

April 6, 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 Secretary Countryman:

We are writing regarding the SEC’s climate disclosure rulemaking, [*The Enhancement and Standardization of Climate-Related Disclosures for Investors*](#). First, we are writing to provide additional information and analysis regarding the ERM May 2022 report commissioned by Ceres and Persefoni, [*Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors*](#) (“May 2022 report”), which was based on a survey of 39 issuers with a market capitalization of at least \$3.8 trillion and 35 institutional investors with \$7.2 trillion in assets under management (“the survey” or “issuer/investor survey”). The report was [submitted to the SEC’s comment file](#) on June 16, 2022. Second, we write to counter arguments suggesting higher costs for implementation of the rule than the SEC suggests. This submission is informed by analysis that ERM conducted and shared with Ceres and Persefoni in a client memo; it does not reflect proprietary information from either Ceres or Persefoni.

The May 2022 report found “considerable evidence of climate-related disclosure activity being undertaken by U.S. corporate issuers and investors in advance of the release of the SEC’s proposed rule, suggesting that adoption of the rule is something that many companies’ current activity will have helped prepare them to address.”¹ It found that, on average, the issuers surveyed are spending \$533,000 annually on climate-related disclosure, while institutional investor respondents are spending an average of \$1,372,000 annually to collect, analyze, and report climate data to inform their investment decisions.² The survey’s assessment of current average annual issuer costs is similar to the SEC’s estimate of \$530,000 in annual issuer costs after the first year of implementation.

Our letter contains two parts. In **Part 1: Additional Details about the May 2022 report and underlying issuer/investor survey**, we provide additional information from ERM about their survey, including investor respondents’ demographics as well as cross-tabulations of demographics with other metrics of interest. This facilitates the evaluation of the representativeness of the survey sample and offers new insights regarding both the costs and benefits of enhanced climate-related financial disclosure rules.

In **Part 2: Evaluation of Assertions in Comment Letters related to Cost-Benefit Analysis and other Topics**, we counter the arguments from three comment letters suggesting higher costs for implementation of the rule than the SEC states, and we provide additional ERM analysis of

¹ ERM, [*Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors*](#) (May 17, 2022), p. 17.

² *Id.*, p. 5.

the survey results to show that none of the respondents indicated that their current costs for climate related disclosure activities approach the magnitude of costs indicated in these comment letters.

Responding to assertions that benefits would be lower than indicated by the SEC’s analysis, we present additional evidence that qualifies and undermines the conclusions drawn by these commenters. We also examine the assertion that mandatory information disclosures do not help to resolve market failures.

Background: The SustainAbility Institute by ERM (‘ERM’) [surveyed U.S. issuers and institutional investors](#) to understand what they spend measuring and managing climate-related disclosure activities. The survey was conducted in February to March 2022. Ceres and Persefoni commissioned the survey to help inform climate disclosure rules, guidelines, and methods being developed by regulators, standard setters, and individual firms. Specifically, the survey results were intended to inform discussions related to the SEC’s climate disclosure rulemaking. ERM [submitted](#) the results and analysis to the SEC on June 16, 2022. ERM conducted further analysis of this survey and its results after the June 2022 submission, and they shared this work as a client memo to Ceres and Persefoni. This letter is informed by those additional findings.

Part 1: Additional Details about the May 2022 report and underlying issuer/investor survey

In this section, we provide additional information from ERM about the survey, including investor respondents’ demographics as well as cross-tabulations of demographics with other metrics of interest. This facilitates the evaluation of the representativeness of the survey sample and offers new insights regarding both the costs and benefits of enhanced climate-related financial disclosure rules.

1.1 Additional demographic details: issuer respondents

This section provides additional demographic details about issuer respondents to the survey, including a market capitalization breakdown, and information about the issuer average cost for expenditure categories covered by the proposed rule:³

Table 1 provides detailed information on market capitalization for the issuers that responded to the survey. The modal category for market capitalization is \$10 billion to \$50 billion, with 12 issuers in this category (about one-third of those reporting data). The distribution around this modal response is largely symmetrical: among those reporting market cap data, 35% of respondents reported a market capitalization of less than \$5 billion, while 31% reported greater than \$10 billion. The average market capitalization for issuer survey respondents, calculated using the midpoints for each category and the threshold value for the minimum and maximum categories (i.e., \$300 million and \$200 billion respectively), is \$51 billion.

³ T. Robert Fetter, Emily K. Brock, and Mark Lee, ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022) at 13-14.

