, plastic, water, hazardous materials), and recycled material use



viii. Green Financing: Total climate-risk-related debt/loans (e.g., green bonds)

As investors, the above information provides data that we use for security selection, overweighting and underweighting of securities, and/or as part of our engagement process with companies. For example, we use the key performance indicators (KPIs) reported in sustainability reports as well as our own analysis to identify companies that are performing well with respect to climate change and the energy transition. Companies that are not performing well on those KPIs are considered to be facing high climate risks or high climate-related costs, and may be deemed not fit as going concerns and removed from our investable universe.

**Climate change disclosures should be subject to third-party standards.**

As with financial disclosures, climate change disclosures should be subject to third-party standards. As the International Financial Reporting Standards (IFRS) ensure standardization of reporting on a company's financial performance and position, third-party climate disclosure standards would create a similarly standardized landscape for evaluating climate risk and opportunities. Standards that create comparability are essential to creating a level playing field so that the climate-related information available to investors is comparable across markets and useful for investment decisions.

The Commission should rely on third-party standard setters with credibility among investors in the area of climate. As an example of the effectiveness of third-party standard setting, the Global Investment Performance Standards (GIPS), released by the CFA Institute, are globally accepted standards considered industry best practice for investment performance reporting and presentation. A similar standard for climate disclosure could establish consistent and transparent reporting requirements that would be perceived as credible by all stakeholders.

The IFRS Foundation currently has an initiative under consideration, and the Sustainability Accounting Standards Board (SASB) standards are existing third-party standards that provide useful disclosure frameworks and guidance. SASB standards, which provide industry-specific metrics, are used by investors and companies in the U.S. and around the world, and the number of companies reporting SASB metrics has grown to more than 928 companies. SASB offers an independent, evidence-based process grounded in financial materiality for developing standards, a conceptual framework to guide development of standards, due process in standard-setting, and standards that permit reasonably consistent, comparable, and specific qualitative and quantitative measurements of performance on material sustainability matters, criteria that an acceptable third-party standard setter should meet.

Recognizing a third-party standard setter would provide a standardized framework for climate disclosure. It would permit an efficient rule-making process, allow the Commission to focus on implementation and evaluation, accelerate the adoption of existing best practices, and facilitate the ability of private-sector frameworks and disclosure practices to evolve without the need for additional SEC rulemaking. Acknowledging a third-party standard setter does not prevent the Commission from promulgating rules that require specific disclosures on certain topics as necessary or appropriate, especially for topics where there is strong investor demand for cross-industry information.

**Climate change disclosures should be verified by third-party auditors.**

Climate change disclosures should also be verified by third-party auditors, with companies required to use accredited auditors. Third-party assurance of climate disclosures, as with financial disclosures, would ensure reliability and provide investors with confidence in the rigor and accuracy of the

information disclosed. For climate change disclosures to be meaningful and reliable, third-party audits must be part of standard assessment and enforcement.

### **The U.S. standards should align with the highest global standard.**

The standards for climate disclosure in the U.S. should align with the highest global standard, like those in place or which are developing in European markets. The European Union's Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), and Sustainable Finance Taxonomy are three existing standards and tools that have significant implications for many U.S.-based investors and companies. A disjointed sustainability disclosure landscape increases complexity of sustainability reporting, in particular for multinational companies. The IFRS Foundation is currently considering establishing an International Sustainability Standards Board (ISSB) to set IFRS sustainability standards and accelerate alignment of global reporting.<sup>4</sup> This approach would provide a baseline for international comparability while still allowing for jurisdictional flexibility. The Commission should consider potential global standards as it develops its own requirements and should work to align U.S. standards with this broader global framework. This alignment would facilitate standardization and ease of climate disclosure reporting.

### **The standards should have universal components whenever possible and sector-specific components whenever necessary.**

Whenever possible, climate disclosure standards should require specific, universal components for all companies. Such universal components would contribute to the consistency and comparability of climate change disclosures and help ensure the information is useful to investors in assessing climate-related risks and opportunities. Potential universal components that we would suggest the Commission consider including are:

- Scope 1 and Scope 2 emissions. The GHG Protocol supplies greenhouse gas accounting standards that are used to measure and manage emissions and ensure consistency in GHG accounting. We currently use Scope 1 and 2 emissions in our investment analyses. In the future, disclosure standards should include Scope 3 emissions as well (including Scope 3 upstream, Scope 3 downstream, and Scope 3 total). At present, there are not established standards for measuring Scope 3 emissions, though groups like the Partnership for Carbon Accounting Financials (PCAF) are working on developing a standardized framework.
- Greenhouse gas emission targets across multiple timeframes (5Y, 10Y, 20Y, 30Y)
- A quantitative range or ranges of outcomes for various fundamental metrics (e.g., EBITDA) tied to different climate change scenarios
- Director, CEO, and senior management compensation tied to climate and emissions targets
- Board committee or entity that is responsible for climate oversight
- Climate-related expertise among directors on the board
- Internal price for carbon/GHG and how this price is incorporated into business planning
- Disclosure of whether emission targets and metrics are reviewed by an external auditor
- Exposure to physical climate risk
- Total offsets purchased, including the average price of offsets, and whether offsets are verified by an external auditor

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<sup>4</sup> <https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-working-group/>

We would also encourage the Commission to include a universal requirement for companies to report on the company-specific metrics that they consider most relevant to their business models.

