June 07, 2022

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

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

Dear Ms. Countryman,

We contact you today in support of the Enhancement and Standardization of Climate-Related Disclosures for Investors. First Affirmative is an SEC registered investment advisor with oversight of approximately $900 million in assets under management and advisement. We consider the integration of environmental, social, and governance (ESG) issues to be a fundamental fiduciary duty to our clients and have been guided by this consideration since our inception in 1988.

We are encouraged that this comprehensive proposal addresses many of the concerns we highlighted in our June 2, 2021 comments in response[1] to the Rule on Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice. We appreciate all of your hard work in crafting a proposal that meets the needs of investors for comprehensive, comparable climate-related information.

First Affirmative has devoted significant staff time and financial resources into collecting information we deem critical to assessing climate risk and opportunity, both directly from prospective and current portfolio companies and through participation and/or subscription in organizations that help to gather and analyze climate data. Our proxy voting guidelines lead us to vote in favor of proposals that request climate disclosures as well as appropriate action to address climate risk. We have filed 75 shareholder proposals since 2009 seeking climate related disclosures from our portfolio companies and participated in countless more dialogues with companies seeking this information as well.

As we strive to meet our client's expectations to align portfolios in a way consistent with the Paris Climate Agreement, we would welcome a final rule that is sufficiently comprehensive to allow us to focus on evaluating emission reduction efforts and transition plans rather than our current focus of gathering the information that is required to conduct such evaluations. Given our relatively small size, the significantly reduced staff time required to solicit material climate disclosures from companies and the ready availability of comprehensive, uniform, comparable data that would come with the implementation of this proposal will have positive impacts on our investment firm, and in turn, will benefit our clients.

[1] https://www.sec.gov/comments/climate-disclosure/cll12-8857333-239810.pdf

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The SEC's proposal would result in a vast improvement in climate related disclosure compared to the voluntary disclosures that are currently available. This mandatory framework is an essential and overdue step that ensures that public companies provide the baseline information required by investors to evaluate climate related performance. Lagging companies would be compelled to disclose the data that forward thinking companies already disclose on a voluntary basis, thus leveling the playing field for peer companies.

Given our client's highly diversified portfolios, we are concerned not just with how climate issues impact an individual company; we are concerned with that company's potential to impact the well-being of the economy, and therefore our overall portfolio as well. Mandatory disclosures can help us and the investment community as a whole to prioritize long term systemic health over individual company short term profits to maximize long-term portfolio performance.

Specific aspects of the proposal we would like to focus on as essential to keep as is proposed and suggested amendments are discussed below:

Align with Task Force on Climate -related Financial Disclosures (TCFD)

First Affirmative is a strong supporter of TCFD disclosures, and considers this framework to be a minimum baseline standard of climate disclosure for our portfolio companies. The TCFD recommendations cover many of the essential elements of climate risk disclosure that we use for our decision making and are broadly supported and used by companies, investors and securities regulators worldwide.

However, one weakness we perceive in the TCFD framework is that, unlike the Sustainable Accounting Standards Board's and Global Reporting Initiative frameworks, it does not reference Indigenous People. We recommend that the Commission enhance the proposed rules by referencing Indigenous Peoples and to explicitly reference the UN Declaration on the Rights of Indigenous Peoples and free prior and informed consent (FPIC).

Require Scopes 1, 2, and 3 GHG Emissions Disclosure

We support the SEC's inclusion of a GHG emissions reporting requirement, because this information is critical to our understanding of the quality of a company's earnings in the face of climate change and the energy transition. We are pleased to see that there is a provision for requiring assurance of certain GHG emissions disclosures, and for the phasing in of reasonable assurance over time to ensure that we receive accurate, relevant and consistent information about emissions.

The proposal appropriately covers Scopes 1 and 2 disclosures, but we do have concerns with the limited Scope 3 requirements. We recommend enhancements to ensure that comprehensive, uniform climate disclosure that investors seek is available from all relevant public companies.

Currently, the proposal has reporting requirements for Scope 3 emissions 1) if material or 2) if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions. We advocate for the disclosure of Scope 3 emissions for the vast majority of registrants, as companies may deem their Scope 3 to be not material when in fact they are material to its investors on both a company by company and/or portfolio level. Our firm has been involved in two corporate dialogues with companies in industries we believe to have significant Scope 3 exposure in the past year where corporate staff expressed doubt regarding Scope 3 materiality for their company. Should this proposal be implemented without more specific and encompassing Scope 3 disclosure requirements, we believe that the comparability and consistency of portfolio company SEC filings will be compromised on this issue.

At minimum, guidance should be included within the proposal with regard to how companies are to determine materiality of their Scope 3 emissions. Companies should also disclose methods and assessment process in making their scope 3 materiality determination.

The SEC could also set a bright line threshold that determines materiality. For example, reference the Science-based Target Initiative threshold of 40%[2] that determines if a Scope 3 target is required. This is a reasonable threshold that could serve as a clear trigger for mandatory Scope 3 disclosure that would meet investor disclosure needs without unduly burdening companies with little Scope 3 exposure.

We also strongly endorse adding an upstream emissions disclosure category for land use, in answer to SEC question #104. Omitting land-use Scope 3 emissions would lead to significant underreporting in many relevant industries-including agriculture and food companies. Deforestation related risks and commitments made by companies would also be relevant disclosure to mandate. We note that 687 companies disclosed some deforestation related data via CDP in 2020[3].

Require Critical Information to Be Included in Financial Filings

We note that the proposal includes a provision for the inclusion of some climate related information in the financial statements — this is entirely appropriate given the increasing climate related impacts and risks that materially affect a company's financial position and operations. Including relevant data in financial filings will provide additional assurance that the data provided is accurate and prepared with an investor audience specifically in mind, which is often not the case when climate related reporting is published via marketing oriented sustainability reports and website pages.

Thank you.

Regards,

Holly A. Testa

Holly A. Testa
Director, Shareowner Engagement
First Affirmative Financial Network

[2] https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf
[3] https://www.cdp.net/en/research/global-reports/global-forests-report-2020