20 May 2022

SEC Headquarters
100F Street NE
Washington DC 20549

Re: File Number S7-10-22: Input on Proposed Rule on Climate Change Disclosures

Dear Chairman Gensler,

The United Nations Environment Programme - Finance Initiative (UNEP FI) is a strategic public-private partnership between the UN and over 400 global financial institutions. It has established some of the most important sustainability-oriented frameworks within the finance industry, including the Principles for Responsible Investment, the Principles for Sustainable Insurance and the Principles for Responsible Banking. It also convenes leading net zero alliances of banks, insurers and asset owners which form part of the Glasgow Financial Alliance for Net-Zero. Since the issuance of the initial TCFD disclosure guidance, UNEP FI has led pilot programmes for dozens of banks, insurers and institutional investors on climate risk and TCFD disclosures. These programs have convened financial institutions, supervisors, and climate experts with a view to improving climate disclosure practices across the financial sector.

UNEP FI applauds the SEC's proposed rule to mandate climate-related financial disclosures as an important step forward in managing the rising risks of climate change. We welcome this opportunity to share our perspectives on the proposed rule.

The SEC is charged with a three-part mandate: to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. In accordance with this mandate, the SEC's proposal will provide investors and other market participants with clear, consistent, and comprehensive information, so they can make informed investment decisions as markets navigate the complex financial impacts of climate change and the transition to a low-carbon future.

Financial risks posed by climate change have been well documented by numerous government studies, financial industry experts, business leaders, and economists alike. Although an impressive number of disclosures have been through voluntary initiatives such as the TCFD, we support the codification of these disclosure norms through regulation. Establishing a mandatory climate disclosure framework offers uniformity, consistency, and reliability for investors and other market participants seeking to assess climate-relate risks. Mandatory climate disclosures allow investors to compare the management of climate-related risks between companies using comparable metrics. This information will provide a clearer picture of a company's short and long-term financial health and enable better-informed investment and capital allocation decisions.

In relation to mandatory compliance, our own pilot programs with financial institutions have demonstrated that learning by doing is an effective way to develop expertise and capabilities in this area. Mandatory compliance in other jurisdictions has accelerated the capacity of firms to identify, assess, manage and disclose climate-related risks.

Climate risk represents both business and financial risk for many companies, with some also benefitting from new opportunities from the transition to a low-carbon future. Business and financial risk information is most useful when it can be seen how, or the extent to which, this is manifested in the financial statements. Therefore, we support the SEC's proposed requirements for companies to file climate-related business and financial risk information, to have this information appear alongside financial statement information, and for this to include both narrative and quantitative elements of information as well.

We also welcome the proposed financial statement metric information on climate, to be provided in a structured manner. This in turn requires the existing financial statement requirement having been applied in relation to climate matters. Both the FASB and the IASB have already confirmed that their existing standards do apply to climate risk, requiring both accounting adjustments where criteria is met along with disclosure of material information such as climate-related assumptions and estimates. However, we stress the need for the SEC to both emphasize and to enforce these existing financial statement requirements, as evidence suggests that even for companies where climate risk is clearly material -- such as oil and gas companies -- the existing financial statement requirements are not being properly followed by companies, and auditors have not addressed this oversight (See report from Carbon Tracker 'Flying Blind - The glaring absence of climate risks in financial reporting'[1].)

Further, the SEC's framework will support the alignment with supervisory counterparts around the world that have already developed mandatory disclosure frameworks, including New Zealand, the United Kingdom, and the European Union. The IFRS Foundation, which sets accounting standards used in over 140 nations, recently released its own proposed climate-related disclosure proposal through the International Sustainability Standards Board (ISSB).

Coherence of expectations and standards across jurisdictions benefits both filers and users of this climate-related data. Many of the largest United States' issuers are global companies that likely fall under the disclosure requirements of another jurisdiction that potentially adopts ISSB standards. Furthermore, globally coherent disclosure requirements will improve comparability of data for investors. We are supportive of the fact that ISSB proposal and SEC framework are broadly consistent and also well-connected to many of the themes covered by the TCFD.

UNEP FI does wish to make a few suggestions for consideration in further strengthening this framework in the future.

a. Scenario analysis
While scenario analysis is recommended for disclosure under the SEC's proposed rules, its disclosure is not mandated and reporting of results is only expected if the filing firm chooses to conduct it. We believe scenario analysis is a vital tool for all organizations to use in understanding the impacts of climate change. Scenario analysis can range in complexity and resource intensity from examining publicly available climate scenarios to the development of complex risk measurement models. Setting the expectation for firms to conduct scenario analyses (and specifically to include a science-based net-

[1] https://www.unpri.org/accounting-for-climate-change/flying-blind-the-glaring-absence-of-climate-risks-in-financial-reporting/8555.article

zero scenario in their analyses) will promote the development of improved climate-related risk assessments.

b. Metrics and targets
In the reporting of all metrics and targets, understanding the calculation methodologies is critical for interpreting the results. We would support the inclusion of clear provisions calling for the full disclosure of methodologies, definitions and criteria of all figures, metrics and targets reported.

c. Scope 3 emissions
The proposed rule requires the disclosure of scope 3 emissions if material or for those that have set targets, which is a good initial step. While smaller firms may face challenges in obtaining information on their scope 3 emissions, these emissions may constitute a large share of their emissions footprint. We believe that smaller firms should be encouraged to report scope 3 emissions wherever possible and should be expected to develop plans that will help improve the coverage of their emissions reporting across all scopes.

UNEP FI hopes that the answers above will help the SEC to develop its approach to climate change disclosures. We would of course welcome the opportunity to discuss any of these perspectives further or just answer any comments or questions the SEC may have.

Sincerely,

Eric Usher
Director, UNEP-FI