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May 13, 2022

Vanessa A. Countryman
Secretary
US Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

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

Dear Ms. Countryman,

Dimensional Fund Advisors LP ("Dimensional") welcomes the opportunity to provide the US Securities and Exchange Commission (the "Commission") with our views on its proposal entitled "The Enhancement and Standardization of Climate-Related Disclosures for Investors" (the "Proposed Rules").[1] Dimensional is a privately held registered investment adviser and, together with its advisory affiliates, has approximately $659 billion in global assets under management.[2] As a supporter of the Task Force on Climate-related Financial Disclosures ("TCFD") and its recommendations, we commend the Commission for modeling its Proposed Rules in part on the TCFD disclosure framework, and we support the Commission's goal of improving the consistency, comparability, and reliability of climate-related disclosures. We review and rely on the disclosures made by public companies to help us make investment decisions on behalf of our clients and the retail investors who have entrusted us with their savings.

As we indicated in our letter to Chair Gensler dated June 11, 2021,[3] the costs of requiring companies to disclose specific climate-related information will be high and may not necessarily benefit investors. Ultimately, those costs will be borne by each company's investors, who may be harmed by a decrease in the company's stock price, and by the company's customers, who may have to pay higher prices for the company's goods and services. In this letter, we explain why we continue to believe that the Commission should require disclosure of specific climate change information *only* if a company has determined that climate change may have a material impact on its business. We also express our concern that the Proposed Rules represent a departure from the traditional materiality standard, which could have negative consequences for companies and investors.

I. ***The costs of requiring all public companies to comply with prescriptive climate change disclosure requirements will be too high, especially in cases where climate change is not a material risk to a company's business.***

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1 *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, Release Nos. 33-11042; 34-94478 (Mar. 21, 2022) (the "Proposing Release").

2 As of March 31, 2022.

3 Letter from Gerard O'Reilly and Joseph Chi to The Honorable Chair Gensler dated June 11, 2021, available at https://www.sec.gov/comments/climate-disclosure/cll12-8907499-244229.pdf (our "June letter").

As we noted in our June letter, we strongly believe that only companies that have identified climate change as a material risk to their business should be required to disclose specific climate-related information. As the Commission has acknowledged, companies are not equally impacted by climate change.[4] In our view, if a company has not identified climate change as a material risk to its business, the costs of requiring that company to disclose specific climate-related information will outweigh benefits to shareholders.

Under the Proposed Rules, *all* public companies will be required to disclose Scope 1 and Scope 2 greenhouse gas ("GHG") emissions, regardless of whether climate change is identified as a material risk to the company. Accelerated and large accelerated filers will further be required to provide an attestation report from an independent GHG emissions expert covering their Scope 1 and Scope 2 emissions disclosures. To comply with the Proposed Rules, companies will be forced to dedicate time and resources to gather and verify the requisite information. Aside from the obvious costs that companies will incur in hiring data vendors and an attestation provider, there will be opportunity costs. Complying with onerous and prescriptive disclosure requirements may divert senior management's time and attention away from managing the material risks faced by the company. It could also detract from the company's ability to pursue opportunities to generate value for society by developing goods and services that meet the needs and preferences of consumers—including climate-conscious consumers—which could, in turn, generate value for the company and its shareholders. Some of these opportunities—determining how to make a product more energy-efficient, for example—could even have a tangible positive impact on the environment. The Commission argues that many companies already report Scope 1 and 2 emissions, but even companies that already voluntarily report their Scope 1 and 2 emissions will need to spend more time and money to prepare this data for inclusion in regulatory filings. We believe these costs will outweigh the benefits to investors. For example, while requiring all public companies to disclose emissions data may enable investment managers to more accurately calculate aggregate emissions characteristics for the portfolios they manage, we do not believe the result would be materially different if the Commission were to require only those companies that identify climate change as a material risk to disclose their Scope 1 and 2 emissions. The benefits to investors of the proposed attestation requirement are particularly elusive, given that the existing liability framework under the federal securities laws should already be sufficient to prevent companies from including disclosure that is false or misleading.

While we appreciate that the Proposed Rules would mandate disclosures regarding internal carbon prices, scenario analysis, and transition plans only to the extent used or adopted by a particular company, the disclosures that would be triggered are extremely prescriptive. This could unintentionally deter companies from using these strategic planning tools, or it could inadvertently encourage firms to view them as a superficial exercise for marketing purposes, rather than as a tool to inform corporate planning. Companies may be reluctant to ask challenging questions about the resilience of their business if they must disclose all of the scenarios considered and the projected financial impacts on their business under each scenario. Therefore, we urge the Commission not

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[4] *See Commission Guidance Regarding Disclosure Related to Climate Change*, Release No. 33-9106 (Feb. 2, 2010) at 5-6.

to require disclosures relating to internal carbon prices, scenario analysis, or transition plans. Alternatively, if the Commission determines that such disclosures are necessary, we believe the Commission should adopt less prescriptive and more principles-based disclosure requirements.

We also appreciate that the Commission recognizes the difficulties in calculating Scope 3 emissions and has proposed to require disclosure of Scope 3 emissions only if material, or if the company has set a GHG emissions reduction target or goal that includes its Scope 3 emissions. We also support the Commission's proposal to provide a safe harbor for Scope 3 emissions disclosure and to exempt smaller reporting companies from the disclosure requirement. However, even if only a subset of public companies must disclose their Scope 3 emissions, the Proposed Rules will still have a wider impact. Companies not regulated by the Commission will have to estimate their GHG emissions so that the public companies they do business with can include these estimates in their required Scope 3 emissions disclosures. This could have unintended detrimental consequences for small-business formation, because it would make GHG emissions reporting another barrier to entry for companies looking to become a supplier to, or otherwise do business with, a large public company subject to Scope 3 disclosure requirements.

