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BUSINESS AND FINANCIAL DISCLOSURE REQUIRED BY REGULATION S-K
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Environmental Disclosures (Q49-51):

49. Should we increase or reduce the environmental disclosure required by Item 49.101(c)(1)(xii)? Why? What kind of information should we add to or remove from this requirement?

Yes, currently environmental compliance costs, environmental fines and litigation are reported only as it is "material". For one, this is backward-looking information, but additionally a key element for investors is to monitor whether registrants face environmental fines and litigation very rarely, or if these are recurring issues, an important signal of the registrants' management of material environmental issues. Additionally, a company with a very large number of smaller environmental fines may not have to disclose these, as they may not individually be "material", but reasonable investors would like to know about a large number recurring fines of a company. Currently this type of information has to be searched through e.g. EPA information, as companies themselves do not provide the full picture of environmental compliance and fines and litigation. A highly important factor is transparency around financial provisions for environmental fines and litigation. For example for outstanding litigation and class-actions for asbestos-related claims, provision data is mostly missing.

50. Is disclosure about the material effects that compliance with provisions regulating 50.the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon a registrant's capital expenditures, earnings and competitive position important to investors? If so, should we require registrants to present this disclosure in a specific format? Would this disclosure be more appropriate in MD&A or the business section?

The format should be that all fines and litigation are listed, (or at least the total number of fines/litigation disclosed) not just the most financially material ones, as the number and recurrence of environmental issues and fines is a critical factor for investors to know. Clear disclosures around the materiality of outstanding litigation would be important and any provisions made should be a mandatory line-item.

51. Should we require specific disclosure about the material effects that other 51.regulations may have on a registrant's capital expenditures, earnings and competitive position? If so, are there specific laws and regulations that our rules should cover?

Effects from the following specific laws and regulations should be covered:

- Climate policy – national and global (UNFCCC), forward-looking
- EPA environmental regulations
- OSHA labour regulations (H&S)
- Risks of phase-outs and bans of substances of concern (EPA, REACH)

Sustainability Disclosures (Q216-223):

216. Are there specific sustainability or public policy issues are important to informed voting and investment decisions? If so, what are they? If we were to adopt specific disclosure requirements involving sustainability or public policy issues, how could our rules elicit meaningful disclosure on such issues? How could we create a disclosure framework that would be flexible enough to address such issues as they evolve over time? Alternatively, what additional Commission or staff guidance, if any, would be necessary to elicit meaningful disclosure on such issues?

Yes, there are specific sustainability or public policy issues that are important to informed voting and investment decisions. They are based on the notion of financial materiality of non-financial risks and issues that prudent and reasonable investors would want to know and understand when considering investment in a company.
Examples of these are:
Environmental issues (climate impact, global/local)

- Physical (more LT): extreme climate exposure to facilities / operations (heat, storm activity, flooding, drought)
- Regulatory (more ST): carbon pricing / tax, tightening water pricing, costs from climate adaptation infrastructure

Other environmental issues can relate to issues such as pollution and resource impact, both physical and regulatory (incl. fines and litigation).

Social issues (local/global)

- Public and employee health or safety impacts from company operations and/or end-products and activities
- Labour / human capital issues (disruptions, shortages etc),
- Regulatory: e.g. sugar tax or toxic substance/chemicals phase-outs (e.g. EU REACH regulation)

Material non-financial risks should be discussed and explained by registrant and where possible quantified and exposure reduction strategies and processes should be reported.

These are the main elements for relevant ESG processes and reporting:

1. Discuss and identify the most material non-financial (environmental, social) risks for company (sector guidance from e.g. SASB or GRI)
2. Establish a small number of key metrics/KPIs around the material risks for company
3. Report annual data around these metrics (e.g. C02 emissions (direct/indirect), toxic emissions, staff accidents/incidents, product safety/recalls)
4. Set targets around these metrics and regular reporting on how well targets have been achieved.
5. Establish management systems and processes to enable achieving the targets (e.g. ISO14001, OHSAS18001, HACCP).

