San Francisco City and County
Employees' Retirement System

SFERS
San Francisco Employees' Retirement System

June 17, 2022

VIA ELECTRONIC FILING

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE Washington, DC 20549

RE: The Enhancement and Standardization of Climate-Related Disclosures for Investors," Release Nos. 33-11061; 34-94867; File No. S7-10-22

Dear Chair Gensler:

On behalf of the San Francisco Employees' Retirement System ("Retirement System" or "SFERS"), we appreciate the opportunity to submit this letter in response to the request for public input on "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

Overall, we are highly supportive of the Commission's efforts to, "to require registrants to provide certain climate-related information in their registration statements and annual reports, including certain information about climate- related financial risks and climate-related financial metrics in their financial statements."

Given the urgency of the climate crisis and its effects on capital markets, investors need robust, market-wide data on the risks and opportunities from climate change faced by the entities in which we invest.

We commend the variety of ongoing efforts the Commission has undertaken related to climate change and other environmental, social, and governance ("ESG") related topics. We believe this work is in the best interests and protection of long-term investors such as SFERS.

About SFERS

SFERS was established by approval of City voters on November 2, 1920 and the California State Legislature on January 12, 1921. SFERS has over $30 billion in assets and serves nearly 71,000 active and retired employees of the City and County of San Francisco and their survivors.

SFERS is solely dedicated to securing, protecting and prudently investing pension trust assets, administering benefits programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

SFERS believes that certain environmental, social, and governance (ESG) factors can have a material impact on the value of companies and securities, as well as affect the macroeconomic environment more broadly. Consideration of material ESG factors alongside traditional financial factors should therefore provide a better understanding of the risk and return characteristics of investments. We believe that ignoring relevant risks, including material ESG risks would be imprudent.

SFERS, therefore, is committed to incorporating ESG factors into its management of the Trust in a manner that is consistent with the Retirement Board and Staff's fiduciary responsibilities to act in the best interests of the members, retirees, and beneficiaries of the Retirement System and consistent with SFERS' role as a prudent, long-term investor.

SFERS' Views on Climate Change

SFERS recognizes that climate change poses significant risk as well as creates opportunities for long-term investors such as SFERS due to:

- The technological transition from a fossil-fuel based economy to a low-carbon economy;
- The increasingly inevitable regulatory, political, and legal liability responses to climate change; and
- The physical impacts of climate change.

These shifts pose specific/idiosyncratic risks to certain companies, industries, and commodities and are understood by academics, global investors, financial regulators, and others to pose systematic/market risk. Further, macroprudential regulators including the U.S. Federal Reserve also identify the possibility that climate risk may be a systemic risk.

SFERS has taken various actions to mitigate this risk in our investment portfolio. In March 2020, SFERS adopted the ambition to be a net zero greenhouse gas emissions asset owner by 2050 in line with the objectives of the 2015 Paris Agreement. As part of this process, we measure the carbon footprint of our investment portfolio, and we factor climate considerations into each investment underwriting decision. We support many of initiatives identified by the Commission, including the Investor Agenda, Principles for Responsible Investment, and Climate Action 100+. Annually, we publish a Climate Action Plan that describes our progress in incorporating climate-related risks into our investment decision-making process.

SFERS' Comments on Proposed Rule

We respectfully submit the following comments. While they do not directly answer every question posed by the Commission, they address our key areas of support and identify a few areas where we believe the Commission could strengthen its proposal.

1. **Overall Support**

   As we outlined in our June 12, 2021 response to the SEC's "Statement Welcoming Public Input on Climate Change Disclosures", we are highly supportive of the SEC's efforts to require registrants to disclose material climate-related risks and opportunities.

We support the Commissions' proposal because it would result in decision-useful, comparable climate risk information for investors that is vastly improved compared to disclosures today.

We believe the proposed rule will allow SFERS and the asset managers who invest on our behalf to more effectively integrate the material risks posed by climate change into our investment processes.