Table 1. Market capitalization categories for issuer respondents

Market capitalization (USD)	Number of Issuers	Percent of issuers reporting data
Less than \$300 million	1	3%
\$300 million - \$1 billion	2	6%
\$1 billion - \$5 billion	2	6%
\$5 billion - \$10 billion	7	20%
\$10 billion - \$50 billion	12	34%
\$50 billion - \$100 billion	5	14%
\$100 billion - \$200 billion	4	11%
More than \$200 billion	2	6%
Not sure	2	n/a
Missing data	2	n/a
Total	39	100%

By comparison, the minimum market capitalization to be included in the S&P 500 is \$14.6 billion, and the median and mean market cap in the S&P 500 (as of July 29, 2022) are \$29.9 billion and \$72.8 billion, respectively.⁴ (Adjusting for the decline in the S&P 500 index from January to July 2022, comparable figures dating to January 2022 would be a median of \$32.7 billion and a mean of \$79.6 billion.⁵) Thus, the average survey issuer respondent is somewhat smaller than the average firm in the S&P 500, while the median respondent is comparable in size to the median firm in the S&P 500. As a further point of comparison, the smallest company in the Russell 1000 index has a market capitalization of \$3.6 billion.⁶

As indicated in the May 2022 report, the issuer average cost for expenditure categories covered by the proposed rule was \$533,000, quite close to the SEC’s estimated annual cost (one year after implementation) of \$530,000.⁷

Among issuer survey respondents with market capitalization of at least \$10 billion (i.e., those roughly comparable to companies in the S&P 500), the average cost for expenditure categories covered by the proposed rule is \$611,000. Among those with market capitalization of at least \$1 billion (roughly comparable to companies in the Russell 1000), the corresponding figure is \$558,000.

⁴ S&P Global. 2022. [S&P Dow Jones Indices: S&P 500](#) (accessed August 15, 2022).

⁵ The index fell from 7,589.80 to 6,945.20 (8.5%) between January 4, 2022, and July 29, 2022.

⁶ FTSE Russell. 2021. “[2021 Russell US Indexes Reconstitution](#).” June 2021 (accessed August 14, 2022).

⁷ This figure includes four ERM survey categories (GHG analysis and/or disclosures, climate scenario analysis and/or disclosures, internal climate risk management controls, and assurance/audits related to climate) that are similar but not identical to the categories used by the SEC in its cost analysis.

1.2 Additional analysis regarding cost of capital: issuer respondents

This section provides additional analysis regarding issuer respondents to the survey. **It is focused on a lower cost of capital as a potential benefit of climate-related disclosures.**⁸

As noted in the May 2022 report, the survey asked issuer respondents to rate how strongly they thought their company was impacted by certain potential benefits of climate-related disclosures and impact assessments. The 11 issuer respondents that rated “lower cost of capital” as a 4 or 5 (very important) on a scale of 1 to 5 spent, on average, about 1.9 times more on all climate-related disclosure activities than did the 28 issuer respondents that rated it 3 or below (\$1,023,000 vs \$541,000).

However, the relative allocation to individual climate-related disclosure activities (i.e., the ratio of spending between those that rated “lower cost of capital” as very important, to those that did not) differs by activity. The issuer respondents that rated “lower cost of capital” as a 4 or 5 spent comparatively more on external assurance and auditing (average of \$125,000 vs \$58,000, ratio of 2.14) and “other activities” (\$158,000 vs \$35,000, ratio of 4.5). They spent less on voluntary climate-related analyses and disclosure for stakeholder engagement, government relations, transition planning, and preparing related disclosures: companies rating “lower cost of capital” as a 4 or 5 spent an average of \$110,000 in this category, compared to \$139,000 for companies rating it 3 or below.

Issuer respondents rating “lower cost of capital” as a 4 or 5 were also considerably more likely to report on Scope 3 GHG emissions (10 of 11 issuers; 91%) compared to those rating it lower (18 of 28; 64%). The issuer respondents rating “lower cost of capital” as a 4 or 5 have also been producing climate-related disclosures for relatively longer (see Table 2): 8 of 11 firms in this category stated they had produced disclosures for more than 10 years, whereas among firms rating “lower cost of capital” at 3 or below, the most common duration reported was 1 to 5 years.

Table 2: Length of reporting by rating for “lower cost of capital” benefit

Length of reporting	Rating for “lower cost of capital”	
	4 or 5	3 or below
0 to 1 year	0	3
1 to 5 years	2	14
5 to 10 years	1	6
Greater than 10 years	8	4

These observations and correlations do not, unfortunately, permit reliable conclusions about causal relationships between investing in external assurance and auditing, reporting on Scope 3 GHG emissions, reporting for a longer period of time, and issuers finding that their efforts to analyze and disclose climate-related risks helps to lower their cost of

⁸ ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022) at 14-15.

capital. However, they provide suggestive evidence, and there may indeed be causal relationships between some of these factors. For instance, it is plausible that a company that prioritizes investments in external assurance and audits as part of climate-related disclosure would, as a result, more likely be able to use its climate-related disclosures to gain more favorable borrowing terms. This in turn would suggest that the SEC’s external assurance requirement may be particularly beneficial for capital markets, including for issuers.

The issuer respondents that rated “lower cost of capital” as a 4 or 5 are not significantly larger in terms of market capitalization (Table 3). Their average market capitalization was \$54 billion (SD = \$66 billion), compared to \$50 billion (SD = \$57 billion) for companies rating “lower cost of capital” at 3 or lower.