6. Ensure accountability and effective governance of sustainability; senior management / board oversight, management remuneration alignment to material sustainability processes and targets.

Many of the strongest ESG disclosures are short, concise and cost efficient, enabling finding and identifying the relevant data more easily.

Strong ESG disclosures also carry a narrative that is continuous from one time period to the next, previous year targets are reported and outcomes detailed and progress is clearly demonstrated.

The flexibility to this stems from the fact that registrants themselves should be able to understand and report on what they view as their principal and most material environmental, social and regulatory risks and these can change over time, without the need for highly prescriptive line-items. Standards and frameworks such as SASB or GRI should stand as guidance for sector-level materiality and/or format.

217. Would line-item requirements for disclosure about sustainability or public policy issues cause registrants to disclose information that is not material to investors? Would these disclosures obscure information that is important to an understanding of a registrant's business and financial condition? Why or why not?

Yes, there is a risk that non-material information (in addition to material information) is disclosed, which is not ideal. However, reasonable investors would rather have environmental and social disclosures that also include some less material information compared to the current situation of an overall lack of disclosures of highly material ESG information.
Our experience is that reasonable investors can see through information that is non-material (often anecdotal and very general in nature) and view it as less useful and possibly even as waste of money and resources, but very unlikely to be obscuring or misleading.

218. Some registrants already provide information about ESG matters in sustainability or corporate social responsibility reports or on their websites.[700] Corporate sustainability reports may also be available in databases aggregating such reports.[701] Why do some registrants choose to provide sustainability information outside of their Commission filings? Is the information provided on company websites sufficient to address investor needs? What are the advantages and disadvantages of registrants providing such disclosure on their websites? How important to investors is integrated reporting,[702] as opposed to separate financial and sustainability reporting? If we permitted registrants to use information on their websites to satisfy any ESG disclosure requirement, how would this affect the comparability and consistency of the disclosure?
Why do some registrants choose to provide sustainability information outside of their Commission filings?

Many companies have responded to calls for ESG reporting by their various stakeholders (employees, customers, suppliers and shareholders) even before the establishment of formal Commission filing requirements. We view these companies to be more transparent and forward-looking and able to anticipate the type of reporting that will become a requirement. In our experience many companies at the forefront of transparency and ESG reporting are also more diligent, transparent and accountable in terms of e.g. governance structures. Investors can be reassured that these companies have understood their most material ESG risks and are effectively addressing them. However, there is a large number of companies that lack ESG disclosures altogether, potentially indicating that companies have not understood or addressed ESG risks and investors are left without information about potentially material risks.

Is the information provided on company websites sufficient to address investor needs?

Not all companies report in a sufficient, relevant manner on ESG, focusing on the most material issues. That is why a requirement of the company to discuss and identify relevant KPIs and where possible quantify its most materials risks is important. SASB and GRI can give useful guidance with regards to materiality at the specific sector-level.
These are the main elements for relevant ESG processes and reporting:

1. Discuss and identify the most material non-financial (environmental, social) risks for company (sector guidance from e.g. SASB or GRI)
2. Establish a small number of key metrics/KPIs around the material risks for company

3. Report annual data around these metrics (e.g. C02 emissions (direct/indirect), toxic emissions, staff accidents/incidents, product safety/recalls)
4. Set targets around these metrics and regular reporting on how well targets have been achieved.
5. Establish management systems and processes to enable achieving the targets (e.g. ISO14001, OHSAS18001, HACCP).
6. Ensure accountability and effective governance of sustainability; senior management / board oversight, management remuneration alignment to material sustainability processes and targets.

Many of the strongest ESG disclosures are short, more cost-effective and very concise, enabling finding and identifying the relevant data more easily.

Strong ESG disclosures also carry a narrative that is continuous from one time period to the next, previous year targets are reported and outcomes detailed and progress is clearly demonstrated.

What are the advantages and disadvantages of registrants providing such disclosure on their websites?
Advantages are that the company can demonstrate to its shareholders (and other stakeholders) that it understands its most material ESG risks and can manage them, which is crucial for investors to know in order to invest in a company.
Disadvantages can be if a company reports on non-material and unnecessary issues, wasting money, time and resources in so doing, reporting is unlikely to be misleading.

