CONSULTATION RESPONSE

SECURITIES AND EXCHANGE COMMISSION: REQUEST FOR COMMENT ON CLIMATE DISCLOSURE

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PRI US, Inc

Registered office: 45 Rockefeller Plaza, Suite 2000
New York, NY 10111
T: +212 332 3437 W: www.unpri.org E:info@unpri.org

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 4,000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US $103 trillion in assets under management.[1]

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS CONSULTATION RESPONSE

This document responds to the US Securities and Exchange Commission's (SEC or the Commission) request for information "Public Input Welcomed on Climate Change Disclosures".[2] In the request, the Commission seeks input from market participants on "whether current disclosures adequately inform investors" on climate change. The Commission recognizes that, since the 2010 Climate Change Guidance[3] was issued, "investor demand for, and company disclosure of information about, climate change risks, impacts, and opportunities has grown dramatically. Consequently, questions arise about whether climate change disclosures adequately inform investors about known risks, uncertainties, impacts, and opportunities, and whether greater consistency could be achieved."[4]

As an investment-focused organization, the PRI's response addresses the Commission's questions from the perspective of our 4,000 global investment managers, asset owners and service providers, seeking to provide clarity to the Commission on what climate and other ESG-related information would be most useful to a broad group of investors who rely on corporate disclosure information as a primary source of information for investment decisions.

This consultation response represents the view of the PRI Association and not necessarily the views of its individual members. More information: www.unpri.org

For more information, contact

Greg Hershman	**Colleen Orr**	**Karen Kerschke**
Senior Specialist, US Policy	Senior US Policy Analyst	US Policy Analyst
gregory.hershman@unpri.org	colleen.orr@unpri.org	karen.kerschke@unpri.org

[1] See PRI signatories, available at: https://www.unpri.org/signatories/signatory-resources/signatory-directory.
[2] US Securities and Exchange Commission, *Public Statement: "Public Input Welcomed on Climate Change Disclosures"* (March 15, 2021), available at: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.
[3] Securities and Exchange Commission, *Release Nos. 33-9106; 34-61469; FR-82*, available at https://www.sec.gov/rules/interp/2010/33-9106.pdf.
[4] US Securities and Exchange Commission, *Public Statement: "Public Input Welcomed on Climate Change Disclosures"* (March 15, 2021), available at: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

SUMMARY OF THE PRI'S POSITION

The PRI welcomes the leadership shown by the Securities and Exchange Commission (SEC or the Commission) in its renewed focus on climate and ESG issues and in bringing forward this consultation on climate disclosure. A change in the quality and quantity of corporate climate-related disclosures is essential to an efficient market response to climate change and ESG risks. Mandating climate-related disclosure for US public and private companies will accelerate the awareness in the US private sector of the growing risks and opportunities in the net-zero transition, help companies prepare and plan for this transformation and protect investors and US competitiveness in the economies of the future.[5]

The current state of climate change disclosure in the US does not meet market needs. Disclosure should be improved as part of a larger effort to facilitate the more thorough provision to investors of ESG information that has investment relevance. Investors need comprehensive, comparable and decision-useful data from companies on climate change and a range of ESG issues. The PRI's key recommendations for the Commission are:

- **Require disclosure from all issuers to protect investors from the risks posed by climate change and other ESG factors.** The standing three-part mission of the SEC is to provide for capital formation, maintain fair, orderly and efficient markets and protect investors. Only through mandatory disclosure of climate and ESG information can the Commission ensure an efficient market that presents climate and ESG information in a consistent, comparable and standardized fashion to protect investors from hidden, emergent or systemic risks.
- **Amend Regulations S-X and S-K, the primary rules that govern annual financial disclosures, to incorporate climate and ESG information.** Investors increasingly view numerous points of climate and ESG data as decision-useful alongside, and in the same way as, currently disclosed financial information. However, investors are currently unable to access and analyze this information in the same way they view and compare similarly considered financial information.
- **Align issuer financial reporting with the TCFD Framework recommendations for corporate climate disclosure.** More than 1,500 organizations globally, including over 1,340 companies with a market capitalization of $12.6 trillion and financial institutions managing $150 trillion have expressed support for the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) Framework recommendations.[6]
- In a survey[7] of US PRI signatories in response to this consultation, participants were given 14 options of the most valuable material issuer ESG information to their firm in making investment decisions, an even split between seven qualitative and seven quantitative choices. **The top four selections for "most valuable material issuer ESG information" were all, in order, quantitative options:**
    - **Quantitative data on corporate actions to address climate change** (such as year-over-year emissions of carbon dioxide and other core GHG emissions)
    - **Quantitative data on Diversity, Equity & Inclusion policies and actions** (such as diversity statistics across corporate levels)
    - **Quantitative data on current and potential future risks arising from climate change** (such as scenario analysis)
    - **Quantitative data on human rights policies and activities across supply chains** (such as number of contractors and contractor locations)

[5] International Energy Agency, *Net Zero by 250* (May 2021), available at https://www.iea.org/reports/net-zero-by-2050.
[6] Financial Stability Board, *Task Force on Climate-related Financial Disclosures: 2020 Status Report* (Oct 2020), available at https://www.fsb.org/wp-content/uploads/P291020-1.pdf
[7] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.

- **As such, the PRI recommends the Commission establish a common and mandatory set of sector-specific key performance indicators and forward-looking metrics that build upon the TCFD Framework recommendations**. For greenhouse gas (GHG) emissions this should include:
  - Scope 1, 2 and 3 emissions;
  - Scope 3 separated by upstream/downstream and GHG; and,
  - Split of emissions in estimated/measured/assured.

  Specific disclosure metrics should also be required for:
  - Capital expenditure to indicate the portion of investments attributable to addressing:
    - Transition risks and opportunities.
    - Adaptation to physical risks associated with climate change and any stated climate targets.
  - Measures of physical climate risk, operational losses as a result of extreme weather events or asset exposure to common climate-related hazards (e.g., flood, drought, fire, etc.).
  - Forward-looking targets covering absolute GHG emissions as well as GHG-intensities (e.g., GHG emission intensity planned in 5 and 10 years).
- **Direct the appropriate authorities at the Public Company Accounting Oversight Board (PCAOB) and the Financial Accounting Standards Board (FASB) to update accounting and auditing processes to fully account for climate and ESG information.** Incorporation of climate and ESG information in existing regulation subjects that information to the frameworks through which similar financial information is filed with the Commission, certified by corporate leadership and audited by an accredited auditor. However, the current system of auditing and assurance needs to be updated to appropriately account for climate and ESG information.
- **Work internationally to establish and integrate a globally comparable, consistent and high-quality corporate climate and ESG disclosure baseline.** The PRI supports efforts by the International Financial Reporting Standards (IFRS) Foundation, the International Organization of Securities Commissions (IOSCO) and the five framework- and standard-setting institutions (CDP, CDSB, GRI, IIRC and SASB) to develop a globally shared baseline for reporting on sustainability information which serves the needs of investors.
- **Adopt a broad ESG disclosure framework for ESG factors, requiring mandatory, principles- and rules-based disclosure of investment-relevant human rights, governance and social issues within Regulation S-K that provide investors with the most frequently sought information.** Issues such as human capital management, and more broadly, human rights, environmental justice and systemic racism have relevance both in terms of the financial interests of shareholders as well as the expectations and rights of other stakeholders. The intersectionality of these issues requires climate and ESG factors to be considered alongside one another.

INVESTORS INCREASINGLY CONSIDER CLIMATE AND ESG INFORMATION AS PRIMARY EVIDENCE IN DECISION-MAKING

The PRI recommends the Commission update its regulatory regime to create an efficient, reliable information market that reflects the evolving information needs of investors by requiring issuers to provide the information required by the investor community. It is investors' duty to consider all value drivers which could influence their ability to deliver on their investment objectives.[8] The growth of demand for climate and ESG information reflects the growing understanding that climate and ESG factors are useful in investment decision-making as they relate to risks and opportunities. In fact, evidence continues to mount that consideration of climate and ESG factors in investment decision-making leads to better financial outcomes, sustaining the fiduciary duty of investors to systematically consider this information.[9]

Wellington Management Company, LLP, an investment manager with $1 trillion in assets under management, describes their fiduciary duty to consider climate and ESG factors in a publicly available transparency report filed with the PRI:

> *"ESG criteria have the same relevance to investment analysis as traditional financial criteria, and are incorporated into the investment decision to the extent that an investor believes that they will have an impact on financial returns." ... "Given the impact that issues like these can have on financial performance, we believe it is our fiduciary duty to integrate ESG analysis into our investment process to help pursue better investment results for our clients."*[10]

The SEC's requirements for issuer disclosure should reflect the information needs of the typical investor, who is broadly invested in the economy and considers climate and ESG information alongside financial information. Broadly diversified investors evaluating any individual asset for addition to a portfolio need to consider its risk and return characteristics not in isolation, but in terms of the asset's effect on the portfolio as a whole. Investors increasingly require access to complementary data that is necessary for an understanding of broader market conditions.

The California Public Employees' Retirement System (CalPERS), the largest public pension fund in the country, explained their approach to climate change in a publicly available transparency report filed with the PRI:

> "*As a long-horizon asset owner holding a diversified growth-oriented portfolio, we are acutely aware of the impact of real economic conditions on our portfolio's outcome. Managing climate risk as a fiduciary duty means integrating climate in our investment process, ranging from strategic allocation to security selection activities. It also means being an active steward of the real economy and closely monitoring the actions of real economic actors regarding climate system."; and "As a long-term investor, CalPERS evaluates the impact of climate-related risks over a longer term. Current science data and modelling supports analysis through 2050, however CalPERS investment horizon extends beyond this time*."[11]

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[8] Principles for Responsible Investment and United Nations Environment Programme Finance Initiative, *Fiduciary Duty in the 21st Century Programme* available at: https://www.unpri.org/policy/fiduciary-duty.
[9] See Appendix C.
[10] Wellington Management Company LLP, *RI Transparency Report 2020*, available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Wellington%20Management%20Company%20LLP_2020.pdf.
[11] California Public Employees' Retirement System CalPERS, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=A0254FD5-292E-413E-99BD-0EEC8A9F0219.

As evidenced above, climate and ESG data and analysis have many uses in the investment process. Among these, include:

- Risk management
- Integration in valuation models, alternative beta, quant, factor and index investing
- Integration in credit research and assessments
- Screening (positive, negative and exclusions based)
- Producing best-in-class ESG approaches (ESG ratings)
- Thematic investment (allocating capital to environmental or social outcomes)
- Creating and monitoring funds with specific environmental and/or social characteristics
- Measuring the impact of companies and/or funds (portfolio monitoring, carbon foot-printing)
- Active ownership, including engagement
- Communicating with clients and beneficiaries

A survey of more than 400 investors found that 50% of respondents believe that climate risks have already started to materialize, and only 10% believe climate risks will come into effect in ten years or more.[12] A survey of investment professionals, of which 31% were located in the United States, showed that a vast majority consider climate change a risk. In fact, 51% of respondents believe climate reporting to be as important as traditional financial reporting, and almost one third believe climate reporting to be more important.[13]

Capital Group, in a public transparency report filed with the PRI, describes their thinking about climate risk:

> "*As a global investor, we believe the impacts of climate change are broad and relevant, creating risks and opportunities across different sectors. With ESG integration, we embed our understanding of climate change into our investment decision making. This enables us to focus on the investment decisions where we see climate change and related issues as material financial factors*."[14]

AllianceBernstein, in a public transparency report filed with the PRI, discusses their work to mitigate climate risk:

> "*We may seek to invest in companies that help maximize positive and minimize negative climate-related outcomes in fields such as pursuing renewable energy or making a timely transition to a low-carbon strategy... If our analysts determine that, after integrating ESG factors into their fundamental research, there are aspects of an issuer's past, current or anticipated ESG-related behavior that are material to its future expected returns, they address these concerns in research forecasts, research reviews, and investment recommendations.*"[15]

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[12] Krueger, Philipp, Zacharias Sautner, and Laura T. Starks, "The Importance of Climate Risks for Institutional Investors" (2020), available at The Review of Financial Studies 33 (3): 1067–1111.
[13] Ilhan, Emirhan, Philipp Krueger, Zacharias Sautner, and Laura T. Starks. 2020. "Climate Risk Disclosure and Institutional Investors." Swiss Finance Institute Research Paper, no. 19–66.
[14] Capital Group, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=A94CD0DB-D0BD-4DCE-B750-12D723BAFAAA.
[15] AllianceBernstein, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=639AC59D-2CA5-4063-8698-A66791DB5B2B.

ClearBridge Investments, LLC, in a public transparency report filed with the PRI, describes their efforts to consider ESG factors:

> "*ClearBridge has a fully integrated ESG investment process - our analysts and portfolio managers integrate ESG considerations, including climate-related risks, into stock analysis and recommendations as part of their active management approach. This analysis is underpinned by ClearBridge's proprietary ESG framework, which includes numerous sector-specific climate issues, such as stranded asset risk for fossil fuel producers; climate change regulations for Utilities; electric vehicle adoption for Autos; physical climate risks for Real Estate; carbon emissions intensity for Materials; and many others.*"[16]

Edelman's *2020 Trust Barometer Special Report on Institutional Investors* (Edelman's special report) concluded that "ESG [is] fundamental to investment decisions" as a vast majority of investors surveyed reported monitoring specific ESG performance metrics and considering long-term success of ESG initiatives in favor of short-term success indicators.[17] A survey of 413 senior investment professionals support's Edelman's conclusion, finding that 82% use ESG information because they consider it financially material to their investment performance.[18]

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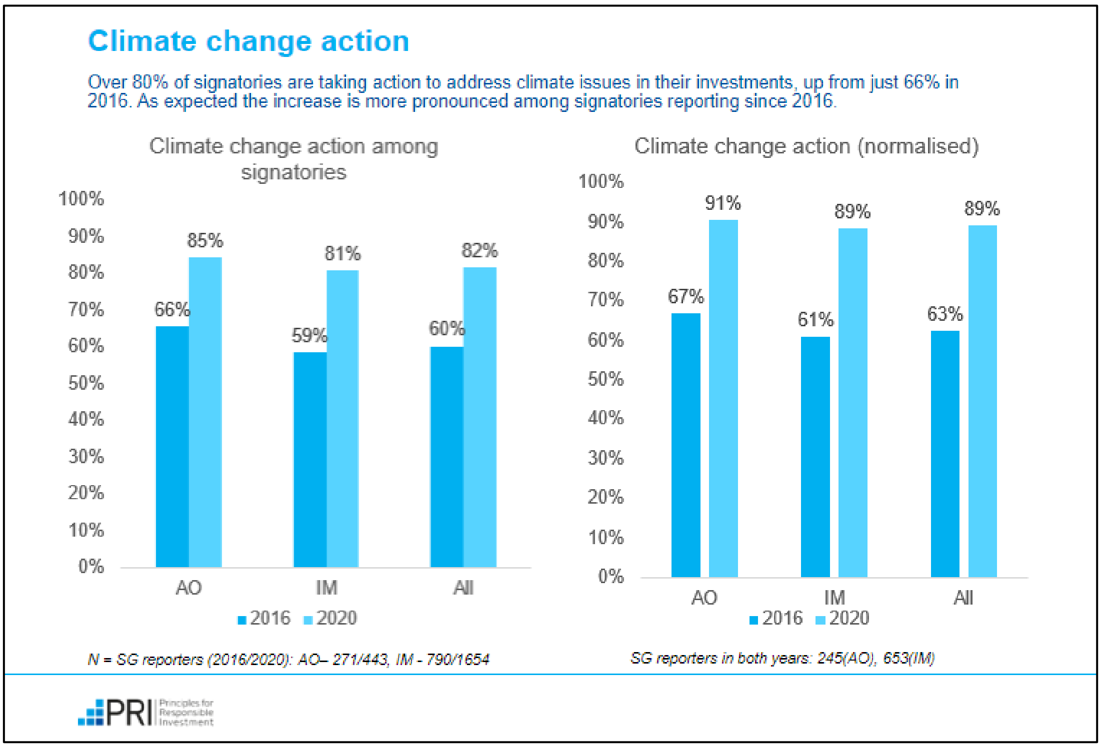
[16] Clear Bridge Investments, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=15F09641-F134-4628-8DE4-DFA303B2BB11.
[17] Edelman, *Special Report: Institutional Investors U.S. Results* (2020), available at https://www.edelman.com/sites/g/files/aatuss191/files/2020-11/Edelman%202020%20Institutional%20Investor%20Trust_FINAL.pdf.
18 Amel-Zadeh, Amir, and George Serafeim. 2018. "Why and How Investors Use ESG Information: Evidence from a Global Survey." Financial Analysts Journal 74 (3): page 4.

