Sustainability is the bottom line.

February 1, 2023

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

Re: The Enhancement and Standardization of Climate-Related Disclosures for Investors, Release No. 33-11042, 34-94478; File No. S7-10-22

Dear Ms. Countryman:

Ceres has compiled recent evidence regarding increased disclosures being made by issuers of their GHG emissions data, TCFD-aligned information, and climate risk disclosure generally. This evidence supports statements in the proposing release about the sizeable portion of issuers already disclosing GHG emissions, which suggests that concerns about compliance costs and implementation burdens are overstated. The data below also highlights the inconsistency from one voluntary reporting protocol to another, and how U.S. companies, while significantly increasing their reporting, continue to lag their E.U. counterparts.

Below we provide new evidence, available subsequent to October 2022, showing increased rates of GHG emissions disclosures and TCFD-aligned disclosures by US and North American companies. In addition, we provide information about rising climate-related reporting rates globally and in the US.

The reports we cite vary in the percentages of companies that disclose climate-related information. These differences reflect the different methodologies used, sample size, timeframe for analysis, and other factors. Some of the reports compared present-year data to previous years, showing an increase in percentages of companies disclosing climate-related factors.

GHG emissions disclosure rates in North America

The SEC's rulemaking release states that many issuers currently disclose GHG emissions, which may lower the cost of compliance. It states, "Other sources confirm that, at least within samples of larger firms, a sizeable portion already measure and disclose their emissions, though not necessarily through their regulatory filings. . . . To the extent that registrants' current climate-related disclosures overlap with the proposed rules, registrants may face lower incremental compliance costs."[1]

Recent research findings on emissions disclosure rates support the SEC's contention that a sizeable and increasing portion of firms already measure and disclose emissions information. The TCFD found that disclosure rates for North American companies have risen compared to one year ago, showing that greater numbers of companies would face reduced incremental compliance costs with the SEC rule because they already measure emissions. MSCI found that Scope 3 disclosure rates have risen compared to their previous findings.

[1] Securities and Exchange Commission, Release Nos. 33-11042; 34-94478; File No. S7-10-22, The Enhancement and Standardization of Climate-Related Disclosures for Investors, pp. 311, 312.

According to the TCFD (October 2022), a sizeable portion—30% (206) of 687 larger North American firms—disclosed Scopes 1 and 2 GHG emissions, and Scope 3 emissions where relevant, in fiscal year 2021.[2] That is a 29% increase, compared to the previous year, in the number of firms disclosing these emissions. In October 2021, the TCFD reported that 21% (160) of 762 larger North American firms disclosed Scopes 1 and 2 emissions, and Scope 3 emissions where relevant .[3] Emissions disclosure was defined according to the firms' alignment with the TCFD's recommendations, which, at the time, was to "disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks."[4]

This 2022 finding is based on an analysis of large companies in the following industries: banking, insurance, energy, materials and buildings, transportation, agriculture, food and forest products, technology and media, and consumer goods.[5] The analysis was conducted using an AI review of disclosures in financial filings, annual reports, integrated reports, sustainability reports, and other related reports.[6] The TCFD does not break out disclosure rates by countries within North America.

According to the IEA (October 2022), 281 (56%) of S&P 500 companies disclose Scope 1 emissions, 277 (55%) disclose Scope 2, and 191 (38%) disclose Scope 3.[7] This analysis covers large-cap U.S. equities (i.e., companies listed in the S&P 500 index). The methodology is not disclosed in detail, and the data comes from IEA calculations based on information from Thomson Reuters Eikon.

