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Subject: Comments on SEC Proposed Rule on Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22)
Submission by George Anjaparidze, Veritas Global

I welcome the opportunity to provide comments to SEC on the proposed rule on climate-related disclosures for investors. I make these comments from the perspective of an international climate change policy practitioner and researcher. At Veritas Global, we recognize that rules and policies adopted by the SEC are not only important for capital markets in the US but also have precedent setting implications with far reaching consequences globally.

Our submission is split in two sections, the first section covers general comments that are conceptual in nature whereas the second section makes specific suggestions for additions to the proposed rule.

General comments that are conceptual in nature

1. The proposed rule should prioritize disclosure of information that relates to transition risks. In the context of climate change, the SEC is correct to identify both physical and transition risks as key issues. However, over the next decade, transition costs (and therefore risks) are likely to be significantly higher compared to the cost of physical impacts of climate change. This is because massive adjustments are needed over the next decade across the economy so that greenhouse gas (GHG) emission trajectories start to align with temperature goals of the Paris Agreement. Later in this century, as GHGs continue to accumulate in the atmosphere, the costs of physical impacts of climate change will likely outweigh the transition costs, especially if sufficient mitigation actions are not taken. Keeping these time frames in mind for cost incidence, the SEC should prioritize mandatory disclosures related to transition risks. The following McKinsey study sheds light on the potential scale of transition costs across global geographies:

   https://www.mckinsey.com/business-functions/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring

2. Disclosure on transition risks should not require companies to report against global temperature targets. Mandatory reporting on transition risks should in the first instance shed light on measures taken or planned by the company and how alignment is achieved with company mitigation goals. Companies should not be required to submit information on sectoral level action or national level progress. Furthermore, individual company reporting on alignment with global temperature goals should not be required, as the distribution of the mitigation effort differs across sectors and across countries. Individual companies do not have the know-how or an objective political economy mindset for appropriately distributing global mitigation efforts. Having said that, investors would benefit from aggregated sectoral level and jurisdiction level data. However, individual companies are not appropriately placed to report this kind of information and doing so could create confusion for investors. Instead, third party accredited data providers (similar to credit rating agencies), sector regulators, industry associations or an overarching entity such SEC can have a role in aggregating company level information to present data at sectoral and jurisdictional levels in a way that reduces information uncertainty.

3. The time-period for required disclosure of transition risks should be informed by the asset beta of the company and economic lifetime of its capital. From a financial perspective, the asset

beta reveals the expected discount investors place on future revenues (and risks) relative to the market. Therefore, investors would be interested in seeing different disclosure time horizons for a company with a high asset beta vs a company with a low asset beta. In practice, the SEC may wish to consider creating buckets of disclosure time periods depending on the asset beta of the company. For example, for companies with high asset betas the disclosure period could be set at 3 years, for companies with average asset betas the disclosure period could be set at 10 years, and for companies with low asset betas the disclosure period could be set at 15 years. For some industries, it may also be appropriate to specifically incorporate considerations that relate to the economic lifetime of its capital when determining the reporting time horizon. In addition, if disclosure is also done at sectoral and jurisdictional levels, reporting time periods may need to be longer compared to company level reporting time periods.

Specific suggestions for additions to the proposed rule

4. Consider adding a standard sectoral disclosure for some sectors. Individual companies may choose to supplement or deviate from the sectoral declaration. In some sectors, such as aviation, reporting on climate action through a sectoral lens may be appropriate. This is true both in terms of financial sustainability of individual actions but also for describing existing climate strategies. For reference, see analysis on the aviation sector explaining why industry-wide climate targets are financially sustainable whereas individual airline targets may not be:

   https://www.veritasglobal.ch/post/greening-airline-bailouts

   Also, for reference see link to policy brief below that describes how the Carbon Offsetting and Reduction Scheme for International Aviation was designed. One of the key features of this scheme is that it socializes the cost of its climate offsetting strategy across the international global airline industry. Given the collective approach, it makes sense for the disclosure to, at least in part, be done as a joint industry level effort.

   https://www.belfercenter.org/publication/extraordinary-climate-agreement-international-aviation-airline-industry-perspective

5. Disclosure on carbon offsets should include information on how the used offsets ensured avoidance of double counting. In response to question 24 in the consultation document, it is important for investors to understand whether carbon offsets used are credible. At a minimum this means knowing with certainty that the carbon offset used has not been double counted. Double counting concerns commonly arise at the time of offset issuance, use, and claiming. Rules now exist under the Paris Agreement that clarify how to avoid double counting, but these rules are likely to continue to evolve. To make it easier for investors to evaluate the credibility of offsetting practices, disclosure needs to include information on how double counting was avoided. See Box 1 of the below publication that provides an overview of double counting issues that were under consideration prior to UNFCCC COP 26 for carbon offsets for use in international aviation.

   https://www.adb.org/publications/carbon-offsetting-international-aviation-asia-pacific

I would like to again thank the SEC for the opportunity to contribute to this public consultation and welcome future occasions to exchange views.

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