INTEGRATION OF ESG INFORMATION IN INVESTMENT PRACTICES CONTINUES TO ADVANCE IN QUANTITY AND SOPHISTICATION

The PRI recommends the Commission create an efficient and reliable corporate climate and ESG disclosure regime that facilitates investor decision-making irrespective of the preferred ESG integration technique and investment strategy. While there is no one-size-fits-all approach to evaluating and incorporating climate and ESG information, every investor and every investment decision is increasingly moving toward some consideration of climate and ESG information. Over the past four years, PRI signatories have reported a significant upward trend of considering ESG information in their investment processes and decision-making. In 2020, 80% of PRI signatories indicated they are taking action to address climate issues in their investments, up from 66% in 2016:[19]

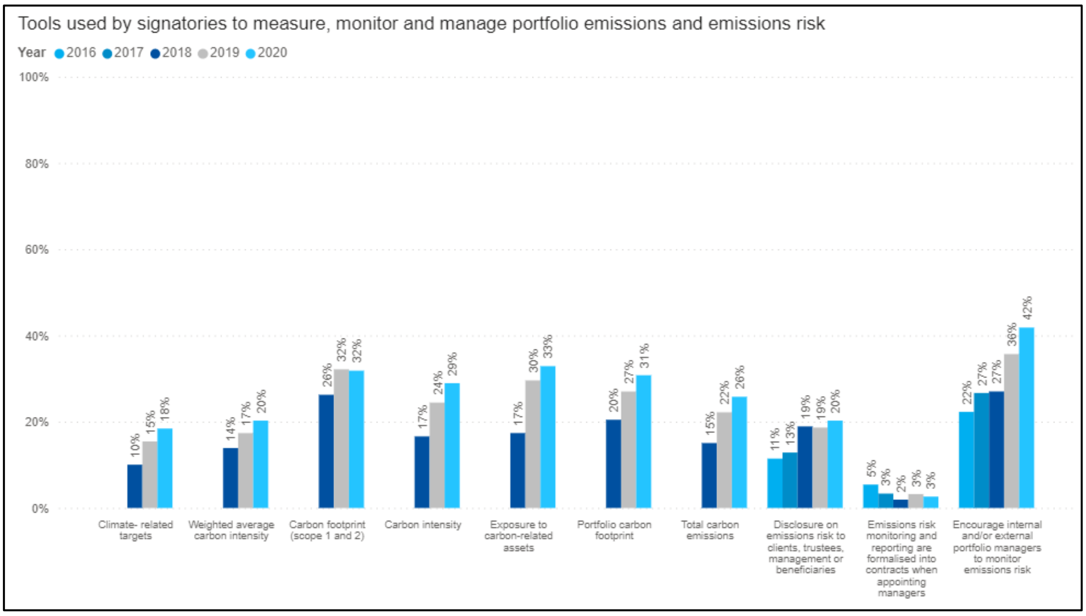


Edelman's special report similarly found that 87% of investors have specific ESG performance indicators that they incorporate in their investment decisions and concluded, "ESG Integration Has Arrived" as 98% of investors reported considering ESG factors in their investment process.[20]

[19] Principles for Responsible Investment, *The Evolution of Responsible Investment: An Analysis of Advanced Signatory Practices* (March 4, 2021), available at https://www.unpri.org/asset-owner-resources/the-evolution-of-responsible-investment-an-analysis-of-advanced-signatory-practices/7254.article.
[20] Edelman, *Special Report: Institutional Investors U.S. Results* (2020), available at https://www.edelman.com/sites/g/files/aatuss191/files/2020-11/Edelman%202020%20Institutional%20Investor%20Trust_FINAL.pdf.

PRI signatories are increasingly building formal climate-risk analysis systems as well as engaging on other ESG factors.

The PRI's reporting framework shows that investors are moving to use a variety of metrics related to climate change in investment decisions:[21]



Boston Common Asset Management, in a public transparency report filed with the PRI, describes their ESG analysis as such:

> "*For the medium term, our ESG and financial analyst teams create sector maps of risks and opportunities. We assess new technologies, thematic opportunities, declining sectors, changing the risk reward opportunity from some carbon-efficient products, services, materials, industrial processes, water stewardship, etc. Our effort is to identify products, processes and policies that will be more resilient, and contribute to a low-carbon future and climate resiliency.*"[22]
>
> "*Our approach to measuring carbon risk includes all relevant sectors - the energy and utilities sectors; transport, shipping, and agriculture, and in those industries that have ignored financial risks associated with lending to carbon intensive industries, such as banks and insurance companies. Assessing our portfolios' carbon footprints informs our investment decision-making process, as we seek companies that are not only making efforts to reduce their GHG emissions, but also those that already have demonstrated low carbon footprints. We complement this assessment by avoiding risky companies whose GHG emissions have grown unabatedly and are more susceptible to financially related climate risks. We actively use the data to challenge companies on climate-strategic questions in our shareowner engagement initiatives. Our major strategies produce fewer emissions and are less carbon-intensive than their respective benchmarks, primarily due to stock selection.*"[23]

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[21] Principles for Responsible Investment, *The Evolution of Responsible Investment: An Analysis of Advanced Signatory Practices* (March 4, 2021), available at https://www.unpri.org/asset-owner-resources/the-evolution-of-responsible-investment-an-analysis-of-advanced-signatory-practices/7254.article.
[22] Boston Common Asset Management, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=E090D35D-8C40-42AF-BA89-AA2F3DCD0AB5.
[23] Ibid.

Capital Group, in a public transparency report filed with the PRI, approaches the risks of climate change within their portfolio as follows:

> "*We look at 2-degree, 4-degree and 6-degree temperature rise scenarios using our in-house framework and analyze the impact on economic and market outcomes. We also look at the implications of incorporating carbon emissions cost into stationary power generation based on a few scenarios: $0 per ton CO2, $10 per ton CO2, $50 per ton CO2, 10% fuel increase and 100% fuel increase. These could help analysts and portfolio managers identify and assess material climate related risks and opportunities, and factor them into investment decisions as part of their fundamental research process.*"[24]

Many investors focus not only on climate, but also broader ESG factors.

BlackRock, in a public transparency report filed with the PRI, describes its considerations of the long-term financial impacts of broader ESG information across their investment decisions:

> "*BlackRock has long believed that sustainability-related issues - including climate-related risks - have real long-term financial impacts, with increasing relevance in the investment process. Many of our clients are long-term investors and, as a fiduciary, we're working to help them integrate ESG factors across an entire portfolio to enhance long-term risk adjusted returns with built in resilience. Integrating these data and tools into the investment research process is critical to risk management. In addition to incorporating sustainability considerations across our investment platform, BlackRock currently manages a broad suite of dedicated sustainable investment solutions, ranging from broad ESG strategies to thematic and impact strategies that allow clients to align their capital with the low-carbon transition and the UN Sustainable Development Goals. BlackRock also manages one of the largest renewable power funds globally.*"[25]

Please see Appendix A for a small selection of quotes from PRI signatory public transparency reports on the diverse and growing use cases for climate and ESG information. Tens of thousands of similar quotes can be found in PRI signatory public transparency reports. All public reports since 2014 are accessible and searchable by region and AUM on the PRI website and the PRI encourages the Commission to utilize this database as evidence of the increasingly ubiquitous use of climate and ESG information across every stage of investment decision-making.[26]

[24] Capital Group, *Climate Transparency Report 2020*, available at https://reporting.unpri.org/Download.aspx?id=A94CD0DB-D0BD-4DCE-B750-12D723BAFAAA.
[25] BlackRock, *RI Transparency Report 2020*, available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_BlackRock_2020.pdf.
[26] Principles for Responsible Investment, *Public Signatory Reports*, available at https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports.

