



Via email to:

[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

October 20  
Secretary Vanessa A. Countryman  
U.S. 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:

On behalf of Trillium Asset Management, LLC (Trillium), I welcome the opportunity to submit this comment to the Securities and Exchange Commission (the Commission) **in support of** File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors (the "Proposed Rule"). We appreciate the opportunity to comment on this groundbreaking Proposed Rule that will provide investors with standardized, decision-useful climate-related information.

### **Background of Trillium Asset Management**

Trillium was founded in 1982 by Joan Bavaria, the "mother of socially responsible investing." From our beginning, we have exclusively focused on sustainable and responsible investing and have been at the forefront of environmental, social, and governance (ESG) thought leadership. With over \$4.4 billion in assets under management (as of 06/30/22) Trillium continues to offer investment strategies and services that we believe advance humankind towards a global sustainable economy, a just society, and a better world.

### **General Support for the Proposed Rule**

Trillium has long believed in the importance of incorporating environmental, social, and governance (ESG) information into our investment decision-making framework. As investors, we need ESG information to assess how these extra-financial risks and opportunities impact the companies we choose to invest in. Importantly, management's

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approach to handling these ESG risks and opportunities is as important to us as the outcome, just as notes in financial reports clarify and support the financial statements.

We believe that mandating disclosure of climate-related ESG information will benefit investors, and we also believe it will benefit issuers. Investors globally are increasingly factoring information about company's climate change emissions, policies, and practices in investment decision making. As other governments require ESG disclosure including climate change information, such as through the European Union's (EU) Non-Financial Reporting Directive, U.S. companies that fail to provide this disclosure may be at a disadvantage in the global competition for investors' capital. While companies are free to voluntarily disclose this information, as many currently do, the lack of complete and comparable data, along with standardized reporting requirements, may leave U.S. companies and investors at a relative disadvantage to global counterparts. Mandating disclosure will thus level the playing field for both investors and issuers.

The current ad-hoc state of climate disclosure from U.S. registrants does not meet many investors' needs for comprehensive, science-based, decision-useful data from all enterprises facing material short, medium, and long-term climate change risks. And while not all companies currently face financially material exposures to climate risks, a company's actions may still contribute to the systemic risks of climate change, exposing all actors in the economy to the long-term systemic risks of climate change. Therefore, all companies across all industries should provide transparent disclosure on how they assess climate-related risks and opportunities.

We applaud the proposed rule as a long-overdue step to facilitate the sharing of accurate, comparable information that will make markets more efficient.

### **Trillium's Use of Climate Data**

Our investment decision-making process includes an in-depth ESG analysis of companies we may invest in, including analysis of company disclosures for oversight, identification, and management of climate-related emissions data, risks and opportunities, among other related factors. For the companies that do not report their emissions, we rely on estimates from an external data provider based on business model and geography, which may not accurately

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represent management skill or intentionality of carbon risk management. The lack of company-reported and/or confirmed data adds to the variability in the assumptions which support our carbon footprint and related climate impact estimates within our portfolios, which makes our management of the climate-related impact of our investments inherently less predictable. [Q2, Q93]

We also use portfolio emissions data as a member of the Net Zero Asset Managers Initiative (NZAM). As we work towards our commitment to net zero scopes 1, 2, and 3 emissions by 2050, our current, interim target is that by 2030, 75% of the holdings of our Trillium-advised larger cap-equity strategies will have set science-based greenhouse gas emissions reduction targets approved by the Science Based Targets Initiative (SBTi). We chose this interim target in part due to our concern about the lack of required emissions disclosure, as we wanted to ensure that our target was meaningful in relation to our existing strategies' characteristics, and not reliant on a specific data vendor's estimates. To the extent that our emissions data does rely on third party estimates, we may be less able to know whether our strategies are in-line with the Paris Agreement, which means our ability to assess climate-related risk on an enterprise-wide level may be diminished.

Climate information also factors into our proxy voting decisions. Without accurate, reliable, comparable and consistent data from our portfolio companies, we must exclusively rely on either paid third party assessments of performance on climate when voting for directors, or focus on specific markers and assertions that the company is taking climate seriously, such as like emissions goals verified by the Science-Based Targets Initiative. Access to uniform data and evaluation metrics would allow us more flexibility and specificity when formulating our guidelines for director votes, compensation packages, and other advisory votes.

