PIMCO

Via Electronic Submission

June 17, 2022

Vanessa A. Countryman, Secretary
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:

Pacific Investment Management Company LLC ("PIMCO") appreciates the opportunity to provide feedback to the U.S. Securities and Exchange Commission ("SEC" or "Commission") on its proposed rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors" (the "Proposed Rule").

PIMCO is a leading active fixed income manager with operations throughout the Americas, Europe, and Asia. As of March 31, 2022, PIMCO managed approximately $2.0 trillion in assets on behalf of millions of individuals and thousands of institutions in the United States and globally, including corporations, central banks, universities, endowments and foundations, and public and private pension and retirement plans.[1] PIMCO manages assets in a fiduciary capacity on behalf of its clients and does not invest for its own account.

We approach the issues of climate risk and climate-related disclosure first and foremost through our perspective as a fiduciary. As a fiduciary, we have a responsibility to manage our clients' assets prudently in accordance with their specified portfolio objectives and guidelines. For many investments, long-term climate risks have become more significant, and we believe climate change will continue to have an impact on the broader economy, financial markets, and issuers. As a steward of our clients' assets, therefore, we incorporate climate risk evaluations in our investment decisions if and when they are material. In addition, many of our clients are increasingly focused on understanding how material

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climate risks are incorporated into PIMCO's investment process generally, and in some cases, where consistent with their own return and risk objectives, on identifying dedicated mandates and solutions to invest sustainably. At the same time, other clients have different objectives and strategies, and for these clients, for example, we offer portfolios that are focused on investments within the energy sector, including fossil fuel companies.

PIMCO is encouraged by the SEC's broader efforts to require consistent, reliable, and comparable information in SEC filings that will enable investors to make better-informed investment decisions regarding climate risks. With some exceptions that we describe below, we generally support the Proposed Rule and appreciate that the details of the Commission's proposal reflect many of the investor community's comments, including those of PIMCO, in response to the March 15, 2021 request for public input on climate change disclosures by corporate issuers.[2]

In this letter, we provide comments on the aspects of the Proposed Rule of particular importance to PIMCO from its perspective as a fiduciary and as one of the world's largest active fixed income managers. As discussed in detail below, we agree with many elements of the Proposed Rule. We also offer substantive recommendations where additional clarity or guidance in a final rule will further enhance consistency and comparability in disclosures among public reporting companies (for example, as the rule relates to calculating Scope 3 emissions and GHG intensity metrics). Lastly, we provide input on certain elements of the proposal where PIMCO believes the final rule could better balance the need for transparent, consistent, and decision-useful information for investors without unnecessarily burdening reporting companies (for example, recommending a limited assurance standard for GHG emissions-related metrics).

I. PIMCO Supports Mandating A Baseline of Climate-Related Disclosure as Many Aspects of Climate Risk Are Material Risks for Investors

PIMCO agrees that most public companies should be required to disclose climate-related information, including information about climate-related risks that impact their business, results of operations, or financial condition and certain climate-related financial metrics in a manner that is consistent, comparable, reliable, and readily available to investors. In the proposing release, the Commission cited the growing investor demand for climate-related disclosure and inconsistency in both the availability of such data and the level of detail in current disclosure.[3]

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[2] Letter from PIMCO re: Public Input welcomed on Climate Change Disclosures (June 9, 2021) (hereinafter referred to as the "June 2021 Letter").
[3] Proposed Rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (March 21, 2022), p. 23-33, available at https://www.sec.gov/rules/proposed/2022/33-11042.pdf (the "Proposed Rule").

As noted in our June 2021 Letter, PIMCO has likewise observed these same dynamics. As we stated then, climate change is unique in the "potentially systemic nature of the risks it presents."[4] Consequently, we believe climate risks often pose a material financial risk, and therefore, investors need disclosure of climate risks that is complete, reliable, and consistent in order to analyze how climate-related risks may affect a company's business or overall financial performance.

In particular, and as discussed in greater detail below, we support mandating Scope 1 and Scope 2 emissions disclosures for all public reporting companies and requiring Scope 3 emissions disclosures for large accelerated and accelerated filers as described below.