How important to investors is integrated reporting,[702] as opposed to separate financial and sustainability reporting?

Integrated reporting would bring financial and sustainability reporting to one source, which makes it easier for investors to find the data in a timelier manner. It is also likely to reduce the risk of sustainability reporting being used as a "PR and Marketing-opportunity" for the company. Integrated reporting, as opposed to a separate sustainability report, is more likely to be more precise, succinct and focused on material sustainability items (less risk of "wasteful, glossy CSR-reports with anecdotal and less useful sustainability information"). Integrated reporting also calls for quantifying sustainability risks and opportunities where possible, which should be the ultimate aim for sustainability reporting. Integrated reporting would also further standardise sustainability reporting, which would increase the comparability and ease of finding the material sustainability data. It also introduces formality, through external auditing of the financial accounts (which can be more challenging for smaller, less resourced companies). There are many advantages with integrated reporting.

If we permitted registrants to use information on their websites to satisfy any ESG disclosure requirement, how would this affect the comparability and consistency of the disclosure?

Ideally sustainability reporting is integrated in the financial reporting, with a brief summary of ESG reporting found on the web-site ("sustainability tab"). From an investor perspective it would be important to be quite prescriptive about where in company reporting this information can be found, less descriptive on the exact metrics, as that would be determined by the specific risks that are material for the sector and registrant. SASB and GRI reporting frameworks do give indications of the relevant units or entities to report in sustainability information and they are important in providing guidance.

<u>219</u>**. In an effort to coordinate ESG disclosures, several organizations have published or are working on sustainability reporting frameworks.[703] Currently, some registrants use these frameworks and provide voluntary ESG disclosures. [704] If we propose line-item disclosure requirements on sustainability or public policy issues, which, if any, of these frameworks should we consider in developing any additional disclosure requirements?**

The use of sustainability frameworks is important for guidance and for consistency of sustainability reporting. The leading frameworks today are GRI and SASB.
The commonality with the GRI and SASB approaches (and a crucial one), is that they are both based on "materiality", i.e. reporting on the most material non-financial risks that a company in a specific sector faces.
GRI is quite an extensive reporting framework and we have heard from especially smaller and mid-size companies that the reporting requirements for GRI can be quite extensive. GRI also has three levels of "grades",

"C" is self-reporting, "A" & "B" grades are for those that use an external auditor to verify the report. External verification further adds to reporting costs.
SASB, on the other hand, is less extensive and less prescriptive regarding broader sustainability reporting. It is a standard developed through broad consultations with stakeholders, establishing what the most material risks are in various sectors of the economy.
Hence, as a starting point and guidance at least for SRCs, following the SASB framework would be good. What investors are looking for is reporting and a discussion regarding the most material risks for companies. SASB can give indications of which risks and areas to focus on. Larger companies could report on the full GRI framework.
Ideally all companies and especially all carbon intensive companies would report their carbon emission information (direct and indirect emissions) to CDP, as this is a very efficient way of aggregating carbon data in one place. However, unfortunately CDP has from 2016 onward started to charge companies for reporting on carbon data, which makes the requirement / recommendation to use CDP as the carbon data "aggregator" slightly more difficult.

220. Are there sustainability or public policy issues for which line-item disclosure requirements would be consistent with the Commission's rulemaking authority and our mission to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation, as described in Section III.A.1 of this release? If so, how could we address the evolving nature of such issues and keep our disclosure requirements current?