Additionally, our shareholder advocacy team uses climate emissions data (or lack thereof) to help in determining which companies to engage with. While many of the companies we invest in, particularly larger companies, already disclose emissions data, our Advocacy team often asks companies to disclose greenhouse gas emissions. For example, in the first half of 2022, we have successfully engaged with four companies with varying levels of emissions

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disclosure, as we discussed in a recent whitepaper<sup>1</sup>. All eventually agreed to disclose scope 1, 2, and 3 information, with a varied phase-in period depending on size, which signals that emissions disclosure covering all scopes is a feasible request of all companies, in our view. However, it is more common for companies in our strategies and in the broader investment universe to not voluntarily disclose emissions data and related metrics. It would take a significant outlay of Advocacy staff time and resources to assess, engage and monitor companies to disclose on a piecemeal basis. [Q93, 97, 98]

### **Scopes 1, 2, and 3 Emissions Disclosure**

We support the requirements for disclosure of greenhouse gas emissions data in-line with the GHG Protocol and believe the proposed phase-in process for scopes 1 and 2 gives issuers ample time to accurately assess and report their emissions.

Given that decision-useful emissions information must be consistent, comparable and reliable, we urge the Commission to require scope 3 disclosures for all registrants, regardless of size or materiality. As outlined above, accurate, comparable emissions data is important to our investment process, proxy voting and engagement strategies, and is essential in enabling us to meet our own firm-wide, corporate commitments to help keep warming under 1.5 degrees Celsius. A consistent scope 3 disclosure requirement for all issuers would ensure that we are able to more effectively operationalize information and compare company performance against peers, even if disclosures are reliant on estimates—and we believe that a universal requirement will accelerate development of more accurate calculations. Additionally, universal scope 3 disclosure is important regardless of whether scope 3 emissions are material for any given company. Investors need scope 3 data from *all* issuers to calculate whole portfolio emissions, appropriately manage risk, and meet net zero commitments. In other words, companies' scope 3 emissions may be material for us and other investors. [Q93, 98, 99]

While we request that the Commission require scope 3 emissions data from all companies, we recognize that scope 3 emissions are more difficult to track and reconcile, requiring a more

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<sup>1</sup> [https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/6304f7860cc27297483e0boo\\_Climate%20Work%20Advocacy%20INSoo9-082022.pdf](https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/6304f7860cc27297483e0boo_Climate%20Work%20Advocacy%20INSoo9-082022.pdf)



significant resource outlay than scope 1 and 2 emissions. That is why we are supportive of a longer phase-in period for smaller companies. Smaller companies can and do report scope 3 emissions. As described above, after engagement by our Advocacy team in 2021 and 2022, four small and mid-cap companies agreed<sup>2</sup> to disclose scope 3 data, demonstrating that it is certainly possible for smaller issuers to do so with ample timelines for compliance. As the management team of one of those companies we engaged pointed out, where larger and smaller companies share suppliers, smaller companies will benefit from larger companies requiring scope 3 disclosure, making it even more feasible for smaller companies to disclose after an ample phase-in period. [Q133, 134]

If the SEC does *not* require universal scope 3 disclosure, we would ask that the SEC require companies who do not find scope 3 emissions to be material to publish full explanations of their conclusions, reasoning, and methodology. We would also urge the SEC to provide further guidance on how materiality should be determined (for example, the Science Based Targets Initiative requires scope 3 reporting where scope 3 is more than 40% of total emissions). Depending on the sector, scope 3 emissions can often make up the bulk of a company's emissions, but without a standard definition of materiality, investors are left at the mercy of companies to self-determine whether emissions are material or not. [Q43, 132]

And if the Commission does not compel scope 3 disclosure of *any* company, we strongly emphasize that for the proposed rule to be at all useful to investors, it *must* require scope 1 and 2 data from all issuers. Although we believe there is a robust case for mandatory scope 3 disclosure, tracking and disclosing scope 1 and 2 emissions appears to be well within any company's capabilities as it is under their direct control in our experience. Scope 1 and 2 emissions methodologies are well established; many companies already voluntarily report this data; and investors are in dire need of a complete, comparable dataset for scopes 1 and 2 at the bare minimum.