LACK OF CONSISTENT, COMPARABLE ESG DATA HINDERS CONSIDERATION OF DECISION-USEFUL INVESTMENT FACTORS

PRI signatories consistently report that a lack of consistent, comparable data is the largest barrier to incorporation of climate and ESG factors in investment practices.[27]

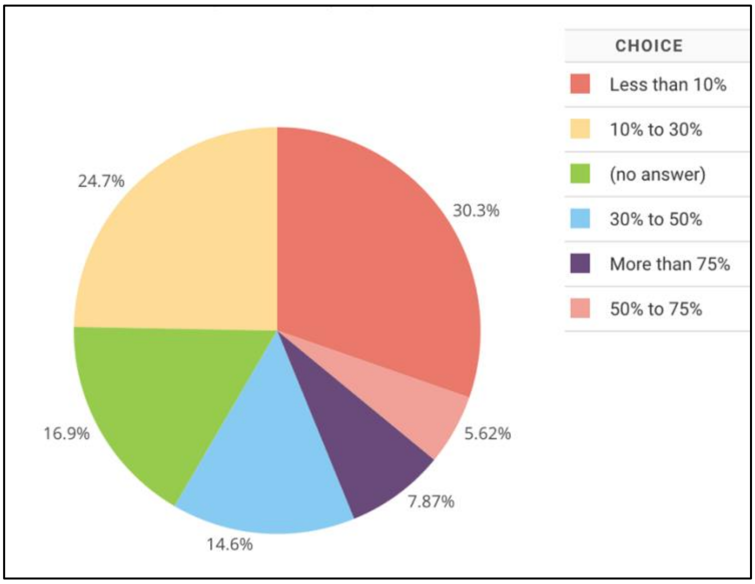
In PRI's recent survey of US signatories, participants were given eight options for the largest barriers to more fully incorporating ESG factors into investment practices. **The top three barriers, in order, reported by signatories were:**

- **"Difficulty in comparing issuer information";**
- **"Lack of publicly available issuer information"; and,**
- **"Issuer unwillingness to provide requested information."**

These options were chosen over other barriers such as "regulation around fiduciary duty" or "proxy voting rules" and "lack of tools to analyze- or integrate ESG data".[28] Bfinance's 2021 Asset Owner Survey also concluded that 84% of investors find the lack of consistent ESG data a key challenge.[29]

The PRI's signatory survey also found that a vast majority of signatories, nearly 70%, find that less than half of issuer information on environmental, social and governance (ESG) factors used in investment decision-making can be found in standardized annual disclosures. **In fact, 30% of respondents said that less than 10% of this information was available in annual disclosures, and another 25% said that only 10-30% of needed information can be found in standard financial reports.[30]**

"On average, what percentage of issuer information on environmental, social and governance (ESG) factors material for investment decision making can be found in standardized annual disclosures?"



[27] Principles for Responsible Investment, *How Can a Passive Investor be a Responsible Investor? ESG & Passive Investment Strategies*, available at https://www.unpri.org/download?ac=10145.
[28] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.
[29] Bfinance, *ESG Asset Owner Survey: How are Investors Changing?* (February 2021), available at https://www.bfinance.com/insights/white-papers/esg-asset-owner-survey/.
[30] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.

When investors do find ESG information, they continually find it lacking in substance or usability. A recent study by the Government Accountability Office (GAO) found that a majority of investors look to use ESG disclosure to evaluate risks in their portfolio, but do not feel current reports provide them sufficient ESG data.[31] Investors frequently cite ESG data limitations, including that available data is incomplete, inconsistent across metrics, and often includes only boilerplate, low quality disclosure.[32] A recent survey of institutional investors found, "the vast majority of our respondents believe that current quantitative and qualitative disclosures on climate risks are uninformative and imprecise."[33]

Similarly, the topics disclosed vary across companies, making cross-comparison by investors based on voluntary reports even more difficult. White & Case analyzed ESG disclosure of the top fifty companies by revenue in the Fortune 100 and found that disclosure varies greatly.[34] In 2020, while 38 out of 50 companies referenced COVID-19 and health and safety, and most companies reported on employee diversity, only 13 companies specifically referenced climate change. Other topics that received less attention from companies include human rights and governance.[35] The current reporting of S&P 500 companies further shows the lack of uniformity in climate and ESG data, even among those companies working to comply with voluntary reporting regimes. While 90% of S&P 500 companies published a sustainability report in 2019, 51% used the Global Reporting Initiative (GRI) to prepare their sustainability report, 14% used SASB, and 5% aligned their report with the TCFD Framework.[36]

The lack of standardization increases costs for investors through additional time spent gathering, decoding and analyzing this information so it can be used in investment decision-making. Notably, those respondents who do not find voluntary disclosure sufficient also believe that they are currently mispricing climate risks and suggest that mandatory disclosure could allow them to price these risks more efficiently.[37]

The inefficiencies are not just at the investor end, but also for the issuers. The SEC's Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee described the current marketplace for ESG information as follows: "Companies are inundated with requests for ESG information from multiple data providers compounding the burden to sometimes-geometric proportions."[38]

[31] U.S. Government Accountability Office, *Public Companies: Disclosure of Environmental, Social, and Governance Factors and Options to Enhance Them* (July 2020), available at https://www.gao.gov/products/gao-20-530.
[32] World Resources Institute, *What Investors Want from Sustainability Data* (February 2019), available at https://wriorg.s3.amazonaws.com/s3fs-public/wri-commentary-what-investors-want-sustainability-data.pdf.
[33] Ibid.
[34] White & Case, *ESG Disclosure Trends in SEC Filings* (August 2020), available at https://www.whitecase.com/publications/alert/esg-disclosure-trends-sec-filings.
[35] Ibid.
[36] Governance and Accountability Institute, *Flash Report S&P 500* (July 2020), available at https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html.
[37] White & Case, *ESG Disclosure Trends in SEC Filings* (August 2020), available at https://www.whitecase.com/publications/alert/esg-disclosure-trends-sec-filings, page 4.
[38] SEC Investor Advisory Committee Relating to ESG Disclosure, *Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure* (May 14, 2020), available at https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-of-the-investor-as-owner-subcommittee-on-esg-disclosure.pdf.

Investors increasingly agree that climate and ESG reporting should be mandatory and standardized, as is currently the case with financial reporting. [39] **The PRI's signatory survey in response to this consultation directly asked participants if their firm "supports the SEC establishing a mandatory baseline issuer ESG disclosure to quickly provide the consistent, comparable data necessary to fully consider ESG-related risks and opportunities in investment decisions". 87.5% of participants responded "Yes".[40]** The PRI survey also directly asked investors how consistent, comparable, rules-based ESG disclosure would assist their firm in investment decision-making:[41]

> *"Currently, there is limited ESG and climate data transparency (especially for private companies) in the loan market; having a neutral benchmark or comparable disclosures of information would be a helpful step towards the standardization of ESG and climate disclosures across issuers, industries, and sectors for the broader loan market."* - Octagon Credit Investors, LLC
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> *"It would provide a level of confidence in the data and enable investors to compare performance across companies and industries. Frankly, it would save us and issuers a great deal of time and resources."* - DSC Meridian Capital LP
>
> *"It would reduce the time commitment in analysis of a very nebulous topic and help us better serve shareholders holistically. It also should squeeze out so many organizations that are simply trying to make money off of the subject. This is a topic we care about, but it is nebulous and dominating time. Too much information proliferation. Too many service providers. Too much fragmentation. Too much qualitative marketing that takes hours to reads and adds nothing to my understanding of the risks and opportunities. There should be a standard source."* - Rondure Global Advisors
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> *"It would make it easier for companies to report the data publicly in a consistent way to a platform that investors use. Ideally, this data would be readily accessible and third party verified. Regulating climate risk disclosure data would stop companies from making excuses as to why they do not collect and/or report on this data. More information into the markets would help the market participants more efficiently allocate capital."* - Vert Asset Management

A full list of responses to this survey question can be found in **Appendix D**.

To better serve both investors and issuers, the PRI recommends the SEC establish a mandatory, standardized disclosure regime that elicits consistent, comparable ESG information sufficient for investors to more easily fulfil their fiduciary duty to consider necessary climate and ESG information.

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[39] Ilhan, Emirhan, Philipp Krueger, Zacharias Sautner, and Laura T. Starks, "Climate Risk Disclosure and Institutional Investors" (2020), available at Swiss Finance Institute Research Paper, no. 19–66. Page 3.
[40] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.
[41] Signatory quotes are not publicly attributable to individual firms unless permission was individually granted. Anonymity was provided to increase participation and encourage open, honest answers.

RESPONSE TO SEC QUESTIONS

QUESTION 1: How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?

The Commission should develop a common and mandatory framework for issuers that includes sector specific Key Performance Indicators and forward-looking metrics. The goal of a disclosure regime must be to inform investors about companies' current and future approach to climate and related ESG risks. It should therefore include both backward-looking and forward-looking metrics. To develop these indicators, the SEC should collaborate with relevant bodies such as the International Financial Reporting Standards (IFRS) Foundation, the Task Force on Climate-Related Financial Disclosures (TCFD) and the European Union (EU).

