Seattle City Employees' Retirement System

VIA E-MAIL: rule-comments@sec.gov
June 17, 2022

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

RE: The Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22)

Dear Ms. Countryman:

I am writing to express the Seattle City Employees' Retirement System's (SCERS) support for the SEC's proposed rule titled "The Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22)." This proposed rule would provide valuable information to investors and investment managers seeking to evaluate securities of publicly listed corporations.

SCERS is responsible for delivering the retirement benefits that our more than 18,000 members earned while serving the public as City of Seattle employees. We steward approximately $4 billion in assets for this sole purpose. In doing so, SCERS is experienced in the topics covered by the proposed rules.

General case for climate-related disclosures

SCERS understands that climate change poses a systemic risk to the investment portfolio due to its profound and pervasive impact on the real economy. Climate change also introduces heightened uncertainty to the capital markets depending on how it is addressed by policymakers, companies, investors, individuals, and other stakeholders. As a universal owner of the market, SCERS cannot avoid climate change risks; therefore, SCERS supports decarbonizing the real economy to safeguard its investment portfolio from the impact of climate change.

Companies can play a meaningful role in decarbonizing the real economy through their investment decisions, business operations, political lobbying, and other activities. Governments are critical to decarbonizing the real economy through setting constructive regulations, developing incentivizes for companies and individuals to reduce emissions, and investing in promising technology and essential infrastructure. SCERS advocates for broad-based policies that advance decarbonization. It is our view that climate-related disclosures from publicly listed corporations will benefit investors in multiple ways.

Seattle City Employees' Retirement System, Jeffrey S. Davis, Executive Director
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Promoting market efficiency: With more than 50% of SCERS's assets in index or index-like equity and bond products, SCERS benefits from an efficiently priced market. For markets to reflect reasonable security valuations, transparency of climate-related risks is essential, and greatly enhanced by corporate disclosures.

Improving capital allocation: Climate-related risks will impact market performance in the future. SCERS expects climate-related disclosure from publicly listed corporations to allow economic players in the marketplace to direct capital better, thus lowering overall market volatility and improve overall market performance.

Ensuring fair investor access: SCERS is reluctant to buy expensive, imputed data, and often uses publicly available information for reporting. Specifically relating to Scope 1 and Scope 2 carbon footprint data, the distribution of this metric is non-normal and highly skewed. Therefore, missing data renders sampling based on self-reporting to be highly biased and uninformative. Increasing the number of corporations self-reporting Scope 1 and Scope 2 will dramatically improve SCERS's ability to measure progress on efforts to decarbonize the real economy. SCERS believes that decarbonizing the real economy will reduce listed equity volatility and foster growth.

Guiding shareholder engagement: SCERS considers shareholder engagement to be an important tool in combating climate change. Increased disclosures on climate impact, such as GHG emissions—along with disclosures relating to climate-related governance, corporate strategy, risks and metrics/targets over various forward-looking horizons, political lobbying, trade organization support, and just transition—are fundamental to assisting shareholders in tracking progress on climate-related activities. Moreover, many of these disclosures may be financially material to the corporation and will assist market participants in price discovery. SCERS supports the Securities and Exchange Commission's attention to multiple aspects of climate risk including both transition and physical risks.

Physical Climate-Related Disclosure Proposal for Large Accelerated Filers

SCERS applauds the Securities and Exchange Commission's proposal to establish first priority to "Large Accelerated Filers." By covering the 2500 largest publicly traded US corporations, the Securities and Exchange Commission will induce large companies across the all sectors to understand and evaluate their climate-related risks. The extension of climate-related risks to all sectors of the market is critical to highlighting physical climate-related risks along with transition climate-related risks. While specific sectors, including energy, utilities, materials and industrials, are heavily exposed to transition risks, other sectors including financials, property, consumer services and consumer durables are heavily exposed to physical risks.

The physical risks of climate change are not well proxied with GHG emissions data, but rather with scenario analysis of various potential outcomes relating to weather events, sea-level rise, drought, wildfire and temperature changes. Including the location of assets subject to acute or chronic physical risks is essential for strategic planning within a corporation, and price discovery by market participants.

Accelerated and Smaller Reporting Companies (SRCs)

SCERS supports the delayed rollout of disclosures to Accelerated and SRCs, where Large Accelerated Filers lead the way. By focusing on the largest corporations first, SCERS expects that calculation methodologies, improved reporting standards and data collection will be established by the time other firms are required to report. Such a delay will ease the burden of increased requirements for corporations with fewer resources. Moreover, this stepwise approach ensures that larger firms with more resources, and ceteris paribus more emissions, will take on the heavy lifting of developing calculation methodologies. Smaller firms will have the benefit of utilizing these methods for climate-related risk reporting in due course.

Scope 3 and Safe Harbors

SCERS encourages the Securities and Exchange Commission to foster standard calculation methodologies to assist corporations in developing robust metrics for Scope 3 emissions. Providing support in developing calculation methodologies is particularly important due to its multiple components.

SCERS recommends that the Securities and Exchange Commission exercises patience in requiring Scope 3 emissions reporting. While Scope 3 emissions may be the bulk of emissions for some firms, e.g., for aircraft, truck and passenger vehicles manufacturers, they will be challenging to estimate. SCERS supports the Securities and Exchange Commission's efforts encouraging Large Accelerated Filers to develop standard methodologies for estimating Scope 3 emissions. Further, SCERS supports a longer development period for reporting Scope 3 and safe harbors for inaccurate estimates along the way.

Regulation S-K

SCERS supports updates to Regulation S-K that "would require a registrant to disclose certain climate-related information, including information about its climate-related risks that are reasonably likely to have material impacts on its business or consolidated financial statements, and GHG emissions metrics that could help investors assess those risks."

By including financially-material climate-related disclosures in corporate filings, data providers and distributors may access them more readily. Accordingly, SCERS supports electronic filings in Inline XBRL to facilitate data consolidation and sharing.

Article 14 of Regulation S-X

SCERS supports updates to Article 14 of Regulation S-X that "would require certain climate-related financial statement metrics and related disclosure to be included in a note to a registrant's audited financial statements."

By including financially-material climate-related disclosures in audited financial statements, this financial materiality is underscored. Moreover, calling on auditors to review disclosures fosters a culture of oversight and accountability.

Closing remarks

SCERS appreciates the opportunity to comment on File No. S7-10-22 and thank you, Ms. Countryman, for seeking our input. If you wish to discuss our perspective on these proposed rules, please contact Leola Ross [redacted]. Thank you for your consideration.

Sincerely,

Jeffrey S. Davis
Executive Director

CC: The Honorable Gary Gensler, Chairman
The Honorable Caroline A Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner