

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

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

Dear Ms Countryman,

The UN-convened Net-Zero Asset Owner Alliance (AOA or Alliance), a group of 73 leading pension funds and insurance companies with \$10.4 trillion in assets, supports and strongly welcomes the proposed climate disclosure rules by the US Securities and Exchange Commission (SEC or Commission).

AOA members have publicly committed to decarbonising their investment portfolios in line with a 1.5°C pathway, and to have net-zero greenhouse gas emissions by 2050 at the latest. Alliance members additionally commit to publish science-based interim portfolio reductions for targets set using AOA's Target Setting Protocol. A key aspect of this commitment is tracking emissions attributable to our portfolio holdings and supporting the reduction of carbon emissions in the real economy.

Within the AOA's [Target Setting Protocol \(at p. 22\)](#), we identify that the "limited availability of reliable data is a key issue which provides for asymmetrical information and challenges for investment decision making." Without transparent, reliable and standardized climate related disclosures, we are unable to make investment decisions and effectively design portfolio strategies to the extent we find reasonable as institutional investors. This is why, we welcome and support, the SEC's proposed rules.

We believe that one of the most effective remedies for the lack of data availability is to strengthen mandatory regulatory disclosure requirements for corporate emissions. The SEC has recently opened consultation on a set of proposed rules that would significantly improve the climate data quality and availability for US-domiciled companies.

In particular, AOA members wish to highlight:

- 1) **Our support for the proposed SEC rules**, notably the required scope 1, 2 and, where material, scope 3 emission disclosures, are necessary information required by investors to make effective portfolio strategy decisions. Furthermore, in order for our in-house and external asset managers, managing our assets, to align with our long-term interests and targets, they need reliable, consistent, and widely standard data for effective comparison across portfolios and activities. We welcome the provisions regarding disclosure of climate-related risks, climate targets, scenario analysis and company transition plan reporting. A step change in the availability of this information is critical for helping companies and investors assess and manage financial and business risks and opportunities from climate change. The AOA agrees with the Commission's proposal to have the same transition periods for Scopes 1 and 2 emissions, with a transition from limited to reasonable assurance as proposed.

- 2) **At present, US company disclosure of these financially material emissions performance is limited, inconsistent, incomparable, or a mix of all three.** This situation increases costs for investors in terms of the direct costs of sourcing providers of this information to estimate or consolidate data into a usable form, stewardship decision costs that are burdensome for both companies and investors like direct company engagement to understand and interpret data to inform voting and steering activities, and opportunity costs from asset owners invested in the US financial markets that make allocation decisions that may have had different outcomes, if data was more consistent or reliable.

**Moreover, the SEC’s consideration of cost and benefits should not only examine the impacts at an organizational level, but also those on the US economy more broadly –** including the costs of inaction on climate risk disclosure. Climate change is already having a financial impact in the U.S., and in the past decade extreme weather events in the U.S. have cost \$800 billion<sup>1</sup> in disaster-related damages. This is a risk factor that will grow over time, threatening the long-term health of investment portfolios. As such the boundary of analysis for the cost and benefits for this ruling should consider both the organizational and economy-wide impacts. Particularly when considering the broader economic costs of failure to disclose and manage climate-related risks, implementing this proposed ruling would be consistent with the SEC’s mandate to “protect investors [and] maintain fair, orderly and efficient markets”.

**The Alliance also believes the proposed disclosure rules would promote more efficient use of stewardship resources in the capital markets and have a positive impact on investor protection in relation to climate risk.** The engagement track of the Alliance, recently released a paper titled [The Future of Investor Engagement](#) which identifies on page 15 that one of the current limits of corporate engagement is the “inefficiencies of focusing on voluntary, company by company disclosure”, acknowledging that such engagements can add value and are also often not the best use of investor’s limited engagement and stewardship resources. Instead, we suggest on page 24 that regulatory requirements for material climate-related disclosures will enable more efficient capital markets and that this increase in efficiencies of market disclosure “frees investor and company resources to focus corporate engagements on more strategic topics.”

- 3) **While the AOA supports the proposed climate risk disclosure rules,** we also need and encourage the SEC to go further. The SEC notably should require the disclosure of companies’:
- forward looking decarbonization pathways for emissions scope 1, 2 and, where material<sup>2</sup>, scope 3;
  - Reporting on material scope 3 emissions separated by upstream/downstream; also separated by GHG; and split of emissions in estimated/measured/assured;

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<sup>1</sup> Source <https://www.climate.gov/news-features/blogs/beyond-data/2010-2019-landmark-decade-us-billion-dollar-weather-and-climate>

<sup>2</sup> When considering whether to disclose Scope 3 GHG emissions, organizations should consider whether such emissions are a significant portion of their total GHG emissions. For example, see discussion of 40% threshold in the Science Based Targets initiative’s (SBTi’s) paper *SBTi Criteria and Recommendations*, Version 4.2, April 2021, Section V, p. 10.

- degree of alignment of the company's business model and investment plans with a Paris-compliant 1.5°C scenario

This would enable AOA members to chart their pathways and investment decisions.

Multiple AOA investor members and the PRI will submit additional responses to the SEC consultation, which provides further details on the points set out above.

#### **About the UN-convened Net-Zero Asset Owner Alliance**

The 73 members of the **UN-convened Net-Zero Asset Owner Alliance** have committed i) to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels; ii) to establishing intermediate targets every five years; and iii) to regularly reporting on progress. The Alliance is convened by UNEP's Finance Initiative and the Principles for Responsible Investment (PRI). The Alliance is supported by WWF and Global Optimism. Further information on the AOA can be found here <https://www.unepfi.org/net-zero-alliance/>