Perhaps more importantly, we believe that requiring all public companies to include climate change disclosures would not be the most effective or direct way to mitigate climate change or to hold companies accountable for their impact on the environment. The Commission's disclosure framework is vital in ensuring that investors have equal access to information that they need to make informed investment decisions, but, in our view, climate change is an issue that should be more directly addressed by policies implemented by other federal agencies and Congress. Legislators and environmental regulators such as the Environmental Protection Agency are in a better position to have a broader and more significant impact on how companies operate and the choices consumers make.[5]

For these reasons, we urge the Commission to avoid adopting prescriptive regulations, particularly where the benefits to investors do not justify the inevitable costs to companies and their shareholders. Instead, we urge the Commission to adopt a principles-based approach that is rooted in the existing materiality framework. Such an approach would enable companies to produce disclosures that are proportionate to the climate-related risks faced by each individual company, which would be more meaningful to investors.

II. ***We are concerned that the Proposed Rules depart from the existing materiality standard.***

In our June letter, we expressed our concerns with a "double materiality" framework and the potential negative effects of the rise of stakeholder governance.[6] Under a double materiality framework, climate-related information is disclosed if it is material to an investor's understanding of the company's business (*i.e.*, what we would think of as the existing materiality standard under US federal securities laws), or if it is material to an individual's understanding of the external impacts of the company on the environment and society. This latter standard would require

5 *See* June letter at 7-8.

6 *See* June letter at 5-6.

disclosure of climate change information even if it is does not result in a material impact or risk to the company itself. One danger in requiring companies to disclose information relating to the external impacts of the company on the environment, if it does not have an impact on the company itself, is that it could compel corporate leaders to spend a disproportionate amount of time managing the disclosure of climate change risk at the expense of other activities that could add value for the company and its shareholders. It could also result in the disclosure of financially immaterial information that investors may misconstrue as significant.

We appreciate that the Commission has not proposed a double materiality standard in the Proposed Rules, and we find it helpful that in the Proposing Release, the Commission reiterates the traditional materiality standard in its discussion of the Proposed Rules' qualitative disclosure requirements.[7] However, in explaining why disclosure of climate-related information is necessary, the Commission also makes several statements that, in our view, suggest a subtle—but significant—departure from the established materiality standard. Below are two examples from the Proposing Release:

- The disclosure of climate-related financial statement metrics "would also provide investors with additional insights into…material trends in climate-related impacts."[8]

- "[S]everal large institutional investors and financial institutions, which collectively have trillions of dollars in assets under management, have formed initiatives and made commitments to achieve a net-zero economy by 2050, with interim targets set for 2030. These initiatives further support the notion that investors currently need and use GHG emissions data to make informed investment decisions."[9]

Under the existing framework, materiality has been assessed in terms of whether the information would have affected the total mix of information available *about the company in question*. But, in the statements above, the Commission appears to suggest that information may be material if it is material to an investor's understanding of trends in climate-related impacts or to an institutional investor's ability to make net zero commitments. Neither of these takes into account whether the information is material to an investor's understanding of the risks faced by the individual company. Though the Commission does not go so far as to suggest that information should be disclosed because it may be material to an individual's understanding of the external impacts of the company on the environment and society, we are very concerned that the statements above represent a shift in the Commission's interpretation of materiality.

We are also concerned by the reference in the Proposing Release to a quantitative threshold for determining whether a company's Scope 3 emissions are "material." The Commission notes "that some companies rely on, or support reliance on, a quantitative threshold such as 40 percent

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7 Proposing Release at 70.
8 Proposing Release at 133.
9 Proposing Release at 166.

when assessing the materiality of Scope 3 emissions."[10] In our view, materiality should be assessed in terms of whether a company's Scope 3 emissions present a material risk to the company, not whether a company's Scope 3 emissions make up a material portion of a company's overall GHG emissions.

We believe the existing disclosure framework, which is rooted in materiality, has served investors well over many decades.[11] Expanding the materiality standard could have negative consequences for investors and companies by inundating investors with immaterial information that may be misunderstood by investors as material, and by exposing companies to unnecessary litigation risk. For these reasons, we strongly urge the Commission to carefully review its discussion of materiality in the Proposing Release and reaffirm the existing materiality standard in the final rules and accompanying release.

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Although we have serious concerns about the scope of the Proposed Rules and the costs to companies and their investors, we support many aspects of the Proposed Rules. For example, we agree that companies should disclose how they identify, manage, and oversee climate-related risks, because such disclosure will help investors to better understand the nature of climate-related risks facing individual companies. We are committed to sustainability, and we believe that the Commission can craft rules that elicit consistent, comparable, and reliable climate-related information in a way that is mindful of the associated costs to investors. If we can be of further assistance, please do not hesitate to contact Stephanie Hui, Vice President and Counsel. We would welcome the opportunity to expand on our discussion of these issues.

Sincerely,

Gerard O Reilly

Gerard O'Reilly
Co-CEO and Chief Investment Officer

Jim Whittington
Head of Responsible Investment and Senior Portfolio Manager

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10 Proposing Release at 174.

11 *See* June letter at 2-3.