CDP, too, recently published findings on S&P 500 companies' climate risk disclosures. The organization reported that 400 (80%) of these companies responded to the CDP climate change questionnaire in 2021.[8] Of the 400 respondents, 96% of them disclosed both Scopes 1 and 2 emissions in alignment with the TCFD's recommendations, and 85% of them reported at least one category of Scope 3 emissions.[9]

According to Ceres (December 2022), for the 452 companies included in our Ambition 2030 Initiative, 203 (45%) disclose "partial" or "full" GHG emissions information (See Figure 1 below).[10] "Partial" is defined as Scopes 1 and 2 emissions for most sectors, and "full" is defined as Scopes 1, 2, and the most relevant Scope 3 categories.[11] The Ambition 2030 companies are U.S. companies, drawn from the Russell 3000 Index, in six of the highest-emitting sectors: oil and gas, electric power, food, steel, transportation, and banking.[12]

Ambition 2030 is a Ceres initiative that works to decarbonize six of the highest-emitting sectors and help build a stable, just, and climate-resilient economy by driving greater corporate ambition, action, and accountability on aggressive greenhouse gas (GHG) emission reductions.[13] The full list of companies

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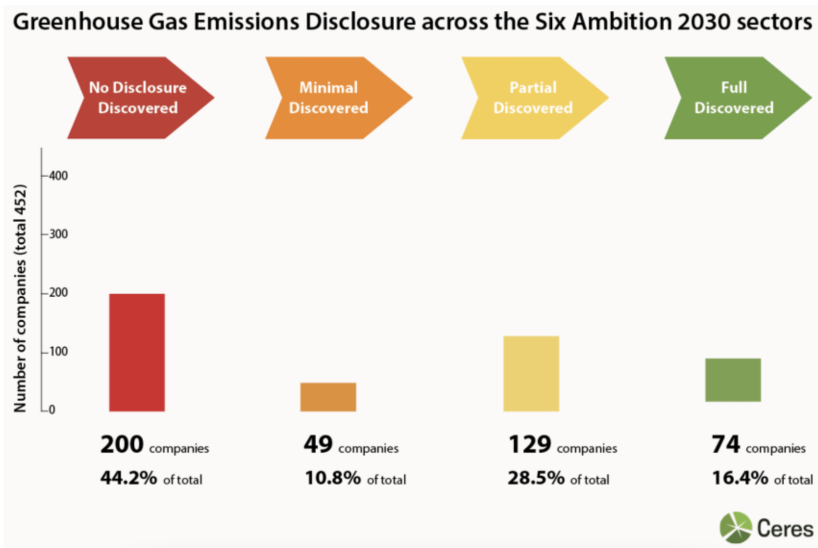
[2] TCFD 2022 Status Report (October 2022), p. 4; Figure A6: Disclosure by Region: 2021 Fiscal Year Reporting, p. 16.
[3] TCFD 2021 Status Report (October 2021), p. 35, Fig. B6.
[4] TCFD 2022 Status Report (October 2022), p. 11.
[5] Id., p. 10.
[6] Id.
[7] IEA, Number of companies in the S&P 500 reporting energy- and emissions-related metrics (October 26, 2022).
[8] CDP, TCFD Insight Series: S&P 500 (September 2022), p. 1.
[9] Id., pp. 3, 4.
[10] Ceres Ambition 2030 Progress.
[11] Ceres, Ambition 2030 Data Methodology and FAQs Version 1.0 (December 14, 2022), pp. 2-6.
[12] Ceres, Ambition 2030 Data Methodology and FAQs Version 1.0, pp. 12-27.
[13] Ceres, Ambition 2030.

involved is publicly available.[14] The data is from reporting year 2021, covering the companies' fiscal year 2020 emissions. Data sources are Bloomberg ESG Metrics and ISS, collected from ESG reports, CDP reports, and other company-issued communications; no modeled or calculated data was used.[15] Sector Dashboards provide sector-specific emissions information for the six high-emitting sectors.[16]

Figure 1[17]



According to MSCI (November 2022), "25% of U.S.-listed companies disclosed at least some of [the GHG] emissions from their value chain, or Scope 3, in the six months that ended Oct. 24[, 2022], up from 15% since the SEC proposed the regulations in March."[18] The increase in disclosure was even higher in sectors with high GHG emissions. MSCI found, "Disclosure of Scope 3 emissions by companies in the emissions-intensive materials, utilities and energy sectors has increased by 18, 33 and 19 percentage points, respectively, over the same period."[19] The sample consisted of 2,588 US companies in the large-, mid-, and small-cap segments (the MSCI USA IMI Index), analyzed by MSCI ESG Research with data as of October 24, 2022. The methodology is not discussed.