In addition to these universal components, climate disclosure standards should include sector-specific components whenever necessary. SASB provides a strong example of a sector-specific model, with 77 Industry Standards that identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in a given industry. As the Commission considers potential sector-specific components of disclosure rules, we would suggest the following elements that we have used and found to be helpful in our analysis and evaluation:

- Water consumption for companies that have assets or production in water stress zones
- Total waste (e.g., plastic waste, packaging) for companies creating products or packaging
- Lifecycles recycling for companies creating products that contain components that are potentially toxic (e.g., batteries, phones, etc.) or non-degenerate-able (e.g., plastic etc.)
- Financial companies should disclose the total revenue that was derived from business in high-carbon sectors or from trading of securities from those sectors. Financial companies should also report total loans on book (e.g., mortgage, loans etc.) that are linked to disaster-prone areas (physical risk)
- Asset management and investment management entities should disclose the total weighted average Scope 1, 2, and 3 emissions of their investments and their exposure to high-carbon sectors
- Companies with existing or likely future stranded assets should report on their stranded asset risk
- Climate-related lobbying for companies that participate in climate lobbying activities or where there might be misalignment between lobbying activities and climate goals

This list is intended to be illustrative and is not necessarily a comprehensive list of universal or sector-specific components to include.

### **Compliance should be required, though standards could vary.**

Companies should be required to comply with the Commission's climate disclosure standards. They should not be given an opportunity to "explain away" non-compliance. "Comply-or-explain" standards can cause concerns over the quality of explanations given by companies, with a risk that these explanations become boilerplate. Furthermore, for "comply-or-explain" standards to be effective, investors must actively monitor companies' compliance and hold them accountable when they fail to provide adequate explanations.<sup>5</sup> Calvert believes that climate risk is material enough across industries that certain climate disclosure standards should be required. While investors should evaluate climate disclosures and consider holding companies accountable for inadequate climate strategies, we do not believe that investors should be responsible for evaluating explanations for non-compliance, and therefore "comply-or-explain" should not be an option for climate disclosures.

However, while companies should be required to comply with climate disclosure standards in some form, the specifics of the standards could vary based on the size and age of the company. We understand that younger and smaller companies may not have as many resources to ensure disclosure of the complete set of standards, as some climate-related information may require more resources in order to collect, measure, and verify. There may be different standards depending on the lifecycle stage

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<sup>5</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2690687](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2690687)

and size of the company. For example, all companies should publish Scope 1 and Scope 2 emissions. Scope 3 emissions could be published for companies that produce products with a high GHG intensity. Other sectors could have at least 3 years to start to report on Scope 3 emissions, to allow time for measurement methodologies to emerge and be settled. This flexibility is consistent with materiality concerns, since, from a materiality standpoint, the larger the company, the more material would be the disclosure.

**The Commission should consider climate as part of a broader ESG disclosure framework.**

Climate change is not an isolated phenomenon. It relates closely to other important ESG considerations for investors. In particular we believe that a material ESG risk is the impact of corporate actions on communities and employees, and we believe it is important for companies to report on these impacts, focusing on how their actions and decisions affect the lives of the people in their workforces or communities. Disclosure of practices, policies, and performance around how companies engage with society and how they treat people, including information on a company’s workplace, diversity achievements, employee engagement, supply chain, human rights, and other issues, provides relevant information for investors to assess company culture, strategy, and performance.

As one element of a company’s impact on people and communities, human capital is essential to the long-term execution of companies’ climate transitions, and effective human capital management strategies are necessary to preserve a company’s human capital. In fact, we view climate change strategies and human capital management strategies as closely related and believe they must be considered together as part of a company’s overall ESG approach.

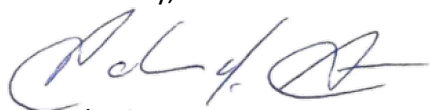
Ensuring a “just transition” is another example of an issue within the broader ESG framework that, in our view, would merit disclosure. As economies transition to a low-carbon future, there is a growing focus on considering the impacts on workers and communities who are affected by this transition. What companies are doing to provide pathways for workers in fossil-fuel based industries to transition to other jobs and careers reflects a company’s relationship with its workers and communities and is of interest to investors.

As the Commission considers ESG disclosure and ESG matters more generally, we encourage you to think of climate as one part of a broader ESG disclosure framework, inherently connected to social issues such that they cannot be considered in isolation.

**Conclusion**

Thank you for the opportunity to share our perspective on the importance and materiality of climate change disclosure, and the specific components that would be helpful, from an investor standpoint, to see in climate disclosure standards from the Commission.

Sincerely,



John Streur  
President and CEO  
Calvert Research and Management