The Commission should look to the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosure (TCFD) Framework recommendations. The 11 recommendations from the framework present a succinct and comprehensive baseline from which issuers can report climate information. Incorporation of the 11 recommendations of the TCFD Framework in annual financial reports, to create TCFD-aligned financial reports, should be the baseline goal of any initial climate rulemaking from the Commission.

Beyond TCFD, the Commission should also require a combination of quantitative and qualitative climate and ESG data and analysis to be reported in annual financial disclosures, such as the 10-K, in order to create a standardized, comparable reporting framework. Including this information in annual financial disclosures would require it to be:

- Integrated within corporate processes for compiling and assuring annual financial disclosures, and climate and ESG performance analyzed and explained against corporate strategy and targets within standard Management Discussion & Analysis;
- Published in corporate annual reports alongside financial indicators, under the supervision of the board and linked to companies' business models, their corporate strategy (including financial and sustainability objectives and thresholds) and risk factors;
- Made accessible to all investors (available in a timely manner, free of charge and online).

As the SEC will be aware, the TCFD is currently in the process of updating its metrics guidance, having issued a public consultation on June 7, 2021, with a publication expected in October 2021. The PRI recommends the Commission be guided by the considerations of this consultation in their decision-making on climate and ESG disclosures.

Where and how should such disclosures be provided?

Revision of Regulation S-X and S-K to require incorporation of climate and ESG information in annual 10-K reports represent the least disruptive and most accessible place to incorporate disclosure of climate-related and ESG information from issuers to the public domain. Investors consider climate and ESG information in the same way they consider similar financial information already reported through these regulations and as such, climate and ESG information merits the same level of assurance and accountability currently provided to similarly considered financial information. The creation of a new regulation to require climate or ESG information to be reported in a separate way or in a separate, specific report other than the annual financial statement would inherently judge this information as unequal to other issuer information.[42]

Sections of Regulation S-K already require certain climate and ESG reporting, which, however limited in scope, comparability and enforcement, appears in annual 10-K financial statements. In comments to the Commission in 2019 on proposed changes to Regulation S-K Items 101, 103 and 105, the PRI supported a combination of line-item, qualitative disclosures provided pursuant to prescriptive requirements supplemented by principles-based disclosures. The PRI also recommended the Commission could improve Item 101(c) by retaining the existing disclosure requirements and adding disclosure on climate and ESG topics such as climate risk, human rights, gender pay disparities, political spending and international tax strategies into Item 101(c)(1)(xii).[43]

Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

To most efficiently and fairly present climate and ESG information to investors, the Commission should require these disclosures to be presented in a standardized format in the annual 10-K financial report as investors consider this information alongside financial information, as explained above.

The European Union's 2014 Non-Financial Reporting Directive (NFRD) allowed sustainability information to be reported separately from financial information and on a six-month delay. The high-level principles of the NFRD covered a wide range of climate and ESG issues, however, in practice, the framework remained vague and open to interpretation, resulting in corporate disclosures which did not adequately respond to the needs of investors.[44] In its own analysis of the NFRD, the European Commission stated, "Companies are encouraged to integrate climate-related information with other financial and non-financial information as appropriate in their reports. The default location for the non-financial statement according to the Non-Financial Reporting Directive is the company's management report, although many Member States have taken up the option of allowing companies to publish their non-financial statement in a separate report."[45] After only three years, the EU has proposed to amend this regulation to integrate reporting, after finding the original regulations did not address the needs of data users.

The Commission should not require ESG information to be furnished in quarterly reporting, such as 10-Qs, as quarterly reporting, in general, encourages management to focus on short-term achievements rather than on long-term value creation. Additionally, a significant number of climate and ESG metrics are only calculated over a one-year period, making quarterly reporting ineffective. Short-termism in today's markets leads to a series of negative externalities including market volatility and inefficiencies in capital allocation.[46]

To reduce implementation burdens on issuers, the Commission should look to utilize information already gathered but not systematically disclosed, such as climate metrics under the Greenhouse Gas Reporting

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[42] Please refer to Principles for Responsible Investment, *Public Signatory Reports*, available at https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports.
[43] Principles for Responsible Investment, *File Number S7-11-19: Modernization of Regulation S-K Items 101, 103 and 105* (October 30, 2019), available at: https://www.unpri.org/Uploads/k/a/a/seccommissionproposedchangestoregulationsk_828859.pdf.
[44] Principles for Responsible Investment, *Consultation Response: Review of the Non-Financial Reporting Directive* (June 2020), available at https://dwtyzx6upklss.cloudfront.net/Uploads/h/u/v/priresponsenfrd_final_43419.pdf.
[45] European Commission, *Guidelines on Reporting Climate-Related information* (2019), available at https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf.
[46] Principles for Responsible Investment, *File Number S7-26-18: SEC Staff Roundtable on Short-Term / Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements* (July 2019), available at https://d8g8t13e9vf2o.cloudfront.net/Uploads/p/p/l/pricomment.secroundtableonlongtermism_5924.pdf.

Program (GHGRP) required by the EPA for large GHG emissions sources,[47] or Form EEO-1 on corporate diversity to the Equal Employment Opportunity Commission.[48]

[47] US Environmental Protection Agency, *Greenhouse Gas Reporting Program*, available at https://www.epa.gov/ghgreporting. This information may be in a different format or at a different level - e.g. asset level vs. entity level - though this information can be converted as needed and still serve as a baseline for disclosure.
[48] US Equal Employment Opportunity Commission, *EEO-1 Data Collection*, available at https://www.eeoc.gov/employers/eeo-1-data-collection.

QUESTION 2: What information related to climate risks can be quantified and measured?

Climate-related risks can be quantified and measured through two main types of metrics and the PRI recommends the Commission look to utilize both in disclosure requirements:

- Climate-related metrics (e.g. GHG emissions): This information acts as a proxy for climate risk or allows for calculation to estimate risk, but on its own it is not a measure of risk. This information is often the basis of existing climate reporting.
- Financial impacts of climate: This information presents actual estimates of the financial implications of climate (for example, revenue and profitability, etc.). This type of information is quickly emerging, but methodologies are still being developed. As such, there is less standardization of methodologies for financial impacts.

How are markets currently using quantified information?

Many investors are assessing their portfolio's carbon emissions, both in absolute terms and as an intensity measure scaled by relevant data such as revenues or market capitalization. They are also analyzing the full range of items listed above to assess potential risks to portfolio value, as well as portfolios' role in assisting the transition to a net-zero-carbon economy. However, the thorough quantification of climate risk has been hampered by the lack of carbon pricing as well as the voluntary nature of corporate disclosure of climate risk information. In the current reporting and data landscape, much information must be estimated and is therefore subject to methodological variation. The PRI has compiled an overview [49] of its signatories' approach to climate risk, including the use of quantified information, as well as a document [50] showcasing asset owners and asset managers who are exercising leadership in this area.

Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)?

The PRI recommends that disclosure require reporting on the full set of 11 items within the TCFD Framework recommendations—ideally in an XBRL tagged format like that used for financial statement footnotes—as well as specific disclosures for greenhouse gas (GHG) emissions.

For greenhouse gas (GHG) emissions this should include:

- Emission scope 1, 2 and 3.
- Scope 3 separated by upstream/downstream and GHG.
- Split of emissions in estimated/measured/assured.

Specific disclosure metrics should also be required for:

- Capital expenditure to indicate the portion of investments attributable to addressing:
  - Transition risks and opportunities.
  - Adaptation to physical risks associated with climate change and any stated climate targets.
- Measures of physical climate risk, operational losses as a result of extreme weather events or asset exposure to common climate-related hazards (flood, drought, fire damage, etc.).
- Forward-looking targets covering absolute GHG emissions as well as GHG-intensities (e.g. GHG emission intensity planned in 5 and 10 years).