Currently, we devote significant resources to direct engagement with registrants, shareholder voting, and other efforts to encourage companies to voluntarily disclose much of the information suggested in the proposed rule. Therefore, the proposal would add efficiency and accuracy to our current processes.

We appreciate the Commission's efforts to align with widely-used and accepted global standards and frameworks on climate risks. As global investors, we believe that such alignment is essential so that we can effectively assess climate risk across our portfolio.

SFERS supports the SEC's integration of nearly all the Task Force on Climate-related Financial Disclosure's (TCFD) recommendations into its rulemaking because the recommendations cover the essential elements of climate risk disclosure, and are broadly supported and used by companies, investors and securities regulators worldwide.

We also support the SEC's inclusion of a greenhouse gas emissions reporting requirement in the proposal because this information is foundational to our understanding current and potential risks to registrants in the face of climate change and the energy transition.

SFERS additionally supports the Commission's provisions for requiring assurance of certain GHG emissions disclosures, and for the phasing in of reasonable assurance over time. Assurance is needed to ensure investor-grade information is available to the marketplace.

2. Need for Scenario Analysis Guidance

Much of the Commission's recommendation relates to assessing and disclosing the actual and *potential* (emphasis added) material risks and impacts arising from climate change. SFERS strongly supports these efforts, and answers "yes" to Questions 19 – 29, among others.

The Commission asks in Question 30, "Alternatively, should we require all registrants to provide scenario analysis disclosure?" We support the Commission requiring most registrants to conduct and disclose the results of climate scenario analysis. In fact, SFERS believes that requiring scenario analysis is essential for any recommendation around "potential" material risks to be decision-useful for investors. Disclosure of potential impacts around climate change requires a registrant to make assumptions around the potential pathways of decarbonization, including, but not limited to, the shape of regulations, technological development, and behavioral responses. Further, any disclosure on potential risk and impacts requires a view (or views) on the effects of different global temperature increase pathways. Those factors just described are some of the key elements of climate scenario analysis, an essential tool to understand different potential impacts in an uncertain future.

Without requiring scenario analysis, any disclosures from registrants around potential future risks and impacts from climate change may be challenging for investors to interpret. For example, investors will not know if the disclosures provided by registrants are assuming a 1.5°C pathway, a 3°C pathway, or another warming trajectory. Investors will not know if the registrant is assuming that there will be globally coordinated climate regulation or not, technological breakthroughs or not, or significant physical impacts from climate change or not. Ideally, registrants would provide investors with potential risks and impacts in more than one climate scenario so that investors can understand a range of potential outcomes. However, it is essential that any disclosure on potential or future risks or impacts from climate have transparency around the scenario assumed.

3. Emissions Disclosure

We are supportive of the requirement for registrants to disclose greenhouse gas emissions. Understanding the carbon footprint and intensity of registrants is one essential variable that informs our view of climate-related investment risks and opportunities.

SFERS encourages the Commission to ensure that investors have a clear understanding of the differential risks, controls, and uncertainties associated with direct (Scope 1), indirect (Scope 2), and value chain (Scope 3) emissions. We believe that one of the primary channels of impact for registrants will be an increased price on carbon. Depending on how regulations are enacted, direct emitters of greenhouse gases may face more impact than indirect emitters. Indirect emitters will face impacts to the degree that direct emitters are able to pass costs along to throughout the value chain, in the cost of electricity in the case of Scope 2 emissions, and in the cost of goods and services in the case of Scope 3 emissions. We encourage the Commission to provide guidance that makes clear that Scope 1, 2, and 3 emissions are not fungible (due to risks of double and triple counting) and may each result in significantly different financial risks and impacts to registrants.