To summarize, these reports show significant emissions disclosure rates by US or North American companies. The two studies that compared current disclosure with past disclosure found an increase compared to previously measured time periods.

However, despite the rise in GHG emission disclosure, North American emissions disclosure rates are still significantly lower than those in other regions with the largest economies. In 2021, the TCFD-aligned North American emissions disclosure rates (30% of 687 firms) were significantly lower than those in

[14] Ceres, Ambition 2030 Data Methodology and FAQs Version 1.0, pp. 12-27.
[15] Ceres, Ambition 2030 Data Methodology and FAQs Version 1.0, p. 1.
[16] Ceres Ambition 2030 Progress.
[17] Ceres Ambition 2030 Progress.
[18] Kenji Watanabe and Chris Cote, MSCI, *The SEC's climate rules aren't yet final, but companies are already disclosing more of their carbon emissions* (November 2022), p. 2.
[19] Id.

other regions with the largest economies, such as the Asia Pacific region (46% of 273 firms) and Europe (75% of 359 firms).[20]

This shows that not enough North American companies are well prepared to assess emissions-related financial risks, highlighting the importance of the SEC rulemaking in providing investors better data for their risk assessments.

TCFD-aligned disclosure rates in North America

The SEC states, in the proposed rule, "The TCFD framework has been widely accepted by issuers, investors, and other market participants, and, accordingly, we believe that proposing rules based on the TCFD framework may facilitate achieving this balance between eliciting better disclosure and limiting compliance costs."[21] Evidence from recent reports supports this and shows that disclosure rates are increasing in North America.

According to the TCFD (October 2022), the average level of TCFD-aligned disclosure, which includes 11 categories and goes beyond the GHG emission data discussed above, for larger North American companies, was 29% for the fiscal year 2021 reporting, a growth of 9% since 2020,[22] and 12% since 2019.[23] The data was derived from a TCFD assessment of 687 larger North American companies, which analyzed the percentage of disclosure for each of the Task Force's 11 recommended disclosures. The analysis did not break out disclosure rates by countries within North America.

According to the Governance and Accountability Institute ("G&A") (November 2022), 81% of Russell 1000 companies published sustainability disclosures in 2021, and of those companies, 34% provided disclosures aligned with the TCFD recommendations, up from 4% in 2019 and 17% in 2020.[24] 96% of S&P 500 companies published sustainability information in 2021, and the percentage of those companies using the TCFD increased to 44%, vs. 23% the previous year.[25]

For this report, G&A "researched corporate ESG disclosure and reporting activities of the companies listed in the Russell 1000 Index during the calendar year 2021 and expanded upon the ESG factors typically examined by the G&A analyst team and senior staff." The Russell 1000 Index includes the largest publicly traded US companies by market cap, which make up approximately 93% of the total market capitalization of all listed stocks in the US equity market.

While the data presents a significant rise in TCFD disclosure rates in North America, they also show a gap between North American firms and their counterparts in other regions with the largest economies. The TCFD's October 2022 report analyzed the average percentage of disclosure across the 11 TCFD recommended disclosures by region for fiscal year 2021 reporting. It found that 29% of 687 larger North

[20] Id. The Latin America (24% of 42 firms) and Middle East and Africa (26% of 73 firms) regions were mostly closely aligned with North America disclosure rates. Id.
[21] Securities and Exchange Commission, Release Nos. 33-11042; 34-94478; File No. S7-10-22, The Enhancement and Standardization of Climate-Related Disclosures for Investors, pp. 34-35.
[22] TCFD 2021 Status Report, p. 34.
[23] TCFD 2022 Status Report, pp. 11, 17.
[24] G&A Institute, 2022 Sustainability Reporting in Focus: Examining 2021 trends of companies on the S&P 500 + Russell 1000, pp. 8, 19. See also G&A Institute, New G&A Institute Research Shows Sustainability Reporting by Largest U.S. Public Companies Reached All-Time Highs in 2021 (November 16, 2022).
[25] G&A Institute, 2022 Sustainability Reporting in Focus report, pp. 5, 23. [G&A Institute --- 2021 report --- p. 16]

American firms disclose TCFD-aligned information, compared to 36% of 273 firms in the Asia Pacific region and 60% of 359 firms in Europe.[26] Looking at percentages of disclosure in each of the 11 TCFD recommended disclosures, North America companies trailed European countries in all 11 categories and trailed Asia Pacific countries in 8 of 11 categories.[27]

This demonstrates that not enough North American companies are well prepared to assess the full range of climate-related financial risks covered by the TCFD. Part of the difference is the impact of international regulatory agencies and their requests for more climate disclosure.