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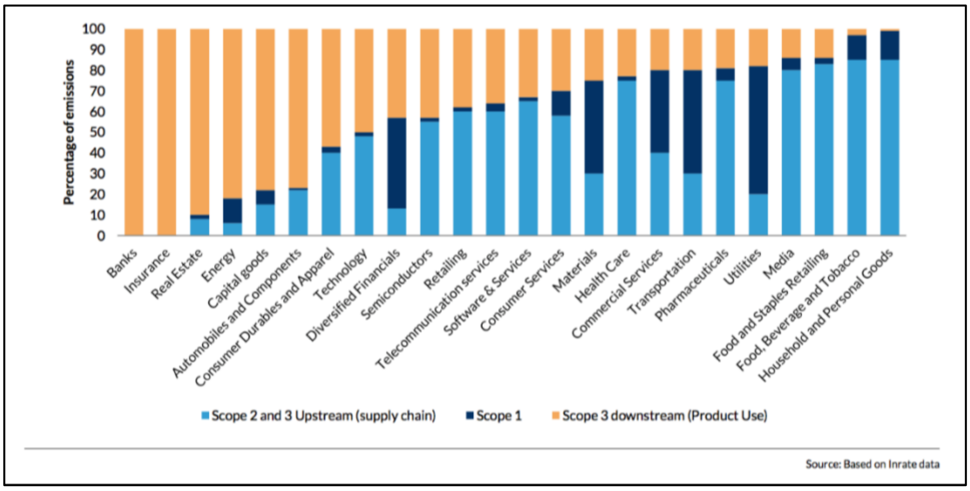
[49] Principles for Responsible Investment, *Climate Change Snapshot 2020*, available at https://www.unpri.org/climate-change/climate-change-snapshot-2020/6080.article.
[50] Principles for Responsible Investment, *The PRI Leaders' Group*, available at https://www.unpri.org/showcasing-leadership/the-pri-leaders-group/4771.article.

The full set of TCFD disclosures includes information on:

- Governance of climate risk at board and managerial levels.
- Identification of climate-related risks and opportunities and their impact on organizational planning and strategy, as well as the resilience of that strategy to a variety of climate scenarios.
- Organizational processes for detecting and managing climate risk as a part of its overall approach to risk management.
- Disclosure of metrics and targets used to reduce climate risk, as well as the reporting entity's carbon emissions of Scope 1 and 2 and if appropriate, Scope 3.

The TCFD's recommendations are being adopted in rules or guidance by regulators in many jurisdictions around the globe, including the European Union, the UK, and Japan, as well as by regional or industry-specific organizations in the US such as New York's Department of Financial Services (NY DFS) and the National Association of Insurance Commissioners (NAIC).

Scope 3 emissions may be more difficult than others to report, since consensus has not yet been reached on a methodology for their calculation. However, because Scope 3 emissions are the most impactful kind of emissions for some industries (see graph below),[51] such as oil and gas producers, their disclosure could still be informative to stakeholders if accompanied by a methodological explanation of the underlying calculations used.



What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision?

In the PRI's US signatory survey, participants were given 14 options of the most valuable material issuer ESG information to their firm in making investment decisions, an even split between seven qualitative and seven quantitative choices. **The top four selections for "most valuable material issuer ESG information" were all quantitative options, in order:**

- Quantitative data on corporate actions to address climate change (such as year-over-year emissions of carbon dioxide and other core GHG emissions)

[51] Kepler Cheuvreux Transition Research, *Carbon Compass* (November 23, 2015), available at https://iasj.org/wp-content/uploads/investor-guide-to-carbon-footprinting.pdf.

- Quantitative data on Diversity, Equity & Inclusion policies and actions (such as diversity statistics across corporate levels)
- Quantitative data on current and potential future risks arising from climate change (such as scenario analysis)
- Quantitative data on human rights policies and activities across supply chains (such as number of contractors and contractor locations)[52]

Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how?

The current SEC reporting designations of "Large, Accelerated Filer", "Accelerated Filer" and "Smaller Reporting Company", etc. could serve as a delineation for levels of detail in reporting or timeline for compliance with any new regulation. However, the Commission should consider specific requirements for entities within industries most likely to have significant climate risk exposure, regardless of designation due to size.

Should disclosures be phased in over time? If so, how?

The Commission may consider a phased implementation, however, the phase-in period should be relatively short (e.g., 2 years), without causing excessive inconvenience to issuers, to account for the immediate and growing threat posed by climate change.

How are markets evaluating and pricing externalities of contributions to climate change?

Market-wide pricing of externalities has not taken place due to the absence of carbon pricing and lack of strong US policy support for measures to mitigate climate change. Instead, the onus has been placed on individual market participants, such as asset owners and investment managers, to attempt to price these externalities into their investment decisions based on their judgments about the likelihood of various future outcomes. To a large extent, even investors who anticipate an Inevitable Policy Response[53] like the one outlined by the PRI, which would involve vigorous climate action by governments, have faced challenges integrating these risk scenarios into current investment policy, since asset prices generally do not yet reflect the severity of the climate crisis. This has created inefficient pricing mechanisms for investors and inevitably will lead to a misallocation of capital.

Do climate change related impacts affect the cost of capital, and if so, how and in what ways?

Academic research has occasionally argued for a link between climate or other ESG factors and the cost of capital for certain groups of firms. However, such connections are not broadly evident, despite the growing evidence of the financial dangers posed by climate change. For example, fossil fuel companies whose existing assets are at risk of being stranded in a net-zero economy should be facing difficulty financing the development of new assets, yet no premium has appeared in market prices. The lack of robust carbon pricing mechanisms has supported this ongoing mispricing, as has the preference of debt financing mechanisms which firms prefer due to low interest-rates, tax-deductible status and, in certain cases, exemption from disclosure under rule 144A of the Securities Act.

How have registrants or investors analyzed risks and costs associated with climate change?

Through evaluation of the science, economic impact assessments, assessments of transition and physical risk, and scenario analysis.

[52] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.
[53] Principles for Responsible Investment, *What is the Inevitable Policy Response?*, available at https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article.

Refer to Appendix A, the above sections of this document and the PRI's library of signatory transparency reports for more information.

What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions?

The Commission should consider disclosure around action taken in response to scenario projections such as in the narrative explanations in MD&A. While there are numerous tools utilized to project climate analysis, most important for the Commission to consider is the lack of disclosure around actions taken in response to analysis. Often, issuers present detailed information on what analysis was done, however, conclusions too often fail to include considerations of next steps.

How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?

The lack of robust carbon pricing has been a major hindrance to analysis of the risks and costs associated with climate change. Research the PRI has commissioned with Vivid Economics, as part of the Inevitable Policy Response program[54], has found that G20 countries, including the US, will need to have a floor carbon price of between $60~$100 by 2030 to have a chance of limiting warming to two degrees Celsius. Whereas currently, state level carbon pricing is only above $10 per ton in California. As such, the external costs of climate change are not priced into the markets and capital continues to flow in the direction of incentives.

[54] Principles for Responsible Investment, *Preparing Investors for the Inevitable Policy Response to Climate Change*, available at https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response.

QUESTION 3: What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them?

The PRI recommends the Commission directly mandate climate and ESG disclosure. A mutually determined standard that satisfies all parties could take years to develop, or may never develop, and may not accurately reflect the immediate and growing desire by investors for standardized, consistent and comparable information.

An agreed upon process for disclosure, rather than one regulated by the Commission may lack the enforcement authorities necessary to guarantee accurate, timely and robust information. For example, in the UK, the Financial Reporting Council (FRC) assessed companies' annual reports, many that are weighted towards sectors or industries that face greater risks from climate change. It found that companies will tend to do the minimum legal requirements, including the IFRS Foundation requirement for disclosure in financial statements of material risk (of which climate is included as material risk), however, the information is not always decision useful. The information is not always clear to investors to the extent to which climate is included as material risk, and therefore is of limited use to investors. Therefore, to avoid similar confusion for US investors, the Commission should be mandatory and clear in its disclosure requirements of issuers.[55]

Mutually agreed standards may also fall outside the jurisdiction of the Commission's current enforcement practices, forcing the creation of new practices or limiting the Commission's ability to enforce disclosure of climate and ESG information at the same level as current financial information. All of these issues increase the likelihood that efficient, effective issuer climate and ESG disclosure takes longer to establish.

Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work?

The Commission should at least establish minimum disclosure standards that reflect the rapidly growing and aligned investor demand for issuer climate and ESG information. The Commission should look toward the reporting guidance of the TCFD Framework as a robust, proven minimum disclosure climate standard that has the support of a broad coalition of industry, investors and governments. The Commission should also look toward the work being led by the IFRS Foundation to coordinate a global minimum climate reporting standard to align international markets.

What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?

As noted above, the PRI recommends against industry-led disclosure standards.

[55] Financial Reporting Council, *FR Climate Thematic* (November 2020), available at https://www.frc.org.uk/getattachment/6d8c6574-e07f-41a9-b5bb-d3fea57a3ab9/Reporting-FINAL.pdf.

