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June 17, 2022

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

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

Dear Ms. Countryman:

We appreciate the opportunity to respond to the request for comments by the United States Securities and Exchange Commission (the "Commission") on its proposal to enhance and standardize climate-related disclosures.<sup>1</sup> The Capital Group Companies is one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The vast majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies managed by Capital Research and Management Company, distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

At the outset, we agree with the Commission that climate-related information can be material, and that consistent, comparable, and reliable disclosures on material climate-related risks faced by public companies would serve both investors and capital markets. At the same time, we appreciate the complexities involved in addressing this need, given the inconsistent methodologies for certain climate-related disclosures and competing global regulatory frameworks, among other things. We commend the Commission for its engagement in this important and complicated matter, and for what we believe is, on the

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<sup>1</sup> *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, Release No. 33-11042 (March 21, 2022), available at <https://www.sec.gov/rules/proposed/2022/33-11042.pdf> (the "Proposed Rule").

whole, a balanced proposal. We are pleased, in particular, that the Proposed Rule draws from the Task Force on Climate-related Financial Disclosures (“TCFD”), the leading global standard for material climate-related disclosures. As the Commission has recognized, TCFD is the preeminent disclosure framework embraced not only by issuers but also increasingly by regulators around the world. In addition, with the endorsement of the International Accounting Standards Board and through the formation of the International Sustainability Standards Board, the TCFD recommendations are being leveraged as a global baseline of sustainability-related financial disclosures. We agree that TCFD provides the appropriate framework for what the Commission seeks to accomplish with respect to issuer climate-related disclosures.

While we are generally supportive of the Proposed Rule, we believe there are important modifications that the Commission should consider. To that end, we generally echo the comments made by the Investment Company Institute (“ICI”), except with respect to Scope 3 GHG emissions disclosure and assurance of Scope 1 and Scope 2 GHG emissions data, which we address separately in this letter. In addition to the comments on materiality, discussed further below, we also agree with the ICI that companies should not be required to disclose whether any member of their board of directors has expertise in climate-related risks. This requirement goes beyond TCFD recommendations, is duplicative of existing disclosure requirements (namely, Item 401(e) of Regulation S-K) and also fails to recognize the supervisory nature of the board’s role; to the extent needed and desired, boards rely on experienced employees or outside advisers for advice on matters such as climate-related risks. As-is, we believe this disclosure requirement will place undue pressure on companies to add a climate expert to their board of directors when what matters more is the collective experience and expertise that the board brings to bear as a whole.

We write today specifically to affirm the importance of Scope 3 GHG emissions disclosure by certain companies. We recognize that there is sharp division among investors and other stakeholders with respect to this proposed requirement. While some investors believe it is premature to mandate Scope 3 GHG emissions disclosure, and we recognize the challenges involved in measuring the same, we strongly believe – as described more fully below – that larger companies should disclose this information to the extent material, subject to a safe harbor and regardless of whether the company has an emissions-related target or goal.

**1. Larger companies (other than smaller reporting companies) should be required to disclose their Scope 3 GHG emissions to the extent material.**

First and foremost, as long-term investors seeking superior results for our clients, in our bottoms-up security analysis, we find that Scope 3 GHG emissions data offers key insights into how a company is managing material climate-related risks and opportunities in the energy transition. A company's mix of Scope 1, Scope 2 and Scope 3 GHG emissions will vary based on its operating model and, importantly, as the Commission points out, there exists a substitutional relationship between Scope 1 and Scope 3 GHG emissions. In the oil and gas sector, for example, a company with a large refining or chemicals footprint will have higher Scope 1 and Scope 2 GHG emissions, but lower Scope 3 GHG emissions, in each case compared to a company that primarily sells transportation fuels. In the absence of Scope 3 GHG emissions data, the comparison might lead investors to conclude, falsely, that the latter company has a lower carbon emissions profile - and is managing its climate-related risks more effectively - than the former. Put simply, Scope 1 and Scope 2 GHG emissions data alone provide an incomplete (and potentially inaccurate) picture of a company's overall carbon footprint and its ability to create and sustain long-term value through shifting consumer demands or changes in energy policy. Scope 3 GHG emissions data is thus a necessary supplement to Scope 1 and Scope 2 GHG emissions data, and we support making this disclosure mandatory for larger companies.

