COMMENT: PROPOSAL ON THE ENHANCEMENT AND STANDARDIZATION OF CLIMATE-RELATED DISCLOSURES FOR INVESTORS

June 17, 2022

Vanessa A. Countryman, Secretary

Securities and Exchange Commission

100 F Street, NE Washington, D.C. 20549-1090

Re: File Number S7-10-22, submitted via rule-comments@sec.gov

Dear Ms. Countryman, dear SEC colleagues,

Climate risks and impacts are material to investment decisions, and transparency is crucial to enable financial market participants to evaluate and price-in sustainability risks and impacts. To date, a lack of comparability of available or disclosed data and the varying degrees of scope, relevance, and completeness of climate and sustainability disclosure regimes hamper financial actors' abilities to consider sustainability risks and impacts systematically in their financial decisions and risk assessment.

The experts at Climate & Company and University of Bamberg involved in this comment, have decades of experience working with carbon/climate finance and environmental reporting. Amongst others, through our direct, personal involvement in and exchanges with the relevant international bodies (GRI, ISSB, IPSF, EU sustainable finance platform, EFRAG sustainability reporting expert groups), we are intimately familiar with the issues this proposed rule seeks to, rightfully, address.

We strongly support the Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors (hereafter the Proposed Rule) and hope to see a swift adoption and implementation.

Moreover, we would like to provide you with a focused set of eight suggestions based on our policy expertise, our close cooperation with reporting entities (in particular corporates) and users of disclosures (in particular financial institutions and regulators), and our substantial research track-record, to support you in this important initiative.

1. Importance of mandatory climate disclosure.[1] Existing research provides compelling evidence that disclosure of corporate sustainability information improves the information environment for capital market participants.[2] More specifically, carbon emissions are consistently found to be relevant for firm valuation;[3] experimental evidence also shows that climate-related information is material,[4] and climate-related risk disclosure is related to lower information asymmetry.[5] In addition, mandatory reporting leads to higher reporting quality[6] and improvements in ESG performance,[7] while voluntary corporate disclosures can be associated with limited standardization and comparability.[8] We, therefore, welcome the mandatory nature of the Proposed Rule.

[1] Fuhrmann et al. (2017), link
[2] See, for example, Dhaliwal et al. (2011), link; Dhaliwal et al. (2012), link; Cho et al. (2013), link
[3] See, for example, Matsumura et al. (2014), link; Griffin et al. (2017), link; Ott & Schiemann (2022), link
[4] Reimsbach et al. (2020), link
[5] Schiemann & Sakhel (2019), link
[6] Hibbitt and Collison (2004), link; Jeffrey and Perkins (2013), link; Korca and Costa (2021), link
[7] See, for example, Bauckloh et al. (2022), link; Downar et al. (2021), link
[8] Habek and Wolniak (2016), link; Chen, Hung and Wang (2018), link

2. Precise Key Performance Indicators (KPIs) are crucial. For the mandatory disclosure to function well, it is important that the Proposed Rule specifies KPIs that registrants could use for reporting. Research suggests that when there are no precise guidelines on reporting, it leads to cherry-picking approaches on indicators,[9] which inhibits comparability and usefulness for investors. Therefore, to improve information quality and enhance standardization, the set of metrics and KPIs provided to the registrants shall be specific and tailored to the sectoral activities and size. While this provides comparable information to investors, it will also facilitate the reporting process for registrants. In this regard, we support the Proposed Rule build on existing well-developed reporting frameworks such as TCFD and standards such as the GHG Protocol and recommend increasing the specificity of required indicators and metrics such as those indicated in the SASB standards.
3. The scope of affected registrants as an important lever. On financial markets, transparency regarding climate-related issues can only be achieved if emitters representing a very large share of greenhouse gas emissions (and hence the corresponding climate risk) disclose their emissions, independent of their legal status or size. Evidence from Europe shows that by focusing on listed and large companies only, the current proposal for disclosure regulation does not yet capture a significant part of carbon emissions in certain sectors.[10] We encourage the Proposed Rule to require all listed companies, both domestic and foreign, to disclose the full range of material climate-related.
4. Materiality perspective: Consideration of risks and impacts. Climate issues that are classified as primarily material from an inside-out (impact) perspective can quickly become financially material to firms and investors. In fact, disclosure regulations and standards influence the capital market's understanding of climate issues' materiality.[11] As double materiality-based approaches are increasingly implemented internationally,[12] the capital market's consideration of both climate risks and impacts is likely to further intensify in the near future. Considering the dynamic nature of the materiality concept and coherence with other international regulations, we recommend the SEC go beyond a financial materiality approach and incorporate the disclosure of climate-related impacts.
5. Forward-looking information for more informed decisions. Forward-looking disclosure on targets and goals enables investors to make informed decisions by considering the investments' risk profiles over a relevant time horizon. It also provides key information about what companies plan to do about their climate risk exposure, which is essential information to evaluate the transitory risks of investments. In this regard, we support the Proposed Rule to require registrants to disclose whether they set any targets related to the reduction of their GHG emissions and a transition plan. In that regard, we support the recognition of established frameworks, such as the TCFD, which already incorporate the disclosure of forward-looking information over the short, medium, and long term. The Proposed Rule should proceed in requiring registrants to disclose detailed information about their targets and goals, such as interim targets and concrete action plans. A certain level of rigor in providing information related to targets is needed to avoid greenwashing issues and to provide investors with precise data.
6. Where Scope 3 emissions are material, they are required to understand the full extent of climate-related risks. In most economic sectors, the bulk of environmental impacts and exposures is rooted in the supply chain: On average, entities' emissions from the supply chain are five times higher than from direct operations.[13] To date, data availability of supply chain data is limited[14] and regulation is one of the key

