31 May 2022

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Ms. Countryman,

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

Maple-Brown Abbott Global Listed Infrastructure ('GLI') welcomes the opportunity to respond on File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors ('Proposed Rule'). We commend the Securities and Exchange Commission ('SEC') for its Proposed Rule aimed at providing investors with climate-related financial information from issuers of public securities.

The Proposed Rule marks a change in the quality and comparability of climate disclosures that is essential to an efficient market response to climate change and ESG-related risks. In the absence of standardised disclosures, investors seeking climate-related information have had to collect this data from numerous sources, including companies' voluntary disclosures that are unverified and often difficult to compare.

The SEC began efforts to provide investors with material information about environmental risks facing public companies in the 1970s and most recently provided guidance on this matter in 2010.[1] Therefore, we believe the Proposed Rule is a natural next step for the Commission in promoting the consistency, quality and comparability of company-reported climate-related risks.

About us

Maple-Brown Abbott GLI is a long-only, specialist listed infrastructure investor managing approximately US$4.2 billion on behalf of clients around the world.[2] We see it as our fiduciary duty to manage the financial and non-financial risks and opportunities associated with clients' investments and to engage with companies to operate sustainably over the long term. As at 31 March 2022, 43% of the GLI strategy is invested in companies listed in the United States ('US'), the majority of which are regulated electric- and multi-utilities.[3] As such, the Proposed Rule has particular significance for us as investors, and most importantly, for our clients.

As a signatory to the Net Zero Asset Managers Initiative ('NZAMI'), we have made a commitment to align the GLI strategy with net zero emissions by 2050 and have set ourselves a goal of reducing the emissions intensity of our investments by 50% by 2030 (relative to 2020).[4] To achieve this objective, and to help us better price in climate-related risks and opportunities, it is imperative that we have decision-useful and consistent climate-related reporting from the companies we invest in. Ultimately, we view climate change as a financial risk that needs to be actively managed.

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[1] US Securities and Exchange Commission ('SEC'), 'Fact Sheet: Enhancement and Standardization of Climate-Related Disclosures', March 2022 https://www.sec.gov/files/33-11042-fact-sheet.pdf. Commission Guidance Regarding Disclosure Related to Climate Change, Rel. No. 33-9106, 75 Fed. Reg. 6290 (8 February 2010). Available at https://www.sec.gov/rules/interp/2010/33-9106.pdf.

[2] As at 31 March 2022.

[3] A representative Maple-Brown Abbott Global Listed Infrastructure portfolio has been used as a proxy.

[4] The initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5 degrees Celsius. As at 31 December 2021, the initiative is backed by 236 global investors managing over US$57.5 trillion in assets representing more than 50% of total global assets under management.

Greenwashing

One of our greatest concerns when researching, engaging and casting proxy votes with companies on ESG matters is the risk of so-called 'greenwashing'. As the market recognises the enormity of the risks and opportunities associated with climate change and the energy transition, we have witnessed a sharp increase in 'green', 'clean energy' and/or 'sustainable' statements, claims and disclosures. This is not necessarily a negative development; however, it is reasonable for investors to expect companies' disclosures and statements to be full, fair and truthful. Any disconnect between statement and reality creates a risk for us as investors, and ultimately our clients. Such a disconnect could, over time, contribute to market distortions that are not based on fundamentals. Greenwashing is therefore a source of risk that needs to be actively managed by regulators, companies and investors alike.

The risk of greenwashing can never be eliminated, but it can be managed with the help of regulatory bodies that set clear climate-related reporting requirements for companies. Afterall, the efficacy of the disclosure model is rooted in trust, reliability and information harmonisation. If investors cannot properly compare the credentials of different companies and products, the disclosures, even if accurate, arguably become somewhat meaningless.