Table 3: Market capitalization by rating for “lower cost of capital” benefit

Market capitalization	Rating for “lower cost of capital”	
	4 or 5	3 or below
Less than \$300 million	0	1
\$300 million - \$1 billion	1	1
\$1 billion - \$5 billion	0	2
\$5 billion - \$10 billion	1	6
\$10 billion - \$50 billion	6	6
\$50 billion - \$100 billion	0	5
\$100 billion - \$200 billion	1	3
More than \$200 billion	1	1
Total reporting data	10	25
Average*	\$54 billion	\$50 billion
Standard deviation*	\$66 billion	\$57 billion

* Average and standard deviation are calculated using the midpoints for each category, or the threshold value for the minimum and maximum categories (i.e., \$300 million and \$200 billion respectively).

Part 2: Evaluation of Assertions in Comment Letters related to Cost-Benefit Analysis and other Topics

In this section, we provide additional analysis from ERM about assertions in comment letters related to cost-benefit analysis and other topics. Some of the assertions related to cost-benefit

analysis found in three comment letters on the SEC’s proposed rule differ significantly from the findings of the [May 2022 report](#). This includes letters from the [American Petroleum Institute](#) (API), the [Business Roundtable](#), and the [U.S. Chamber of Commerce](#) (“Chamber”), which includes the “Overdahl Report,” an appendix to the Chamber’s comment letter written by a former SEC Chief Economist. We focus on areas that relate to the May 2022 report and the underlying issuer/investor survey, as well as ERM subject matter expertise pertaining to (i) regulatory cost-benefit analysis and (ii) empirical evidence on how disclosure regulations can help address market failures caused by information asymmetries.

2.1 Contradicting claims of high estimated compliance costs for certain reporting entities

In this section, we provide evidence that supports the SEC’s estimates of compliance costs and contradicts statements in the Chamber, API and Business Roundtable letters that compliance costs will be higher than the SEC estimated. According to ERM’s analysis, the three letters overstated the reporting compliance costs:

[T]he Business Roundtable letter states (p. 16) that “a majority of Business Roundtable companies that have analyzed the potential costs associated with implementing the proposed rule believe they will be orders of magnitude more than what the SEC estimates.”⁹ Similarly, the API letter states (pp. 25-26) that “Some [API member companies] have estimated that compliance with the proposed requirements under Regulations S-X and S-K would cost over \$100 million for certain companies—excluding any costs for the Scope 3 disclosure requirements in the Proposal.”¹⁰ The API comment letter goes on to state, “Another large accelerated filer estimated the Proposal would cost approximately \$35 million over five years including one-time and recurring expenses but excluding the time of at least 60 individuals who are involved in the reporting of emissions and the additional time necessary to review the information as part of the SEC filing process.”¹¹

In contrast, issuers that responded to the issuer/investor survey reported actual costs much lower than these letters asserted:

[N]one of the issuer/investor survey’s 39 issuer respondents indicated that their current costs for measuring and managing climate-related disclosure activities even approach the magnitudes indicated. . . . Under a conservative approach to estimating a total cost for all elements – that is, assuming that the cost for each issuer respondent is at the high end of the cost range selected – the highest aggregate cost reported by any issuer respondent is \$3.5 million. . . . [T]his figure includes some elements that are not directly related to the disclosure requirements in the SEC’s proposed rule.¹²

⁹ [Business Roundtable letter to the SEC](#), June 17, 2022, p. 16.

¹⁰ [American Petroleum Institute letter to the SEC](#), June 17, 2022, pp. 25-26.

¹¹ *Id.* at 26.

¹² ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022), p. 5. More details from this memo can be found in the Appendices.

Issuer survey respondents provided the following costs information:

The highest cost reported in the issuer/investor survey by any issuer respondent for each cost category was as follows. Note that the survey specifically requested that respondents include internal costs (i.e., costs for internal data collection and internal staff) as well as external consultants, and costs for data services.¹³

- GHG analysis and/or disclosures: \$500,001 to \$750,000
- Climate scenario analysis and/or disclosures: \$500,001 to \$750,000
- Internal climate risk management controls: \$500,001 to \$750,000
- Assurance or audits related to climate: \$500,001 to \$750,000
- Proxy responses to climate-related proposals: \$250,001 to \$500,000
- Additional climate-related analysis and/or disclosures: \$500,001 to \$750,000

These average cost figures are calculated using the midpoint of the range within each cost category. Using that approach, ERM found that the highest aggregate expenditure indicated by any individual survey respondent is \$2.9 million, which includes \$2.3 million on the four survey categories that are similarly defined as (but not identical to) the three cost elements used by the SEC in its calculations of predicted costs.¹⁴ If costs are instead calculated using a more conservative approach (assuming that the actual cost is the maximum, not the midpoint, of the reported cost range), then the highest aggregate cost reported by any issuer respondent would instead be calculated at \$3.5 million, which includes \$2.8 million for the categories similar to the elements in the SEC Proposed Rule.¹⁵