II. PIMCO Supports Alignment with Existing Disclosure Frameworks to Promote Consistency Across Jurisdictions

We agree with the Commission's approach to closely align the Proposed Rule with widely accepted and well-established voluntary reporting frameworks, including the recommendations of the Task Force on Climate-Related Disclosure ("TCFD") and the Greenhouse Gas ("GHG") Protocol. Aligning the rule to these existing frameworks will promote comparability of U.S. company climate-related disclosures globally, and an increasing number of jurisdictions are mandating TCFD disclosure. However, it is important to acknowledge the rapidity with which these standards can be updated, consistent with the dynamic nature of sustainable finance. Therefore, it will be critical for the SEC to periodically reassess the rule so that the disclosure requirements evolve as the consideration of climate-related risks by companies matures and the capability of companies to produce climate-related metrics improves.

III. PIMCO Generally Supports Requiring GHG Emissions Metrics and Related Intensity Disclosures, Though the Commission Should Consider Providing Guidance to Standardize Scope 3 and GHG Intensity Calculation Methodologies

A. Scope 1, Scope 2, and Scope 3 Emissions Metrics

The Proposed Rule would require public companies to disclose direct GHG emissions (Scope 1) and indirect GHG emissions from purchased electricity and other forms of energy (Scope 2) in their Form 10-K filings. Scope 1 and Scope 2 metrics must be separately disclosed in the aggregate and as disaggregated constituent greenhouse gases expressed both in absolute terms (not including offsets) and in terms of intensity (per unit of economic

[4] June 2021 Letter, quoting Allison Herren Lee, Acting Chair, SEC, A Climate for Change: Meeting Investor Demand for Climate and ESG Information at the SEC, Address at the Center for American Progress, 3 (Mar. 15, 2021), available at https://www.sec.gov/news/speech/lee-climate-change.

value or production).[5] In addition, the Proposed Rule would require public companies to disclose all other indirect emissions (Scope 3) and related intensity metrics if material or if the company has set a GHG emissions reduction target or goal that includes its Scope 3 emissions.[6]

PIMCO supports the mandatory disclosure of Scope 1 and Scope 2 emissions. This approach would ensure a baseline disclosure requirement across public companies and improve the accuracy, completeness, and comparability of information for investors. PIMCO also generally supports requiring the disclosure of Scope 3 emissions and intensity metrics, which will provide a more complete picture of a company's carbon footprint. However, as discussed further in section IV, we recommend that such disclosures be required only if Scope 3 emissions are material or if a company has *publicized* a GHG emissions reduction target or goal that encompasses Scope 3 emissions, including public climate-related commitments or pledges. In addition, rather than requiring companies to disaggregate their emissions disclosures by each constituent greenhouse gas, companies should determine which types of gas emissions are significant for their business and report only those emissions that are significant. Companies that do not disaggregate should be required to explain why they are not providing this disclosure.

Based on our experience, we believe that it will be a significant challenge for many public companies to prepare Scope 1, Scope 2, and Scope 3 emissions data in time for their annual report. Because such a requirement may lead to less reliable data, we encourage the SEC to consider alternative methods for providing these disclosures in a way that addresses accuracy and liability concerns (such as in a separate climate report that is furnished to the SEC but not filed under the Securities Exchange Act of 1934). We also acknowledge that companies may face challenges in particular with calculating Scope 3 emissions due to the lack of available data and lack of a generally accepted methodology to evaluate Scope 3 emissions across an organization's value chain. Nevertheless, from our perspective, the Proposed Rule's safe harbor for Scope 3 emissions, exemption for smaller reporting companies, and delayed compliance date for Scope 3 emission disclosures strike the appropriate balance between investors' need for decision-useful information and the data and methodological challenges facing issuers. We would also expect the data challenges to recede over time as more companies begin to report their Scope 1 and Scope 2 emissions (which will subsequently serve as inputs for other companies' Scope 3 calculations) as noted in the SEC's proposing release.[7] To ensure comparability in disclosures and reduce costs for issuers, we would further encourage the SEC to continue to engage with public companies and other stakeholders to develop guidance for standardizing the reporting methodology, assumptions, and models for calculating Scope 3 emissions. SEC staff or Commission

[5] Proposed Rule, p. 42.
[6] *Id.* At 151.
[7] *Id.* at 209.

guidance could also be useful to guide companies' determinations as to which disaggregated constituent gases are significant by industry or sector.