1. Oil & gas sector. For the oil & gas sector much more detailed information regarding climate and in particular climate and carbon policy-related preparedness would be required for investors to be able to assess the risks of negative effects on company cash flows, from future carbon policy. More specifically, a very important line-item for oil & gas companies in the exploration and production (E&P) sector would be to have the ***exact break-even costs for individual assets***, (current and future projects) in order for investors to be able to assess the impact of carbon prices on companies' future production and hence companies' cash flows.
2. Water-stress. Localised water-stress can severely disrupt companies operations and lead to financial losses that reasonable investors would want to be able to assess prior to and during investment. Currently it is possible to map in a fairly detailed manner the localised (river basin-level) water source conditions globally (including seasonal variations and water availability). The currently missing information for investors is localised and facility-specific data by the registrants, meaning that it is not possible to assess whether water-intense companies and their operations and facilities are likely to suffer from water stress and what the financial implications may be. A starting point for a line-item could be ***the % of assets or facilities that are based (and exposed) to "high" or "extremely high" water stress***[1]. Ideally, this is followed by a detailed foot-note with information about these circumstances and how these risks are managed and addressed. Relevant for water risks are also potential exposures to material flooding or disruptive effluent pollution.
Climate change is likely to aggravate water issues, hence this item is likely to remain current for the long term.
[1] Very specific definitions of levels of water stress are provided by e.g the World Resource Institute, http://www.wri.org/applications/maps/aqueduct-country-river-basin-rankings/#x=0.00&y=-0.00&l=2&v=home&d=bws&f=0&o=139.

221. What, if any, challenges would registrants face in preparing and providing this information? What would be the additional costs of complying with sustainability or public policy line-item disclosure requirements, including the administrative and compliance costs of preparing and disseminating disclosures, beyond the costs associated with current levels of disclosure? Please quantify costs and expected changes in costs where possible.

The main challenge or push-back would probably be centred on a possible unwillingness of registrants to report such detailed information that could potentially be used by competitors, however this argument is less valid if most sector peers report at this level of detail as well. For water-stress, it could also require of registrants to better understand the exact localised water conditions and risks, (which investors would expect registrants to already understand and manage, but currently not disclose).

Very limited additional costs expected from this increased transparency.

SASB also provides guidance regarding costs for material sustainability reporting.

222. **If we propose line-item disclosure requirements that require disclosure about sustainability or public policy issues, should we scale the disclosure requirements for SRCs or some other category of registrant? Similarly, should we exempt SRCs or some other category of issuer from any such requirements?**

All companies, regardless of size or type, should disclose key material sustainability risks and report on how these are addressed. This is relevant and material for investors to know, regardless of company size or type.
SRCs could be exempt regarding specific, resource-intense procedural issues, for instance:

- Costly external auditing or assurance of data
- Guidance towards e.g. SASB materiality KPIs (vs more resource-intense sustainability frameworks e.g. GRI)
- Guidance towards integrated reporting (SRCs in particular should avoid costly and immaterial sustainability reporting)

223. **In 2010, the Commission published an interpretive release to assist registrants in applying existing disclosure requirements to climate change matters. As part of the Disclosure Effectiveness Initiative, we received a number of comment letters suggesting that current climate change-related disclosures are insufficient. Are existing disclosure requirements adequate to elicit the information that would permit investors to evaluate material climate change risk? Why or why not? If not, what additional disclosure requirements or guidance would be appropriate to elicit that information**?

Climate change risk and climate-related policy risks are probably the most pressing items for sustainability reporting, and disclosures in these areas are currently by no means adequate.
These are the principal items investors would require regarding climate change risks: [2]

1. Disclosure of 2 degrees stress testing methodologies and results;
2. The financial consequences of current climate-related physical, regulatory or indirect impacts and ranges of financial consequences of future impacts;
3. Company strategy for responding to and managing risks and opportunities, including disclosure of senior management and board policies, activities, and remuneration related to climate risk; disclosure on impact of scenarios on capex plans; disclosure of public policy positions and lobbying activities; and
4. Scope I, II and where relevant Scope III emissions; and
5. Targets and metrics for measuring progress against targets including GHG reduction, energy efficiency of operations and products and climate-related initiatives.

[2] As reported by the Institutional Investor Group on Climate Change (IIGCC) (of which Impax is a member) to the Taskforce on Climate-related Financial Disclosures (TCFD).

Additionally, as detailed in Q220, there is a need of much more detailed asset-specific information for the most climate-policy exposed sectors such as for oil and gas companies.