The issuer/investor survey respondents included some very large companies that stated they have been able to perform analysis similar to that required under the SEC's Proposed Rule for significantly less than the amounts cited in the API and other comment letters:

[T]he issuers participating in the survey included some of the largest companies in the world by market capitalization and number of employees, e.g., companies with over \$200 billion in market cap and companies with over 250,000 employees. Thus, the survey results found that some very large companies with complex and global operations stated that they have been able to perform analysis similar to what would be required under the SEC's Proposed Rule – including a thorough inventory of Scope 3 emissions and external assurance of their climate-related disclosures – for significantly less than the amounts cited in the API and other comment letters.¹⁶

¹³ The issuer/investor survey allowed respondents to indicate higher amounts for each of these cost elements (\$750k-\$1m or \$1m-\$2m) or choose an "other" free-text-entry option where they could write in that, for example, their costs exceeded \$2m.

¹⁴ That is: GHG analysis and/or disclosures; climate scenario analysis and/or disclosures; internal climate risk management controls; and assurance/audits related to climate. As noted in the May 2022 report, the issuer/investor survey also collected information on issuer costs for two categories of climate-related expenditures for activities not directly required for disclosure on the Form 10-K or other forms subject to the SEC's proposed regulatory amendments: costs related to proxy responses to climate-related shareholder proposals, and costs related to additional voluntary climate-related analyses and disclosures for processes such as outreach, engagement, and management.

¹⁵ ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022), p. 5.

¹⁶ *Id.*, p. 6.

2.2 Contradicting claims of high costs based on announced hiring plans of consultancies

In this section, we counter several claims related to consultancies. We discuss the value of competition within the audit and assurance markets, how a higher demand for these services should be met by a higher supply, and how these costs should decrease over time.

Two comment letters cited accounting or consulting firms' costs for expanded services as companies' compliance costs. They cite announcements by accounting or consulting firms as evidence that the SEC has underestimated compliance costs with its proposed rule. API (p. 24) notes KPMG's announced plan to "spend more than \$1.5 billion over the next three years on climate-change-related initiatives" including training for all employees, and Ernst & Young's intention to "spend \$10 billion over the next three years on audit quality, sustainability and technology." The Overdahl Report (paragraphs 65 and 71) discusses the PwC announcement that it "expects to hire between 25,000 and 30,000 additional U.S. staff to meet the expected demand for ESG specialists." Furthermore:

Overdahl uses this evidence to critique the SEC's assertion that auditing and assurance costs would decrease over time for various reasons, including increased institutional knowledge, operational efficiency, and competition within the market for relevant services. Overdahl states that "this assertion ignores anecdotal evidence that market demand for ESG specialists in the fields of compliance, auditing, and legal services is likely to increase as a result of the proposed rule and other climate-related initiatives, thus likely raising the costs to firms when contracting for these services" (Overdahl Report, paragraph 65).¹⁷

Both the May 2022 report and the SEC's proposed release suggest reasonable costs for climate-related assurance and audits. ERM found:

The May 2022 report noted an average cost of \$82,000 reported by issuer survey respondents for assurance and audits related to climate.¹⁸ Among the 28 issuer survey respondents reporting costs for assurance and audits, the modal cost category (from 17 respondents) was "up to \$50,000," and the second-most-common category (from 7 respondents) was "\$50,001 to \$100,000."¹⁹

In comparison, the SEC's analysis in the Proposed Rule (pp. 382-383) states that, "For limited assurance, we estimate that accelerated filers will incur costs ranging from \$30,000 to \$60,000 (with a median of \$45,000), while large accelerated filers will incur costs ranging from \$75,000 to \$145,000 (with a median of \$110,000). For reasonable assurance, we estimate that accelerated filers will incur costs ranging from \$50,000 to \$100,000 (with a median of \$75,000), while large accelerated filers will incur costs ranging from \$115,000 to \$235,000 (with a median of \$175,000)."

¹⁷ [U.S. Chamber of Commerce letter to the SEC](#), June 16, 2022, pp. 85-132: Annex A: Overdahl Report ("Overdahl Report"), paragraph 65.

¹⁸ ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022), p. 6. This figure excludes respondents who reported no costs in this category.

¹⁹ *Id.*

ERM’s analysis supports the SEC’s reasoning about the value of competition within the audit and assurance markets:

While the requirements under the SEC Proposed Rule would increase market demand for ESG specialists in the compliance, auditing, and assurance market, the announcements highlighted by Overdahl and API provide strong evidence that the higher demand will be met by higher supply. This supports the SEC’s claim regarding competition within the market for relevant services. Furthermore, it is more appropriate to view the announcements of dollar value investment in training, hiring, and systems from KPMG, EY, PwC, and similar firms as strategic communications by large incumbent firms, rather than, as Overdahl and API state, evidence of compliance costs.²⁰

2.3 Contradicting claims questioning benefits to investors of climate-related information

The letters underestimate investors’ demand for climate-related information and the benefit the investor can derive from them. The Overdahl Report (paragraphs 34-38) challenges the notion that climate-related information is often material to investors. This is based on a Boston Consulting Group (BCG) survey finding that only 5% of investors ranked climate among their top three concerns, and a Moss et al. working paper which states, “it appears that retail investors view ESG disclosures as irrelevant when making portfolio allocation decisions” (Moss et al. 2021, p. 4).

