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

Paris, 17th June

Re: Request for comment on the Enhancement and Standardization of Climate-Related Disclosures for Investors (Release Nos. 33-11042; 34-94478; File No. S7-10-22) - Proposed rule

Dear Madam,

The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 680 management companies, with €4355 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

This letter sets out the most important matters that French asset managers have identified.

We welcome and overall support the Securities Exchanges Commission's (SEC) proposed rule that would require registrants to provide certain climate-related information in their registration statements and annual reports.

The fight against climate change is a priority at European level. Climate reporting plays an important role in achieving global climate-related objectives, notably keeping the temperature below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels. As a member of the G20 countries, France is committed to promoting a convergence in international reporting standards on climate and recognized that climate-related objectives would be hard to achieve without a harmonization of jurisdictional reporting standards. We believe that investors that operate globally, together with European and American companies, will benefit from such convergence and harmonization.

Such convergence in international reporting standards across different jurisdictions will also be beneficial for the quality of the information pertaining to

the value chain. For example, EU undertakings will expect the same quality of disclosures with regards to GhG emissions from their foreign suppliers (US registrants). Therefore, aligning requirements and methodologies will be key to ensure consistency and comparability.

In the context of the urgent need to improve the consistency, comparability and reliability of sustainability reporting for investors, we support the SEC's proposal to require registrants to disclose useful information about climate risks. This should enable investors to better understand how climate change may affect their investments. We also welcome the efforts to build upon the existing commonly accepted frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD). We note that European Sustainability Reporting Standards (ESRS) on Climate Change are also inspired by the TCFD. Accordingly, we believe there is a high potential for compatibility in the disclosure requirements between those in the ESRS on climate change (ESRS E1 *Climate change*) and the SEC's proposed rule.

To maximize the efficiency of the collective efforts in converging sustainability standards at EU and global level, we invite the SEC to consider the following recommendations:

1- <u>Granting equivalence to the ESRS on Climate change</u>

Referring to the Discussion in section J (Registrants Subject to the Climate-Related Disclosure Rules and Affected Forms), we would like to provide contextual background and comments to the question raised in Paragraph 183:
"Should we adopt an alternative reporting provision that would permit a registrant that is a foreign private issuer and subject to the climate-related disclosure requirements of an alternative reporting regime that has been deemed by the Commission to be substantially similar to the requirements of proposed Subpart 1500 of Regulation S-K and Article 14 of Regulation S-X to satisfy its disclosure obligations under those provisions by complying with the reporting requirements of the alternative reporting regime ("alternative reporting provision")?
The European Union is in the process of implementing its Green Deal plan. This plan includes many actions in relation to disclosure requirements such as the Taxonomy, Corporate Sustainability Reporting Directive (CSRD) and Sustainable Finance Disclosure Regulation (SFDR). As a part of those requirements, Europe is developing a set of comprehensive and high-quality ESRS.

We believe that these ESRS, in particular ESRS E1 *Climate change*, would enable EU SEC-registrants to concomitantly comply with the SEC's proposed climate objectives. This should arguably lead the SEC to consider adopting an equivalence

decision in this respect. We believe that any such equivalence would not be detrimental to users and ultimately would strike a proper cost/benefit balance for users. It would also be beneficial to preparers who will face significant challenges over the coming years with respect to the implementation of the various sustainability reporting requirements. Consequently, we recommend the SEC consider granting an equivalence of the ESRS with the SEC's proposed rule.

The SEC may also consider granting equivalence to other sustainability reporting standards (such as those develop by the International Sustainability Standards Board) if they are deemed of high quality and meet similar global sustainability objectives.

2- Aligning the financial materiality threshold with the usual one for financial materiality

We understand that registrants would be required to disclose the impacts of the climate events (severe weather events, and other natural conditions and physical risks identified by the registrants) and transition activities (including transition risks identified by registrants) on the line items of their consolidated financial statement.

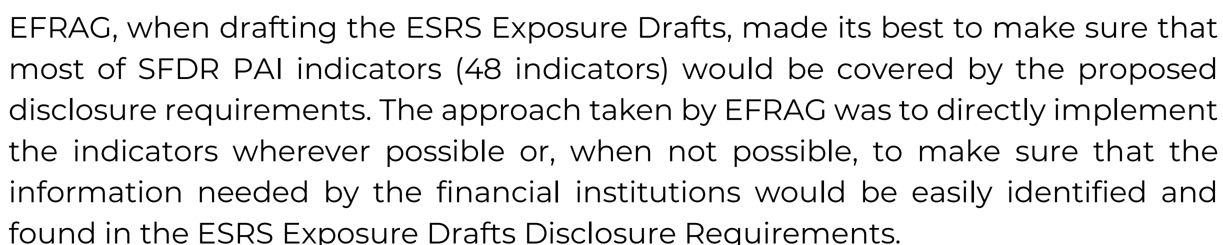
We agree with the principle of specifying such disclosure requirements. However, we have reservations on some aspects of those requirements and recommend some adjustments accordingly:

- the materiality threshold of 1% may be arbitrary. As such, we have concerns about the excessive implementation costs that this proposed requirement may entail. We are also concerned that such a threshold would not enable users to understand what is truly material from a financial perspective. Consequently, we recommend the SEC consider applying the same materiality threshold as the one generally used for financial reporting purpose.

3- Including some mandatory indicators

The European Union in building its' ambitious framework, adopted the Sustainable Finance Disclosure Regulation which aim is to provide further transparency with regards sustainability factors of financial products and prevent greenwashing.

Pursuant to this regulation, financial institutions are required to disclose 'principal adverse impacts' (PAI) of investment decisions on sustainability factors. To fulfil this requirement, financial institutions will have to publish a list of 'adverse sustainability indicators' among a list of 48 indicators (14 mandatory indicators and 2 additional indicators to be published by financial institutions). Financial institutions rely on information from their counterparts to answer this requirement.


EFRAG, when drafting the ESRS Exposure Drafts, made its best to make sure that most of SFDR PAI indicators (48 indicators) would be covered by the proposed disclosure requirements. The approach taken by EFRAG was to directly implement the indicators wherever possible or, when not possible, to make sure that the information needed by the financial institutions would be easily identified and found in the ESRS Exposure Drafts Disclosure Requirements.

We would urge the SEC to also include these indicators in their requirements to allow financial institutions to comply with the SFDR.

4- Deferring the proposed compliance dates for the proposed disclosures by one year (starting with fiscal year 2024, filing in 2025)

The SEC proposes to require registrants to disclose the proposed climate-related information gradually from fiscal year 2023 onwards.

In our view, the SEC proposes an ambitious set of high quality disclosures. We expect the implementation of those requirements to necessitate time and efforts––in other words, this will be a demanding exercise. Deferring the compliance date for all disclosure requirements by one year would, in our view, much help registrants implement their reporting process and start collecting data. Accordingly, we recommend the SEC consider deferring the compliance dates by one year (reporting year 2024).

5- Taking into consideration the CSRD legislative framework with regard to assurance

We understand that a registrant would be required to include in the relevant filing an attestation report covering the disclosure of its Scope 1 and Scope 2 emissions. The related attestation engagement would be subject to specified level of assurance:

- For large accelerated filers: (i) limited assurance would be required as from fiscal year 2024 (filed in 2025) whilst (ii) reasonable assurance would be required as from fiscal year 2026 (filed in 2027).
- For accelerated filers: (i) limited assurance would be required as from fiscal year fiscal year 2025 (filed in 2026) whilst (ii) reasonable assurance would be required as from fiscal year 2027 (filed in 2028).

The CSRD currently under debate in the European Union tentatively requires that limited assurance be obtained for the entire sustainability reporting—thus including disclosures of an undertaking's Scope 1 and Scope 2 emissions—starting

from fiscal year 2024 (filled in 2025). However, reasonable assurance might have to be provided at a later date than for SEC registrants.

We invite the SEC to consider the implications of a potential difference in scope, timing and level of assurance between the SEC's proposed rule and the EU Regulation, also in the light of preparers and auditors' level of readiness to comply with such requirements.

6- <u>Other comments</u>

As explained above, we support the SEC's proposals. This being said, we think that the EU proposed ESRS and particularly ESRS E1 may be more demanding in some respects, in particular in terms of transparency. For example, under the EU proposal, an undertaking would be required to disclose more disaggregated information for (i) GhG emission reduction targets (aligned with 1.5°C scenarios) and (ii) removals and carbon credits to achieve the targets. We believe that the EU proposed level of disaggregation would better help reduce 'greenwashing'.

In addition, we think that the disclosure requirements in the financial statements should be limited to events that actually occurred (eg. property loss), and not those that did not occur (eg. loss of revenues).

We expressed support to the ISSB's initiative to set up a working group of jurisdictional representatives— including the SEC and the European Commission––to establish dialogue for enhanced compatibility between the various jurisdictional initiatives on sustainability disclosures. We would also support a bilateral working group between US and European jurisdictions to foster technical alignment. We think that any such working groups would contribute positively to a global alignment.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Laure Delahousse