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<sup>2</sup> [https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/6304f7860cc27297483e0boo\\_Climate%20Work%20Advocacy%20INSoo9-082022.pdf](https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/6304f7860cc27297483e0boo_Climate%20Work%20Advocacy%20INSoo9-082022.pdf)

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## **Targets and Goals**

In our view, a critical aspect of any transition plan is the quantitative, time-bound targets, both related to emissions reduction and other climate areas. It is clear from record-high shareholder proposal votes over the last few years requesting companies disclose emissions and/or reduction targets that investors are increasingly interested in this information<sup>3</sup>, which we use in our advocacy and proxy voting. Uniform, regularly updated target disclosures would help ensure the accuracy of our voting and ESG analysis as well as the prompt and precise achievement of our own NZAM portfolio emissions targets.

We encourage the Commission to clarify that the baseline time period and baseline metrics must be disclosed for all quantifiable climate-related targets a registrant has set, including water, renewable energy, etc. Targets are not meaningful signals to investors without a clear understanding of where a company started and is heading. [Q48, 49]

## **Social Considerations in Governance, Risk Management Disclosure, and Transition Plans**

We and many other investors acknowledge that climate change is shaped by and has impacts on social concerns. Therefore, we believe disclosure of climate governance, strategy, and risk management without consideration of a company's impact on workers, stakeholders, and political systems is incomplete, and urge the Commission to require companies to enumerate how they are overseeing and managing the social risks of the transition to a low carbon economy.

One significant omission we see in the proposed rule is a requirement for companies to describe the role of board and management in overseeing and implementing climate-related lobbying, including the process for reviewing memberships in 501(c)(4) and 501(c)(6) groups for alignment in climate-related public policy approach. Additionally, we urge the Commission to require a discussion of climate-related public policy positions and any inconsistencies between those positions and its own commitments. Investors should be able to evaluate if companies are undermining their own pledges and/or the role that the company sees public policy playing in its ability to achieve those goals. [Q170]

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<sup>3</sup> <https://corpgov.law.harvard.edu/2022/10/03/2022-proxy-season-shareholder-proposal-review/>, <https://www.proxypreview.org/press-release>



Similarly, we urge the Commission to ask companies to describe if and how their transition to a low-carbon economy is affecting or will affect their workforce, given the role changes in business models can play in ensuring the political will to transition exists, and the considerable risk of reproducing or exacerbating systemic racial and income inequalities resulting in economic loss.

Another critical social factor we urge the Commission to include is how companies are embedding respect for the rights and sovereignty of Indigenous Peoples in successfully mitigating climate risk, in line with existing GRI and SASB reporting metrics. Indigenous Peoples are the primary caretakers of at least 25% of the earth's land, and the consequences companies and shareholders have paid for ignoring Indigenous Peoples' land rights, including costly project cancellations or delays and colossal loss of reputation are well documented.

### **Governance**

Assessing how company boards and managements oversee, identify and manage climate-related risks and opportunities is inherently important to our ESG analysis, investment process, and meeting our climate commitments. We support disclosure of board and management climate oversight, structures, and processes as proposed, including disclosure of board member climate expertise. While many companies already disclose this information, as with any financial risk, we want to know who on the board and management is authorized and responsible, and the structures and processes in place to manage climate risk. [Q 1, 3, 34-39]

### **Closing**

In sum, we are eager for consistent, comparable, reliable and relevant climate data from companies and support the Commission's proposed climate disclosure rule. Broadly disclosed climate data will have the most impact on market efficiency, and we encourage the Commission to require more aspects of the proposed rule, rather than rely on voluntary commitment. As investors who have long-integrated corporate climate characteristics into our investment process, we applaud this step towards improved investor protection; more fair, orderly, and efficient markets; and increased capital formation.

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Climate change poses a profound threat to the well-being of ecosystems and communities around the world and businesses have an impact on the trajectory climate change takes. We believe we must all take responsibility for taking the steps that we can to reduce the negative impacts it will have on people and the planet.

Sincerely,

A handwritten signature in black ink that reads "Matthew Patsky". The signature is written in a cursive, flowing style.

Matthew Patsky  
CEO, Trillium Asset Management

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