Investors have provided several types of evidence to the SEC showing the climate risk is material to them and used in their decision making. Ceres analyzed 320 investor letters (representing over \$50 trillion in AUM) responding to the proposed climate disclosure rule.²¹ At least 97% of investors that mentioned the following disclosure provisions supported rulemaking on TCFD-aligned disclosure and Scopes 1-3 emissions reporting.²² We found at least 43 investors described to the SEC why they need climate disclosure data and how they use it in their decision-making.²³ Ceres has also noted that 587 institutional investors representing \$46 trillion signed a Global Investor Statement asking all governments for mandatory climate risk disclosure aligned with TCFD.²⁴

The issuer/investor survey also found evidence that climate information is material to investors:

[T]he survey found that the most highly-rated benefits [of climate related information] for the investor respondents included several related to improved investment performance: “reduced risk of owning a company” (rated as 4 or 5 in importance, on a scale of 1-5, by 69% of investor survey respondents), “improved financial performance” (also rated 4 or 5 by 69% of respondents), and “better access to data capable of enhancing corporate

²⁰ Id., p. 7.

²¹ See [Memorandum from the Office of the Chairman regarding a September 14, 2022 meeting with representatives of Ceres](#), p. 5.

²² Id., p. 9.

²³ Id., pp. 16-22.

²⁴ Id., pp. 3-4.

strategy” (rated 4 or 5 by 66% of respondents). These findings contradict those cited by Overdahl.²⁵

A closer examination of the BCG survey shows that its findings are not as contradictory as Overdahl implies. ERM found:

[T]he BCG report also finds that nearly half of investors surveyed (44%) agree that companies should “continue pursuing the ESG agenda and priorities as [they] navigate the crisis, even if it means guiding to lower EPS or delivering below consensus”, and 41% say that “companies should double down on ESG initiatives that create value or reduce long-term risk, or both, even if it means guiding to lower EPS or delivering below consensus over the next 12 months” (BCG 2022a, slide 15).²⁶

In addition, an examination of BCG survey results over time provides evidence—not cited by the Overdahl Report—that investors value ESG disclosures. ERM found:

[T]he March 2022 BCG “Pulse Check” report is the 19th in a series of what is now 20 periodic investor surveys conducted from March 2020 through June 2022. Across the whole series of surveys, the average proportion of investors agreeing with the above statements is higher than the March 2022 response: 48% of investors agreed that companies should “continue pursuing the ESG agenda and priorities” and 43% agreed that companies should “double down on ESG initiatives that create value or reduce long-term risk” (BCG 2022b, slide 14). This level of agreement among investors likely explains why BCG devotes an entire page in the Pulse Check report to “the importance of sustainable investing.” Therein, BCG notes that the “importance of ESG and sustainable investing have increased dramatically in recent years, and we expect that to continue and accelerate” and that “In select industries ... ESG performance and especially decarbonization already are central to the investment thesis and significantly impact investment decision making” (BCG 2022a, slide 4).²⁷

Regarding the Moss paper’s assertion “that retail investors view ESG disclosures as irrelevant when making portfolio allocation decisions” (Moss et al. 2021, p. 4), the source of that information suggests it is not representative of the average retail investor. The Moss paper surveyed data from the Robinhood trading platform, which tends to attract novice, more speculative and short-term investors who may not be as focused on climate risks as long-term investors.²⁸

²⁵ ERM, *Client Memo: Additional Climate-Related Reporting Analysis Outputs* (October 2022). p. 7.

²⁶ *Id.*

²⁷ *Id.*, p. 7.

²⁸ *Id.*, p. 8, which states, “As noted above, a central conclusion of the working paper by Moss et al. (2021) is that, based on their dataset, retail investors view ESG disclosures as irrelevant when making portfolio allocation decisions. This conclusion is based on their observation that “retail investors make as many changes to their portfolios on days when there is an ESG press release as on days when there are no press releases” while, in contrast, “these same investors make economically meaningful changes to their portfolios in response to press releases that do not pertain to ESG, especially those that are earnings announcements” (Moss et al. 2021, p. 4). But it is important to note that the data analyzed by Moss and co-authors is exclusively from the Robinhood trading platform, and that the authors themselves note that their actions “may not accurately reflect those of the entire population of retail investors” (p. 5). For instance, Welch (2021) notes that Robinhood’s 13 million investors are “widely believed to be mostly small, young, computer-savvy but novice investors”, and that “the website Brokerage-Review.com estimated that the average account size at Robinhood was only \$2,000.” Furthermore, Robinhood also tends to attract more speculative and short-term

Additional reports from 2021 and 2022 also show that investors recognize the benefits of climate-related disclosure. In October 2021, 733 global institutional investors signed a statement calling on governments to commit to the implementation of mandatory TCFD-aligned climate risk disclosure requirements globally. This call, which was reiterated in October 2022, indicates that the signatory investors value rigorous and comparable climate-related disclosure (Investor Agenda, 2021; 2022).