But more importantly, this data availability gap between US firms and their Asian and European counterparts highlights the importance of the SEC rulemaking in keeping companies competitive and providing investors better qualitative and quantitative data aligned with the TCFD recommendations. The contrast with European companies, whose disclosure rate is twice that of North American firms (60% vs. 29%), is especially striking. Both companies and investors in North America face a competitive disadvantage if this gap is not closed.

Climate risk disclosure around the world and in the US is growing

CDP collects climate risk disclosures annually from thousands of companies worldwide. This includes emissions information and other TCFD-aligned disclosures. Recent information from CDP demonstrates a significant increase in the numbers of companies disclosing globally.

CDP's June 2022 letter to the SEC stated, "In 2021, CDP saw record disclosures, with over 14,000 organizations disclosing data on climate change, water security and deforestation issues. This covers over 13,000 companies representing 64% of global market capitalization…."[28] CDP released updated information in October 2022 showing a large increase in the number of companies disclosing: "18,700+ companies – including listed companies worth US$60.8 trillion (half of global market capitalization)" have disclosed environmental data through CDP in 2022."[29]

A January 2023 analysis, *Climate Risk Factors Soar at Largest Public Companies*, examined risk factor disclosures in the annual reports of 439 S&P 500 companies, in both 2021 and 2022 reports.[30] In 2022 reports, approximately one-third (150) of these companies added new stand-alone climate-related risk factors to their 10-K filings.[31]

The findings show increased awareness of physical climate risks, and higher disclosure rates from industries most affected by climate change. 50% of companies with stand-alone climate risk factors discussed both transition and physical risks, and 60% of the companies with physical risk disclosure discussed both acute and chronic physical risks.[32] The Financials sector added the greatest number (28)

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[26] TCFD 2022 Status Report (October 2022), p. 16, Figure A5.
[27] Id., Figure A6.
[28] Lori Llewellyn, Elizabeth Small and Paula DiPerna, CDP North America Inc. letter to SEC (June 17, 2022), p. 2.
[29] CDP, Nearly 20,000 organizations disclose environmental data in record year as world prepares for mandatory disclosure (October 19, 2022).
[30] Dean Kingsley, Matt Solomon, Deloitte & Touche LLP, and Kristen Jaconi (USC Marshall), Climate Risk Factors Soar at Largest Public Companies, Harvard Law School Forum on Corporate Governance (January 19, 2023).
[31] Id.
[32] Id.

of new stand-alone climate risk factors, and over half of the companies in Energy (12) and Consumer Staples (11) sectors added these risk factors.[33]

While this letter discusses rising climate disclosure rates from many companies, risks remain from incomplete or misleading disclosures, which this rulemaking will help address. A new survey of more than 430 general counsel and in-house litigation leaders based in the US and Canada discussed the risks of both a lack of disclosure and the absence of disclosure rules.[34] Twenty-eight percent of respondents said their ESG dispute exposure increased in 2022, and 24% expect it to deepen in the coming 12 months; of these respondents, the most common ESG risk they cited (47%) was the current lack of established ESG metrics and requirements.[35]

Thank you very much for your consideration of our comments. We welcome the opportunity to provide additional background and resources if it would be useful. If you would like further information, please contact me at srothstein@ceres.org.

Sincerely,

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[33] Id.
[34] Norton Rose Fulbright, 2023 Annual Litigation Trends Survey: Perspectives from Corporate Counsel, (January 18, 2023), pp. 13-14.
[35] Id., p. 13.