[9] Korca and Costa (2021), link
[10] Bossut, Hessenius, Juergens, Pioch, Schiemann, Spandel and Tietmeyer (2021), link
[11] Freiberg, Rogers and Serafeim (2020), link; Spandel, Schiemann and Hoepner (2020), link
[12] International Platform on Sustainable Finance (2021), link
[13] CDP (2019), link
[14] Erdmann, Hessenius and Yahisi (2022), link

drivers of increased data availability.[15] In other words, without mandatory Scope 3 disclosure, investors cannot gain a full picture of the risks related to their investments. It is thus of crucial importance for higher transparency, and it would be a game-changer to include Scope 3 reporting requirements in the Proposed Rule.

7. Assurance increases the credibility of the disclosed information. The scientific literature provides evidence on the positive effects of assurance on investors' credibility perception of the disclosed information.[16] As such, assurance requirements are likely to increase the extent to which capital market participants use ESG information in their decision-making processes, by fostering the perception of the disclosures as reliable sources of information. Although assurance obligations are rather scarce in sustainability disclosure measures in other jurisdictions, it is an emerging aspect in planned disclosure measures. The European Union has the objective to have a similar level of assurance for sustainability disclosures as for financial disclosures.[17] It is a positive sign that the Proposed Rule also underlines the relevance of assurance requirements. We support the SEC's plan to increase the level of assurance over several years. This will allow firms and audit companies, especially those with little to no experience with climate-related disclosure, to develop the necessary systems and skills in parallel to the increasing assurance requirements. We recommend the SEC to maintain this innovative course with the coherent and ambitious timeline for reasonable assurance.
8. Product level disclosure measures and "going beyond just climate" should follow next. Although the Proposed Rule contains crucial aspects, it should only mark the beginning of further complementary proposals. ESG disclosure can be carried out at the entity level or the financial product or service level, which are closely interrelated. To correctly assess, report and manage sustainability impacts and risks, comprehensive disclosure requirements at all levels are ideal. For example, if a financial institution plans to assess its own ESG risk, it needs to know the ESG-related risks of the projects and entities it finances, of the firms it invests in, and of the underlying entities of the financial products it offers. We therefore recommend the SEC to further develop disclosure requirements for financial products and services, too. The recently proposed ESG Disclosures for Investment Advisors and Investment Companies[18] should be well aligned with all other sustainability disclosure regulations. In addition, environmental disclosure requirements need to go "beyond climate" and consider the other environmental dimensions, such as ecosystem services and protection, pollution or land use. The World Economic Forum ranks biodiversity loss as one of the 3rd most severe economic risks that humanity will face in the next decades.[19] Regulators should act now and foster transparency through disclosure regulations.

We hope you will find these comments useful, and we wish you the best of luck with your further work on this important Proposed Rule. Should SEC colleagues have any questions or identify any further need for feedback or inputs, please do not hesitate to reach out to us.

Sincerely,

Ingmar Juergens, CEO, Climate & Company, on behalf of all authors and signatories.

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[15] Jürgens and Erdmann (2020), link

[16] Quick and Inwinkl (2020), link; Reimsbach, Hahn and Gürtürk (2017), link

[17] European Commission (2021), link

[18] SEC (2022), link

[19] World Economic Forum (2022), link

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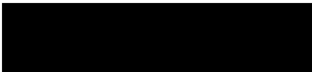

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