A similar call signed by 118 North American investors, 19 foundations, and 78 global (non-North American) investors, called for U.S.-listed companies to regularly disclose climate-related information within SEC financial filings in line with TCFD recommendations, and called for those disclosures to include industry-specific metrics, emissions disclosure, and governance and strategy disclosure. Those signatories noted that “disclosure of the material and systemic risks of climate change will help companies and investors to understand, price, and manage climate risks and opportunities,” and that “[t]hese activities are at the core of efficient securities markets and are essential to ensuring a just and thriving economy that works for all people and communities” (Ceres, 2022).

In addition, CDP has tracked the volume of requests it has supported for financial institutions seeking disclosure of climate-related information from corporations. In 2022, 680 financial institutions representing over \$130 trillion in assets requested climate and environmental data via CDP, from close to 10,400 companies (CDP, 2022).

Finally, a study by the Center for Audit Quality noted an increased prevalence of assurance of GHG emissions disclosure among the S&P 500, which suggests that companies may be recognizing climate-related information as decision-useful for investors and thus meriting a higher level of scrutiny for data quality. The study examined climate-related reporting practices of the companies included within the S&P 500 index. It found that in 2022, 274 companies in that index had disclosed receiving some form of assurance or verification for GHG emissions in their public disclosures. Of those firms, 213 obtained assurance over some of their Scope 1, 2, and 3 GHG emissions, 56 obtained assurance over some of their Scope 1 and 2, and 3 obtained assurance for some of their Scope 1 only (Center for Audit Quality, 2022).

2.4 Additional information regarding the benefits of information disclosure regulations for addressing market failures

ERM has found a substantial body of research on the empirical effects of mandated information disclosure on helping to resolve market failures that arise from information asymmetries. In its proposing release, the SEC notes that the complexity and uncertainty of climate-related factors and the multidimensional nature of the information can inhibit voluntary disclosure of climate-related risks. Overdahl critiques the SEC’s supporting evidence, commenting that “the net effects

investors who are more likely to be influenced by attention or “herding” (Barber et al. 2021, Ben-David et al. 2021) and who might not be as focused on climate-related risk as long-term investors. Climate presents primarily long-term investment risks and opportunities (Orsagh et al. 2020), and day traders and other short-term investors are unlikely to be as sensitive to climate-related risks and opportunities than are long-term investors.”

of a mandate are largely an empirical matter on which we currently do not have much research” (Overdahl, paragraph 33; quoting Christensen, Hail, and Leuz (2021)).

Below we summarize several empirical studies that may be of interest to the SEC as supplementary evidence on how mandatory disclosure has been shown to address market failures. Most of these studies go beyond securities markets, and are relevant in the larger context of how government regulation that reduces information asymmetries can address market failures. In the context of the Proposed Rule, a market failure occurs where a company has information to indicate, or a reason to suspect, that it is or may be at risk of financial harm due to climate change and it is not sharing that information with the investing public. The studies include:

- Fetter (2022) analyzed the effect of mandatory disclosure on firms' use of toxic chemicals in hydraulic fracturing for shale gas, finding large and persistent decreases in toxic chemical use resulting from the regulations, including a 68% to 84% decrease in the use of toxic chemicals of greatest concern.
- Benneer and Olmstead (2008) studied mandatory drinking water violations disclosure in Massachusetts, finding that larger utilities required to mail reports on contaminant levels to consumers reduced total violations by between 30% and 44% as a result of this policy, and reduced more severe health violations by 40% to 57%.
- Greenstone et al. (2006) analyzed a 1964 law that required mandatory disclosures by large over-the-counter (OTC) firms. They found evidence that investors valued these disclosures: first, they found that OTC firms most affected by the law had excess returns following announcement that they had begun complying with the law; second, they estimated excess returns between 11.5 and 22.1 percent from the proposal of the legislation until it went into force.
- Jin and Leslie's (2003) study about Los Angeles County's publicly posted restaurant hygiene grade cards found improvements in restaurant health inspection scores and decreases in foodborne illness hospitalizations.
- Three papers analyzing the adoption of restaurant hygiene letter grades in New York City found sustained improvements in sanitary conditions or a decline in salmonella infections.²⁹

²⁹ Id., pp. 9-10, stating, “• Jin and Leslie (2003) examine the effect of a regulation in Los Angeles County that required restaurants to prominently display consistent information about product quality (specifically, restaurant hygiene grade cards). They demonstrate that the grade cards cause (i) restaurant health inspection scores to increase, (ii) consumer demand to become sensitive to changes in restaurants' hygiene quality, and (iii) the number of foodborne illness hospitalizations to decrease. They also provide evidence that this improvement in health outcomes is not fully explained by consumers substituting from poor hygiene restaurants to good hygiene restaurants, which imply the grade cards cause restaurants to make hygiene quality improvements.