QUESTION 4: What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?

The Commission should establish sector-specific disclosures where most appropriate, for example, in the oil & gas and financials sectors, as climate risks manifest in different ways by industry. These metrics should build on a uniform, mandatory baseline reporting standard. The Commission should look toward existing standards commonly used by investors and companies for guidance. A list of suggested industry metrics for the energy, transport, materials and agriculture sectors are available on pages 54-65 of the TCFD's document, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures".[56]

[56] TCFD, *Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures* (June 2017), available at https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf.

QUESTION 5: What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?

The Commission should create a disclosure regime that builds on existing and widely used standards, including the TCFD Framework recommendation and guidance, as these standards have been refined over decades.[57]

Clear advantages of leveraging existing frameworks would be:

- Speed of implementation. A multi-year design process followed by a several year implementation process risks putting US companies and financial markets at a comparative disadvantage to their international peers. Conversely, by leveraging international frameworks, the SEC could play an influential role in the development of international standards.
- Reduce compliance costs for companies and greater ease of use for investors. While voluntary standards are not a replacement for a mandatory disclosure regime, the market is already familiar with previously mentioned standard-setters and US companies may already need to disclose against these frameworks or other, similarly aligned, regimes such as in the EU or UK.

Should the Commission feel it needs technical expertise on climate or ESG metrics, it could create and appoint an advisory committee of scientific and industry experts to make recommendations to continually improve disclosure requirements for both issuers and investors.

In particular, the five framework- and standard-setting institutions (CDP, CDSB, GRI, IIRC and SASB) have extensive technical expertise in reporting framework concepts and design which could support the SEC's efforts.

Also, see response to Question 9.

Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

The PRI recommends building on the disclosure framework of the TCFD Framework recommendations which defined four components that companies should consider when reporting on climate-related performance: governance, strategy, risk management and metrics and targets.

[57] Principles for Responsible Investment, *How Policy Makers Can Implement Reforms for a Sustainable Financial System*, available at https://www.unpri.org/download?ac=12247.

The TCFD framework addresses four key issues all businesses must grapple with regarding climate change:

Governance	Strategy
Disclosures should describe: ▪ Board oversight of climate-related risks and opportunities. ▪ Management responsibility, assessment, monitoring and management of climate issues.	Disclosures should describe: ▪ Identification of climate-related risks and opportunities over different time horizons. ▪ The impact of climate on an organisation's products and financial planning. ▪ The strategic resilience of the organisation's strategy to a range of future climate scenarios.
Risk management	**Metrics and targets**
Disclosures should describe: ▪ The organisation's process for assessing and identifying climate-related risks. ▪ The process managing climate -related risks. ▪ How the assessment, monitoring and management of climate risk factors is integrated into the organisation's overall risk management.	Disclosures should describe: ▪ Metrics being used to manage climate risk. ▪ The company's own GHG emissions. ▪ Targets being used to manage climate risk. o Ideally, issuers would disclose a set of static and forward-looking key performance indicators that allow for comparability across industry sectors, portfolios and time-series. ▪ A reporting methodology that specifies the scope, methods of calculation, minimum reporting thresholds.

First, the TCFD requests disclosure of the governance mechanisms in place to manage climate risk. Typically, these involve the inclusion of climate risk oversight in the responsibilities of a board committee or specific board member, as well as in the job description of one or more specific managerial employees. However, the particulars vary widely, and detailed disclosure on this point can help investors assess how seriously and effectively firms are addressing climate issues.

Second, the TCFD asks for specific risks and opportunities that the firm has already identified regarding climate, over short, medium, and long time frames. It asks not only what these risks and opportunities are, but how they are currently informing the company's business planning and financial strategy, and whether that strategy is robust, in the issuer's view, to the potential for a variety of climate-related future scenarios to unfold. It is this section of the TCFD that is most informative for investors regarding the issuer's current assessment of how the economy-wide transformation necessitated by climate change is likely to affect the issuer's business, and hence the value of the investor's holding.

The third section of the TCFD requires disclosure about the processes being developed to identify, assess and manage climate risk, and thus provides essential information to investors about how the issuer may respond to emergent climate-related risks that are not yet apparent, but are likely to become salient for many businesses, given the dynamic and evolving nature of the climate crisis.

Finally, the fourth section of the TCFD asks for disclosure of the metrics issuers are using to measure climate risk (which include, but are not limited to, the issuer's own GHG emissions), as well as the targets toward which the issuer is working with regard to climate-related adjustments to its business model or operations. These disclosures allow investors to monitor investee companies' progress toward these self-determined risk-management targets over time.

QUESTION 6: How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time?

The PRI recommends a two-year review period following the announcement of regulation. This would allow the SEC to incorporate market feedback on the regulation as well as incorporate any developments in the maturity of climate and ESG disclosure standards.

Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?

For the reasons stated above, the PRI believes the Commission itself is best placed to develop, issue and enforce climate and ESG disclosure standards. There is considerable technical expertise in voluntary standard setters and robust tools for issuers to comply with disclosure requirements—such as the Greenhouse Gas Protocol[58]—which can be used to provide a strong basis for SEC action.

[58] Greenhouse Gas Protocol, available at: https://ghgprotocol.org/.

QUESTION 7: What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?

See response to Question 1.

QUESTION 8: How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?

The Commission should look to the TCFD Framework recommendations and guidance which sets out clear expectations on governance and oversight of climate risk. The Commission should look to similar processes around governance and oversight for disclosure of broader ESG issues as well.

QUESTION 9: What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards?

The PRI supports globally comparable, consistent and high-quality corporate sustainability disclosure to enable investors to incorporate climate and ESG issues and assess the sustainability performance of corporate entities. Investors state that ESG issues are a particular concern and regularly report to the PRI that a lack of consistent and comparable ESG data is the greatest barrier to their responsible investment practice.

Today, there are more than 2,000 ESG reporting provisions laid down in voluntary frameworks, regulatory reporting requirements and reporting resources, which inform and guide companies by providing methodologies and protocols for the measurement and disclosure of ESG information.[59] However, companies increasingly report on similar ESG topics through their voluntary disclosures, regardless of policy requirements. Research by the World Business Council for Sustainable Development (WBCSD) and Climate Disclosure Standards Board (CDSB) has shown that there is increasing commonality and agreement between companies, investors, regulators and standard setters on key ESG issues that need to be monitored, measured and disclosed. The research identified 30 ESG issues that showed broad consensus and a further 10 issues that were commonly reported by companies as relevant to their business but were less well represented by the reporting provisions of regulators and standard setters.[60]

There is a similar convergence on corporate governance topics. Research by the WBCSD on 52 national corporate governance codes found that most corporate governance codes reference 70% or more of governance subject topics and are aligned with international codes, such as the G20/OECD Corporate Governance Principles and the ICGN's Global Governance Principles.[61]

If there were to be a single standard setter and set of standards, which one should it be?

The PRI supports the efforts by the IFRS Foundation, IOSCO and the alliance of standard-setters to develop a globally shared baseline for reporting on sustainability information. The PRI commends the SEC's engagement with efforts at global alignment through its co-chairing of IOSCO's working group on the proposed IFRS Foundation's Sustainability Standards Board. There is an urgent need for prioritizing climate-related disclosures and PRI believes the TCFD Framework recommendations provide the necessary foundation for fast progress given its high levels of investor support.

For climate-related issues, PRI recommends the TCFD Framework recommendations as the baseline for regulation in the US. Its level of adoption in the market, as well as the flexibility of the framework, make it well suited for ensuring coherence and consistency with other US and international developments.

What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards?

There is significant public support for the creation of a global minimum standard, as shown in the public responses to the initial proposal by the IFRS Foundation.[62]

Main advantages of a minimum global set of standards include:

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[59] World Business Council for Sustainable Development, *The Reporting Exchange*, found at https://www.reportingexchange.com/.
[60] WBCSD, *Reporting Matters: Navigating the Landscape: A Path Forward for Sustainability Reporting*, available at https://docs.wbcsd.org/2019/10/WBCSD_Reporting_Matters_2019.pdf, page 4-5.
[61] WBCSD, *Insights from the Reporting Exchange: Corporate Governance and Harmonization* (March 25, 2018), available at https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange/Resources/Corporate-governance-and-harmonization.
[62] International Financial Reporting Standards Foundation, *IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting* (April 2021), https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf

- Helps to avoid increasing fragmentation in different markets; (majority of) investors are global players.
- Increases global comparability reporting and reduces the complexity in approaches and objectives.
- Where jurisdictions have specific additional information needs, a global set of standards should provide room for "topping-up" with further domestic requirements.