B. GHG Intensity Metrics

We agree that public companies should be required to disclose GHG intensity for Scope 1, Scope 2, as well as Scope 3 emissions, where material or if the company has made public climate-related targets or Net Zero transition plans. We further agree that GHG intensity should be disclosed per unit of economic value or production, as applicable. GHG intensity metrics enable investors to understand the drivers of a company's reported emissions trend (i.e., whether carbon emissions are increasing or decreasing in each component of the organization) and provide context to a company's emissions in relation to its scale. GHG intensity metrics can also be useful for understanding a company's trajectory relative to a decarbonization pathway scenario, which is key to evaluate the ambition of a company's targets and their future climate performance.

Given that there are various methodologies for calculating intensity metrics, to ensure that the disclosure is useful for investors, we encourage the SEC to provide industry-specific guidance to help companies determine the relevant units of production or economic output. For example, the most common practice for certain carbon intensive sectors (such as electricity generation, cement, road passenger and air transport, among others) is to report physical emissions intensity. This allows for benchmarking a company's emissions against a decarbonization scenario. We believe the SEC should build upon the available methodologies for science-based GHG emissions targets, the most prominent of which is the Science-Based Target Initiative's Sectoral Decarbonization Approach.[8]

IV. A Limited Assurance Standard Should be Sufficient to Ensure Reliability of Material Emissions Metrics in SEC Filings

The Proposed Rule requires accelerated and large accelerated filers to include an attestation report at the reasonable assurance level (phased-in over time) for Scope 1 and Scope 2 emissions disclosures. While we agree that independent, third party assurance is important and will strengthen the integrity of emissions metrics, we believe a limited assurance standard is likely sufficient to ensure the level of data precision required by investors. Mandating a reasonable assurance standard may add significant costs for registrants while not delivering notable incremental value for investors. The Commission should take into account that the ability of attestation service providers to calculate and account for GHG emissions does not have the same level of precision as traditional financial accounting. A limited assurance standard will better balance these realities and the potential burden to

[8] https://sciencebasedtargets.org/resources/files/Sectoral-Decarbonization-Approach-Report.pdf.

issuers. That said, it will be important to define the qualifications of firms providing services and the scope of work required that will be subject to a limited assurance standard.

V. PIMCO Supports Requiring Disclosure of Scope 3 Emissions, Transition Plans, and other Climate-Related Targets and Goals for Companies that Have Made Public Climate-Related Commitments

The Proposed Rule requires that a public company disclose certain information if it has *set* any climate-related targets and goals (including relating to Scope 3 emissions) or *adopted* a transition plan. We believe that, instead, such disclosures should be required in a company's SEC filings to the extent the company has *publicized* climate-related targets and goals or transition plans (such as in a sustainability report or on its corporate website) or made an equivalent public climate-related commitment or pledge (as opposed to those that may have *set* internal targets or adopted transition plans, without publicizing them).

Where a company has made public statements or commitments, we believe it is necessary for investors to receive appropriate disclosures of metrics related to those statements, to enable them to track progress against those goals. The absence of such a commitment will provide useful information to investors as well. We are further concerned that requiring such disclosures if climate-related goals are set or adopted by the company, even if only set internally, may result in a disincentive for companies to adopt these goals at all.

VI. PIMCO Supports Qualitative and Certain Quantitative Disclosure of Financial Impact of Climate-Related Events and Transition Activities

The Proposed Rule would require public companies to determine the impacts of climate-related events (severe weather events, wildfires, and other natural conditions) and transition activities on each consolidated financial statement line item and related expenditure and disclose those impacts separately (positive and negative) on an aggregated, line-by-line basis if the reporting threshold is satisfied.[9]

PIMCO supports the addition of a narrative qualitative discussion of the financial impacts and costs related to climate-related events and transition activities in the Management Discussion and Analysis ("MD&A") section of a company's annual report.