• Greenstone et al. (2006) analyze the impacts of the 1964 Securities Acts Amendments, which extended the mandatory disclosure requirements that had applied to listed firms since 1934 to large Over-the-Counter (OTC) firms. They write: “We find several pieces of evidence indicating that investors valued these disclosure requirements, two of which are particularly striking. First, a firm-level event study reveals that the OTC firms most affected by the 1964 Amendments had abnormal excess returns of about 3.5 percent in the weeks immediately surrounding the announcement that they had begun to comply with the new requirements. Second, we estimate that the most affected OTC firms had abnormal excess returns ranging between 11.5 and 22.1 percent in the period between when the legislation was initially proposed and when it went into force. These returns are adjusted for the standard four factors and are relative to NYSE/AMEX firms, matched on size and book-to-market equity, that were unaffected by the legislation. While we cannot determine how much of shareholders' gains were a transfer from insiders of these same companies, our results suggest that mandatory disclosure causes managers to focus more narrowly on maximizing shareholder value.”

• Benneer and Olmstead (2008) study the effects of mandatory information provision on drinking water violations by 517 community water systems in the Commonwealth of Massachusetts from 1990 to 2003. They find that larger utilities that were required to mail annual “consumer

2.5 Contradicting claims that conflate Corporate Social Responsibility (CSR) and climate-related financial disclosure

In this section, we discuss the clear distinction between *corporate social responsibility* (CSR), which is not part of the SEC’s climate disclosure rulemaking, and *climate-related financial disclosure*, which is the basis for the rulemaking. In several locations, the Overdahl Report conflates the concept of CSR with the concept of climate-related financial disclosure:

For instance, in paragraph 33, Overdahl quotes from an academic paper on CSR reporting and emphasizes particularly a comment that more research is needed on “whether mandated CSR reporting mitigates information asymmetries, forces out unfavorable CSR information, generates positive spillovers, provides market-wide cost savings, or generates comparability benefits (all of which would be central to justifying a mandate).” Similarly, in paragraph 40, Overdahl conflates CSR and climate-related financial disclosure as part of an argument that “further mandates should not be required if materiality is focused on information relevant for investors and existing laws already require companies to disclose material information.” Overdahl quotes from an academic paper that argues that standards ought to “narrow the scope of CSR disclosures to issues that are relevant to investors’ decision making” and exclude “CSR disclosures on externalities that firms impose on society.” Overdahl expresses further similar ideas in paragraphs 43, 46, 72, and 93.³⁰

The concepts of CSR and climate-related financial disclosure are distinct, and the SEC’s proposal is focused on the latter, not the former. CSR has no standard definition, but Crane, Matten, et. al. (2013) discuss six core characteristics of CSR: where a company, on a voluntary basis, uses a multiple stakeholder orientation, internalizes or manages externalities, aligns social and economic responsibilities, includes business practices that have underlying values, and goes beyond philanthropy.³¹ The authors also cite a commonly used definition of CSR: “the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.”³²

confidence reports” with information on violations of water quality regulations and observed contaminant levels reduced total violations by between 30% and 44% as a result of this policy, and reduced the more severe health violations by 40% to 57%.

- Three papers analyze the adoption of restaurant hygiene letter grades in New York City (NYC): NYCDHMH (2012), Wong et al. (2015), and Firestone and Hedberg (2018). Jin and Leslie (2019) summarize these papers as follows: “NYCDHMH (2012) finds that salmonella infections have declined since NYC implemented letter grading, as compared to the rest of New York, Connecticut, and New Jersey. Firestone and Hedberg (2018) confirms this finding by comparing NYC to the rest of New York State. Wong et al. (2015) associates the NYC letter grade with sustained improvements in sanitary conditions in restaurants, including several factors related to outbreaks. They also show that after 18 months, 81% of adults in NYC had seen letter-grade placards, and 88% of them have considered letter grades in their dining decisions.”

- Fetter (2022) analyzes the effect of mandatory information disclosure regulations on firms’ use of toxic chemicals in hydraulic fracturing for shale gas. The analysis uses quasi-experimental methods to infer the causal effect of the regulations, exploiting state-level differences in regulatory timing, and measures pre-regulation toxics use from data recovered under Right-To-Know laws in combination with voluntary reports. Although the format of required disclosures was consistent across all firms, the information disclosed is relatively technical and not designed for easy interpretation by non-experts. Also, structural characteristics of the disclosure repository made it difficult to compare the use of toxic chemicals across different firms, or within the same firm over time. Nonetheless, the analysis finds large and persistent decreases in toxic chemical use resulting from the disclosure regulations, including a 68% to 84% decrease in the use of toxic chemicals of greatest concern.”

³⁰ Overdahl Report, paragraphs 33, 40, 43, 46, 72, and 93.

³¹ See pp. 9-12, [Corporate Social Responsibility in a Global Context](#), Chapter in: Crane, A., Matten, D., and Spence, L.J., ‘Corporate Social Responsibility: Readings and Cases in a Global Context’, 2/e. Abingdon: Routledge, pp. 3-26 (September 10, 2013).

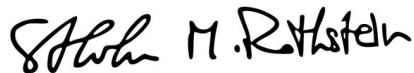
³² Id., p. 5.

The SEC’s proposed rule is based on material climate-related financial risk disclosures, and not on CSR concepts. The SEC’s definition of climate-related risks is, “the actual or potential negative impacts of climate-related conditions and events on a registrant’s consolidated financial statements, business operations, or value chains, as a whole”, including both acute and chronic physical risks and transition risks.³³ The focus is on the impact of climate change on the finances and operations of the company, as opposed to CSR’s focus on the company’s impact on and relationship to society. And the SEC’s proposal is squarely focused on material risks and impacts: “A central focus of the Commission’s proposed rules is the identification and disclosure of a registrant’s material climate-related risks. The proposed rules would require a registrant to disclose any climate-related risks reasonably likely to have a material impact on the registrant’s business or consolidated financial statements.”³⁴

These material financial risks are firmly within the ambit of the SEC and should not be conflated with Corporate Social Responsibility.

Thank you very much for your consideration of our comments. We welcome the opportunity to provide additional background and resources or discuss our comments. If you would like further information, please contact us at vrothstein@ceres.org and mike.wallace@persefoni.com.

Sincerely,



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Ceres, Inc.



Mike Wallace
Chief Decarbonization Officer (CDO)
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CC: Chair Gary Gensler

³³ 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. 457-458.

³⁴ Id., p. 56.

APPENDICES

The following appendices provide additional information from ERM about the issuer/investor survey, including information about investor respondents' expenditures related to climate risk, and a list of sources cited in this research.

Appendix 1: Additional information and analysis of investor respondents

Investors with a greater amount of assets under management reported greater expenditures on climate-related disclosure activities (Table A).

Table A: Expenditures by AUM category, for investor respondents

AUM category	Avg. expenditure	# of investor survey respondents
<\$50B	276,000	19
\$50B-\$500B	1,638,000	8
>\$500B	4,745,000	5

Investors rating “cost of capital” benefit at 4 or 5 spend more on climate-related analysis and disclosure than those rating it 0-3. The same is true for the benefit of “reduced risk of owning a company.” Note that it is not true for other categories of benefits (see Table B).

Table B: Reported expenditures by benefit rating category, for investor respondents

Benefit type	Benefit rating: 4 or 5	Benefit rating: 3 or below
Lower cost of capital	\$1,542,000 (12)	\$1,284,000 (23)
Reduced risk of owning a company	\$1,473,000 (24)	\$1,152,000 (11)
Improved financial performance	\$1,311,000 (24)	\$1,505,000 (11)
Better access to data capable of enhancing corporate strategy	\$1,387,000 (23)	\$1,344,000 (12)

Numbers in parentheses indicate the number of investor survey respondents rating the benefit in that category.

Appendix 2: Issuer/Investor Survey Respondents: goals and methodology

Ceres and Persefoni commissioned ERM in October 2021 to develop [the methodology for the issuer/investor survey] based on the collective knowledge of global market trends. The SEC proposed rule was released on March 21, 2022, after these research efforts were already underway. The ERM research methodology complements and enhances the SEC work in a wide range of ways, including by encompassing input from a range of respondents in order to ensure that the results were as broadly applicable as possible. However, the research also diverges from the SEC's approach in several ways, including by assessing costs for certain climate-related disclosure activities separate from those disclosure activities covered by the SEC's proposed rule.

The goal as outlined in the research scope of work was to capture responses from at least:

Major investors in U.S. publicly listed equity securities, covering at minimum:

- Five (5) passive/index asset managers
- 25 active managers (EU/UK, Japan, US, other)
- 10 asset owners (i.e., pension funds)

Public companies with significant operations in the U.S., covering at minimum:

- 10 mega cap (more than \$200 billion market cap)
- 20 large cap (\$10-200 bil mkt cap)
- 20 midcap (\$2-10 bil mkt cap)
- 20 small cap (\$300 mm-2 bil mkt cap)

The project team notes that the project design acknowledges that the research would not attempt to encompass all types of entities potentially subject to disclosure requirements under any new rule. Gaps in the respondent pool were noted in the research paper. In particular:

- Note that the approach focused on the larger-sized entities on both the issuer and investor sides. There was no attempt to gather responses from Smaller Reporting Companies or from retail investors.
- There was no attempt to specifically focus on gathering a portion of responses from FPIs or international investors. However, several responses from these categories were included in the final set of responses.
- There was no attempt to gather information from companies that are currently privately owned, since a number of the corporate questions were specifically aimed at public reporting. However, several responses from private companies were gathered during the survey process, and 3 of them were included in the results. These companies, which identified themselves, were individually considered to have climate-related disclosure costs that were in line with those of publicly traded companies.

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