Comparability

Climate-related disclosures need to be clearer and more consistent. Current climate-related disclosures are an incomplete patchwork of voluntary information presented in different places using different formats. The Task Force on Climate-Related Financial Disclosures ('TCFD') has formed the basis for mandated (and soon to be mandated) climate-related reporting in other jurisdictions such as the United Kingdom, the EU, New Zealand, Hong Kong, Singapore and Japan. The TCFD recommendations are widely used across the largest capital markets, with around 2,600 supporters globally.[5]

The vast majority of GLI portfolio companies have adopted aspects of the TCFD framework in their sustainability reporting, albeit in a highly discretionary and difficult-to-compare fashion owing to their voluntary nature.[6] Therefore, the Proposed Rule's use of the TCFD framework helps minimise the compliance burden for companies that already gather data and information based on these recommendations, while making it easier for investors to compare company reporting due to the mandated nature of the reporting requirements. More consistent and rigorous company reporting in line with the TCFD framework would help us – as investors – analyse and report on climate-related financial risks and opportunities to our clients.

From our perspective, we cannot wholly rely on third party climate-related data data due to sometimes inconsistent and irreconcilable information. If certain data is not made available by a company, it is quite common for third party data providers to model the data instead. We do not believe this is a good outcome for companies or investors. More consistent climate-related reporting would help overcome distorted and potentially inaccurate climate-related and emissions data.

Resource costs

Some argue that the Proposed Rule would increase compliance costs for companies. We do not believe it is as clear cut as this. It is quite possible that companies will see their resource costs increase in some reporting activities and reduce in others. For instance, there will likely be upfront costs associated with limited assurance for scope 1 and scope 2 emissions and the incorporation of climate-related information in financial statements under the Proposed Rule. On the other hand, the Proposed Rule would help clarify reporting expectations for companies by creating one version of the truth and possibly reduce resource costs across the entire value chain over time.

With the rise of third-party ESG research and data providers and voluntary reporting frameworks, we remain concerned about the resource implications of duplication and repetition for responding companies. Companies should be able to refer their stakeholders to one place in their reporting, and at the same time, third-party researchers and investment managers should not have to send out copious questionnaires due to a lack of clarity and consistency in climate-related reporting.

[5] TCFD, 'Supporters', https://www.fsb-tcfd.org/supporters/ (accessed 2 May 2022)

[6] This problem was highlighted in various submissions from financial firms, investor alliances and companies in response to the SEC's Request for Information on Climate Risk Disclosure in 2021.

For example, we recently sent a questionnaire to GLI portfolio companies to assess their emissions progress and targets because we were unable to locate certain information in public reporting. We do not believe proprietary questionnaires are a sustainable long-term option for companies or investors as they are resource and time intensive to complete and analyse. If climate-related reporting were more consistent, then there would be less need for these requests for information.

Emissions reporting

The vast majority of GLI portfolio companies listed in the US currently report on scope 1 and scope 2 emissions in line with the Proposed Rule. One of the challenges we face, however, is the lack of rigour with scope 1 and scope 2 emissions reporting – for example, certain omissions or caveats can make it hard to compare companies on a like-for-like basis.[7] For this reason, under the Proposed Rule, it seems reasonable to require companies to receive an independent attestation report for scope 1 and scope 2 emissions to promote reliability, rigour and comparability. This could, in turn, allow us to report on the GLI strategy's emissions more accurately and confidently to our clients.

Generally, the companies we invest in have a market capitalisation greater than US$500 million and are therefore captured by the Proposed Rule on 'material' scope 3 emissions. This remains a topic we routinely research and engage with companies on and welcome the proposal to mandate 'material' scope 3 reporting for certain large companies. While we believe there is a strong and pressing imperative to manage scope 3 emissions, we do not feel that companies' reporting data is currently sufficient for us to assess their full value chain of climate-related risks. Aside from better environmental outcomes, we believe scope 3 emissions monitoring and reporting enables companies to identify the greatest emissions reduction risks and opportunities across their entire corporate value chain. Pleasingly, we are seeing more and more companies report on scope 3 emissions and we expect this trend to continue over time.

Given the challenges associated with scope 3 emissions data, reporting boundaries and double counting; it feels appropriate that companies are afforded safe harbour liability. Requiring companies to report 'material' (rather than exhaustive) scope 3 disclosures may help mitigate high administrative burdens and extra costs. Nevertheless, the requirement to disclose scope 3 emissions "if material" leaves room for interpretation as to where that threshold of materiality lies. We believe more guidance is needed on this topic for the benefit of companies and investors. The Greenhouse Gas (GHG) Protocol and the Science-based Targets Initiative ('SBTi') have done a good job of clarifying some of these key questions on a sector-by-sector basis and should be drawn upon by the SEC should the Proposed Rule be enacted.