PIMCO also supports certain quantitative disclosure of such events, which will help investors understand the impact of the climate transition on individual companies as well as on the overall economy. However, such statistics may be more relevant for certain issuers and industries and, therefore, we would support a rule that required such disclosures on a comply or explain basis. Where required, to reduce the complexity of such reporting for companies and the interpretation and comparability of those disclosures across companies, PIMCO is supportive of aggregating costs and benefits relating to such events into three

[9] *Id.* at 121-22.

categories: Revenues, Expenditures and Profit and the aggregation of balance sheet impacts at the level of Assets, Liabilities and Equity. Aggregation at this level of detail (rather than on each consolidated financial line item) will ensure that investors are still able to identify the magnitude of changes affecting companies without unnecessary complication and cost to issuers.

VII. The Compliance Timelines Under the Proposed Rule are Generally Reasonable, But the Commission Should Consider Expanding the Proposed Rule's Safe Harbors to Reduce the Burden on Certain Companies

PIMCO believes most large accelerated filers and accelerated filers will be able to disclose Scope 1 and Scope 2 emissions within the Proposed Rule's compliance timelines.[10] The majority of public companies already calculate their Scope 1 and 2 emissions using well-established and standardized emissions frameworks. According to CDP, at least 85% of companies reporting through its questionnaires use the GHG Protocol's Corporate Accounting and Reporting Standard, which was first published in 2001. In sum, the frameworks for reporting are in place, and we expect large accelerated filers and accelerated filers will be able to disclose GHG emissions pursuant to the phased-in timelines as proposed.

We acknowledge, however, that certain companies will need to build out processes to comply with the new reporting requirements, and GHG emissions and intensity calculation methodologies will continue to be refined as more data becomes available and industry standards evolve. However, rather than delay the compliance dates to address these concerns, PIMCO recommends that the Commission first consider expanding the Proposed Rule's safe harbors to include, for example, historical fiscal years included in the company's consolidated financial statements prior to the rule's compliance date and estimates and assumptions based on third-party data. Doing so will ensure that companies can continue to refine their processes and methodologies without being penalized for adjustments to historical data that may occur in this process. Likewise, expanding the safe harbor will provide additional protection for companies that rely on third-party data (including certain Scope 2 emissions data) that they may have limited or no ability to verify.

We encourage the Commission to require Scope 3 reporting as soon as reasonably feasible, though we understand that, given the challenges noted above with respect to confirming accuracy of Scope 3 emissions data and methodologies, the Commission may determine, after review of feedback from issuers and other stakeholders and consideration of expanded liability protections, that an extension of the Scope 3 compliance timeline is needed for a limited period.

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[10] If adopted as proposed, all Scope 1 and Scope 2 emissions and related intensity disclosure will be required for fiscal year 2023 (filed in 2024) for large accelerated filers, fiscal year 2024 (filed in 2025) for accelerated filers and non-accelerated filer, and fiscal year 2025 (filed in 2026) for smaller reporting companies (SRCs).

VIII. Disclosure Requirements For Investment Companies Must be Sequenced Appropriately

Although the SEC is not specifically seeking comment on this point, we believe it is imperative that the disclosure requirements for investment companies proposed on May 25, 2022 are sequenced appropriately. Importantly, the ability of registered investment companies to report GHG emissions will be dependent upon the availability of fulsome and accurate information from issuers. In certain foreign jurisdictions, the roll-out of disclosure requirements of information that is not yet available or that is mandated for all stakeholders simultaneously has led to confusion and uncertainty.

In addition, the standards and methodologies for corporate issuer disclosure are more advanced than they are for investment funds holding multi-asset portfolios. For example, there are not yet standardized frameworks for addressing emissions in products that do not disclose (or only party disclose) emissions, such as private credit, derivatives, real estate, sovereign credit, and structured credit. To avoid similar pitfalls in the U.S., we urge the Commission to thoughtfully phase-in fund disclosure only after disclosure standards have been well-established for relevant asset categories and transition-related issues have been addressed.

CONCLUDING REMARKS

Given the importance of climate risks, we welcome the SEC's proposed rulemaking and appreciate its consideration of PIMCO's comments. We look forward to the continued engagement with the SEC on these issues.

Sincerely,

Scott Mather
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Chief Investment Officer, Core Strategies and Head of Integrated ESG Investing
PIMCO