We believe the Commission should continue to assess its recommendations around Scope 3 emissions for a variety of reasons. To explain why, we offer an illustrative example based on automotive companies that sell internal combustion vehicles (ICEs) and battery electric vehicles (BEVs) as well as other low/zero tail pipe emissions vehicles:

> *Scope 1 and 2 emissions for production of ICEs and BEVs are significant but only constitute a portion of the full lifecycle emissions of the vehicle – many vehicle emissions occur upstream in raw materials sourcing and downstream during the use of the vehicle. Currently, BEVs may have meaningfully higher Scope 1 and 2 emissions due to more energy intensive manufacturing arising from the battery component. This information is decision-useful and relevant to investors and may possibly be material from a cost of sales perspective.*
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> *With respect to Scope 3 emissions, there is more complexity. Some may assume that the downstream (use phase) Scope 3 emissions are zero for BEVs and are significant for ICEs. However, the GHG Protocol, the resource referenced by the Commission, defines Scope 3 use-phase for products as their Scope 1 and 2 footprint. Therefore, BEVs have a material Scope 2 footprint associated with power generation for the electricity they consume.*
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> *How does an automaker report on these emissions for a BEV without specific guidance? Making assumptions around use-phase of ICEs may be relatively straightforward based on expected product life, fuel economy, combustion efficiency, carbon content of fuel, and other factors. A BEV would require similar calculations based on expected product life and carbon intensity of the electricity used to charge the vehicle. Determining the carbon intensity of electricity generation*

that is used through the life of a BEV is more challenging. Would a registrant assume a global, national, sub-regional/grid, or other intensity factor? A car charged in India vs. E.U. vs. Wyoming vs. Florida will have significantly different Scope 3 footprints. How would a registrant account for assumptions around the decarbonization pathways of the power sector over the lifespan of a vehicle?

In the absence of industry-specific guidance and standards from the Commission around (1) whether Scope 3 emissions are material to an automaker and (2) around how to project the down-stream footprint of its product, different registrants may take materially different approaches.

Even if the Commission provides additional guidance around materiality and a standardized way to calculate use-phase for different power train vehicles, the disclosed information may not be decision-useful to investors. Scope 3 data is a carbon accounting construct that may be abstracted from business-related information that investors can more readily incorporate into their decision making.

We believe that a reasonable, climate-aware investor might want to know information like the percentage of vehicle sales that are zero emissions, the fleet fuel economy of remaining ICE products, targets around transitioning to a 100% zero tailpipe emissions fleet, and potentially a description of efforts to decarbonize the power supply through public policy support. Reasonable investors may be challenged to understand and interpret Scope 3 data which is heavily reliant on assumptions and is an abstract concept to many.

In summary, SFERS recommends that the Commission reconsider its requirements around Scope 3 emissions. If it retains the requirements, then SFERS recommends the Commission strengthen the rule by providing more explicit guidance around determining the materiality of Scope 3 emissions as well as more explicit standards to calculate Scope 3 emissions for key industries. In addition, the Commission could consider more industry specific climate disclosure guidance, such as the example provided above around how an automaker is transitioning its vehicle fleet or not in alignment with the climate transition.

4. Reporting Location

The Commission asks in Question 6, "Would requiring a registrant to include all of the proposed climate-related disclosures in a separate, appropriately captioned section, while precluding a registrant from incorporating by reference some or all of the climate-related disclosures, promote comparability and ease of use of the climate-related information for investors?"

SFERS supports the Commission's recommendation to include climate-related information in a separate, appropriate captioned section as long as it does not preclude registrants from disclosing material climate-related information elsewhere.

Many registrants provide useful climate-related information in sections such as the Management's Discussion & Analysis (MD&A) section, in proxy statements, and in standalone reports. We encourage the Commission to ensure that registrants continue to provide such disclosures where relevant. In particular, many registrants provide investors highly detailed climate scenario and risk reports. These may continue to provide additional information supplemental to what is required by the proposal, which is highly useful for investors assessing certain registrants. Similarly, some registrants provide reports that detail their practices around lobbying and political spending as they relate to climate change. We encourage the Commission to allow registrants to continue to communicate with investors in such ways.

Conclusion

Our duty is to act solely in the best long-term interests of our beneficiaries. We believe that the proposal will benefit long-term institutional investors and our beneficiaries.

Sincerely,

Andrew Collins
Director of ESG Investing
San Francisco Employees Retirement System (SFERS)