Second, we believe a company's assessment of its own Scope 3 GHG emissions will be more reliable than that of a third-party data provider. While estimates of companies' Scope 3 GHG emissions are currently available through third-party data providers, such estimates are necessarily based on industry averages and other secondary data. By contrast, companies are far better positioned to produce Scope 3 GHG emissions data based on primary input throughout its value chain. Even if companies themselves have to rely on estimates for certain aspects of their Scope 3 GHG emissions reporting, we believe their disclosure will be more accurate and meaningful than any third-party estimate. Relatedly, though Scope 3 GHG emissions data by companies remains quite limited today, we are seeing a significant increase in voluntary reporting of such data, particularly in the last year. For example, in 2020, nearly 20% of companies in Sustainalytics' data set (or more than 11,000 issuers) reported their Scope 3 GHG emissions, nearly double the number of companies who did so

in prior years. We are encouraged by this trend and believe the Proposed Rule will further drive transparency in this area.

Third, requiring corporate disclosure of material Scope 3 GHG emissions is consistent with the recommendations of TCFD, which we believe, as discussed above, set constructive and widely adopted parameters for climate-related disclosures.

**2. Any climate-related disclosure requirements, including with respect to Scope 3 GHG emissions, should be based on existing materiality standards.**

We agree with the observation made by the ICI, The Asset Management Group of the Securities Industry and Financial Markets Association and others that the Proposed Rule appears to deviate from the long-standing definition of materiality set out by Supreme Court precedent that has shaped the practice and enforcement of federal securities laws to date.<sup>2</sup> For one, the Proposed Rule contemplates mandating Scope 3 GHG emissions disclosure even when not material. In addition, the Proposed Rule suggests that, where a company's Scope 3 GHG emissions constitute over 40% of its overall GHG emissions, it would be deemed material. Any such quantitative materiality thresholds would be inconsistent with the definition that the Commission and courts have applied for over thirty (30) years. We highlight the comments submitted by the ICI on materiality and join them and others in urging the Commission to revisit the materiality standard used in the Proposed Rule.

**3. We support limiting Scope 3 GHG emissions disclosure to only those categories of Scope 3 GHG emissions that a company determines to be material, and applying a safe harbor to such disclosure.**

As proposed, a company's Scope 3 GHG emissions would include 15 distinct categories of its upstream and downstream activities. We recognize that not all of them will be relevant or material to all companies, and that reporting emissions relating to each such category would be onerous. In the interest of minimizing burden to companies while driving greater transparency for investors, we agree with limiting the Scope 3 GHG emissions disclosure

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<sup>2</sup> Information is "material" if there is a "substantial likelihood" that it would have been viewed by a reasonable investor as having "significantly altered the total mix of information made available." See *TSC Indus., Inc. v. Northway, Inc.*, 426 U.S. 438 (1976); *Basic Inc. v. Levinson*, 485 U.S. 224 (1988).

requirement to apply only with respect to those categories of a company's activities in its value chain that are determined to be material. We believe doing so would ease issuer burden while still ensuring helpful disclosure for investors. In addition, given evolving methodologies relating to Scope 3 GHG emissions data, we further support applying a safe harbor to this disclosure. We agree with the ICI, however, that rather than the safe harbor proposed by the Commission, the safe harbor applicable to Scope 3 GHG emissions disclosure should more closely track that which currently applies to forward-looking statements under the federal securities laws.

**4. Scope 3 GHG emissions disclosure should not be required solely because a company has adopted an emissions reduction target or any other climate-related goal.**

The Proposed Rule requires disclosure of Scope 3 GHG emissions if a company has "set a GHG emissions reduction target or goal that includes its Scope 3 emissions."<sup>3</sup> This requirement is potentially overbroad as it would apply even to companies whose targets and goals are not necessarily material and that are not otherwise required to report Scope 3 GHG emissions. More importantly, we share the concern articulated by others that this requirement would have the unintended consequence of discouraging companies from adopting emissions reduction targets or other climate-related goals that may shape their ability to generate value over the long run. As noted above, it is our view that Scope 3 GHG emissions disclosure should be required if material, separate and apart from any climate-related targets or goals.

**5. With respect to GHG emissions data generally, we do not believe third-party assurance should be required.**

The Proposed Rule would require larger companies to assure their disclosure of Scope 1 and Scope 2 GHG emissions data. As highlighted in our comment letter in response to the Commission's request for input on climate change disclosures last year, our view remains that third-party assurance would result in significant, additional cost to issuers and offer limited value to investors. In addition, no other numerical data in a company's regulatory filing, other than its financial statements, is required to be audited today. We are not persuaded that

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<sup>3</sup> Proposed Rule at 43.

Scope 1 and Scope 2 GHG emissions data should be treated any differently and would urge the Commission to reconsider its proposed requirement relating to assurance.

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We thank the Commission for its consideration of our above comments. If you have any questions or would like to discuss the contents of this letter, please feel free to contact Clara Kang at [REDACTED].

Sincerely,

Jessica Ground  
Global Head of ESG  
Capital Group

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Capital Research and Management Company