As discussed further on, it is quite possible that the requirement for large companies to disclose material scope 3 emissions with relatively short notice will attract some pushback. We suggest, as a workaround, that the SEC proceeds with all aspects of the Proposed Rule but provides for a longer consultation period on what "material" scope 3 emissions means in the context of existing guidelines and standards. This may help overcome any delays to a much needed and necessary rule change. To summarise, we believe the Proposed Rule helps achieve greater consistency and transparency for those companies where scope 3 emissions are material and therefore most relevant for investors, whilst offering companies safe harbour owing to the challenges highlighted above.

Emissions targets

Almost all GLI portfolio companies listed in the US have net zero emissions reduction targets in place.[8] We view this as a positive development, as companies clearly see the significant financial and non-financial risks and opportunities associated with the pace of the energy transition. In saying this, we find that company reporting on emissions and detail on reduction targets is inconsistent and lacks rigour. Without more specific, standardised and reliable disclosures, it is extremely difficult to assess and measure companies' progress toward achieving what they have pledged. As a result, emissions performance is generally not comparable across companies and the achievability of decarbonisation strategies is not as clear as it needs to be.

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[7] Examples include certain greenhouse gas emissions being excluded (such as methane), certain subsidiaries and/or geographies excluded and varying baseline years.

[8] As at 31 March 2022. A representative GLI portfolio has been used as a proxy. These net zero targets vary in level of ambition and may include scope 1 emissions or scope 1 and scope 2 emissions. Some companies are starting to target emissions reductions in portfolios of their scope 3 emissions, but this development is still quite nascent at this point in time.

Detail on aspects such as the scope of activities and emissions included in a target, the unit of measurement, time horizons, baseline time periods and interim targets – as provided for by the Proposed Rule – would go a long way in helping investors decipher the meaningfulness of these commitments. Furthermore, The SEC proposes that companies with publicly declared targets to cut their greenhouse gas emissions will have to set out some basic details of how they plan to get there. That includes their units of measurement, time horizons and baseline dates for measuring changes. We do not believe this is an onerous demand.

In addition to this, we believe the Proposed Rule should go one step further and require larger companies to provide basic details of why they have not set emissions reduction targets and how they plan to mitigate emissions (even if not to achieve net zero emissions).

Financial risk and incorporation into financial statements

We agree that climate risk disclosures should also be reported in the "Risk Factors" section of 10Ks and 10Qs. In addition, particular aspects of climate risk could also be included in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Climate change is a financial risk and should therefore be factored into financial statements for the benefit for investors to improve information efficiencies.

In particular, if a company has a stated commitment to managing climate-related risks and decarbonisation, then it is expected these factors should be treated with rigour and not as a throwaway marketing claim. By integrating climate-related information into financial statements, we will be better equipped to price in potential risks such as stranded asset risk and the physical risks associated with more frequent and extreme weather events, amongst other material factors.

Timelines

If the proposed disclosures come into effect as planned, first reporting will come in 2024, covering the 2023 fiscal year. This means that companies, especially larger public companies, will need to begin planning for these disclosures soon and have very little time to submit comments to the SEC on the Proposed Rule. The vast majority of GLI portfolio companies currently report on many aspects of the Proposed Rule. Therefore, we envisage the greatest challenge will be with scope 3 emissions reporting and the incorporation of climate-related information into financial statements.

Final comments

From a broader perspective, we are seeing significant shareholder support for greater and more standardised climate change and emissions-related disclosure as well as a shifting regulatory landscape in both the US and internationally. We have observed other international jurisdictions pave the way on mandatory climate-related financial disclosures, ranging from New Zealand's mandatory climate risk disclosures to Europe's sustainability labels for funds and the EU Sustainable Finance Taxonomy. The United Kingdom, Singapore and India are all in various stages of introducing compulsory corporate climate risk reporting. Against this rapidly changing backdrop, we welcome the SEC's proposal and look forward to engaging further with GLI portfolio companies on the various topics raised in the Proposed Rule.

Yours sincerely,

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