If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability?

The PRI encourages efforts by public and private initiatives toward alignment and consolidation of sustainability reporting. A global set of sustainability reporting standards, widely supported and endorsed by public and private stakeholders, would be a significant step towards achieving this.

What should be the interaction between any global standard and Commission requirements?

The future Commission requirements should build on as well as contribute to international standard-setting initiatives to establish a common baseline, and likewise international initiatives need to acknowledge the specific regional requirements. Various public and private initiatives on corporate sustainability reporting have been established and can contribute to a global picture. While they may play different roles and serve the particular needs of different jurisdictions, there is a need to collaborate.

If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

Evidence demonstrates that mandatory disclosure regulations are more impactful than voluntary frameworks.[63] As analysed by the World Business Council for Sustainable Development (WBCSD), "information a company is obliged to report in conformance with mandatory requirements is more likely to be prepared according to a recognized standard and to support assurance activities."[64] A recent study found that voluntary disclosure gives companies flexibility to obfuscate bad behavior and that companies "intentionally make their disclosures more complex and harder to understand, thereby blurring the negative content and increasing information processing costs of the recipient."[65] The information companies self-report is inconsistent and can be difficult for investors to interpret alongside a company's financial reports. Moreover, mandatory regulation will not only help to codify terminology (for greater consistency), it can also create market efficiencies – as companies currently respond to multiple voluntary frameworks – and level the playing field on existing best disclosure practices by rewarding first movers and best performers.

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[63] For more detail, see Regulation Database available at https://www.unpri.org/sustainable-markets/regulation-map.
[64] WBCSD, *ESG Disclosure Handbook* (April 2019), available at https://docs.wbcsd.org/2018/10/The_ESG_disclosure_judgement_handbook.pdf.
[65] Fabrizio, Kira R., and Eun-Hee Kim, "Reluctant Disclosure and Transparency: Evidence from Environmental Disclosures" (2019), available at Organization Science 30 (6): 1207–31.

QUESTION 10: How should disclosures under any such standards be enforced or assessed? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance?

The Commission should align the enforcement and assessment of climate and ESG information with currently available financial information, ensuring that this information is accurate and complete. Third-party audits or assurance of climate and ESG information is necessary for the advancement of the investment industry to incorporate these risks and opportunities. Auditing company disclosure, such as GHG emissions for example, would allow investors to track progress on companies' net zero commitments.[66]

While 90% of the S&P 500 furnished a sustainability report in 2019, only 30% of those utilized external assurance.[67] Lack of external audit and assurance allows firms with negative environmental and climate impacts to conceal or convolute negative information. Incomplete or inaccurate disclosures from issuers harm investors through the inability to fully rely on reported information and ultimately leads to an inefficient allocation of capital.

The current system of audit and assurance must be improved and modernized to appropriately consider climate and ESG information and the PRI encourages the SEC to provide robust guidance to the PCAOB and auditors on the need for a rapid growth in processes and procedures to systematically account for climate and ESG factors.

[66] Ross, Samantha, *The Role of Accounting and Auditing in Addressing Climate Change* (March 1, 2021) available at https://www.americanprogress.org/issues/economy/reports/2021/03/01/496290/role-accounting-auditing-addressing-climate-change/.
[67] Governance and Accountability Institute, *Flash Report S&P 500* (July 2020), available at https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html.

QUESTION 11: Should the Commission consider other measures to ensure the reliability of climate-related disclosures? Should the Commission, for example, consider whether management's annual report on internal control over financial reporting and related requirements should be updated to ensure sufficient analysis of controls around climate reporting? Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

Yes, as climate and ESG information is treated by investors as any other financially relevant information, it should fully be incorporated in similar assurance processes and be treated similarly at every step of such processes by issuers.

QUESTION 12: What are the advantages and disadvantages of a "comply or explain" framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should "comply or explain" apply to all climate change disclosures or just select ones, and why?

The PRI recommends the Commission require compliance as much as practicable, as a combination of rules-based disclosure and further explanatory principles-based disclosure is most useful for investors. According to PRI's signatory survey, 77% of respondents desire a combination of principles-based and rules-based disclosure, compared with just 12% that want principles-based only and 10% that want rules-based only disclosure.[68] The heightened global risks of a disorderly low carbon transition means that firmer action by governments and financial regulators is now needed to address market information failures and help ensure investors and companies incorporate climate-related risk systematically in their view of the future.

The PRI believes a "comply or explain" regime has the potential to lead to generalized disclosures that lack decision-useful information required by investors to understand long-term trends and compare across companies. Previous issuer climate disclosure regimes have found such issues with "comply or explain" options. For example, the UK's Financial Reporting Council (FRC) found "an increasing number of companies are providing narrative reporting on climate-related issues. While minimum legal requirements are often being met, users are calling for additional disclosure to inform their decision-making. Some companies have set strategic goals such as 'net zero', but it is unclear from their reporting how progress towards these goals will be achieved, monitored or assured. Consideration and disclosure of climate change in the financial statements lags behind narrative reporting. We identified areas of potential non-compliance with the requirements of International Financial Reporting Standards (IFRS)."[69]

The FRC further found that those issuers investors would most like to report specific information, were those least likely to do so: "Lack of specificity: Our sample identified examples of good disclosure with impacts of climate change linked to specific areas of the business and strategy. However, this finding may reflect the fact that these companies were selected from sectors most likely to be affected by climate change. Our wider sample of reporting by premium-listed companies found that disclosure on climate-related risks often lacked substance. For example, many companies provided vague or generic explanation of climate-related risks (e.g. extreme weather events, flooding that may impact sites negatively), but did not report on the specific location of their operations or assets at risk. There was also a lack of detail as to how some of the risks connected to the company's specific business model and strategy. These are key focus areas for investors. We found that reporting was more effective where it identified the climate-related risk (e.g. financial impact of extreme weather events), described the specific mechanism used to mitigate or help identify that risk (e.g. flood mapping analytics) and the specific outcome of such risk mitigation (e.g. building flood defences at site X). In a similar vein, when reporting on climate-related risk mitigation, some companies pointed to actions taken to mitigate climate-related risk; for example, a diversified geographical and technological portfolio of assets. However, they did not make it clear whether certain locations have the capacity to recoup any losses incurred by damage to business operations at another location."[70]

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[68] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.
[69] Financial Reporting Council, *FR Climate Thematic* (November 2020), available at https://www.frc.org.uk/getattachment/6d8c6574-e07f-41a9-b5bb-d3fea57a3ab9/Reporting-FINAL.pdf.
[70] Ibid.

QUESTION 13: How should the Commission craft rules that elicit meaningful discussion of the registrant's views on its climate-related risks and opportunities?

As noted above, the PRI believes a combination of rules-based and principles-based disclosure is most useful for investors. Referencing FASB's determination that some information can only be provided by notes to financial statements, investors often require further analysis of quantitative information in order to best interpret and understand underlying assumptions, trends and less obvious strategic and operational decisions by issuers.[71]

The Commission should look to the recommendations and guidance of the TCFD as a model for appropriately analyzing metrics and targets, and explaining strategy, risk management and governance around climate change.

What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations?

Expanding the requirements of the current Management's Discussion and Analysis to explicitly include climate change and other ESG information is a necessary step in fully analyzing and explaining risks, opportunities and actions as this information is "necessary to an understanding of [a company's] financial condition, changes in financial condition and results of operations."[72] PRI's signatory survey showed that the largest proportion of respondents wanted specific and detailed information included in MD&A: 45% of respondents desire a disclosure regime that is a combination of rules-based and principles-based information, with specific inclusion within MD&A. Comparatively, 32% wanted only a combination without MD&A inclusion, 12% wanted principles-based disclosure only and 10% wanted rules-based disclosure only.[73]

However, current MD&A reports don't reflect the needs of investors. An analysis by the National Association of Corporate Directors, "found that while 30% of companies in the Russell 3000 stock index discussed climate change as a risk factor in their 10-K filings, only 3% discussed climate risks in their critical Management Discussion and Analysis (MD&A) commentary".[74]

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[71] Financial Accounting Standards Board, *Statement of Financial Accounting Concepts No. 8* (August 2018), available at https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171111790&acceptedDisclaimer=true.
[72] Securities and Exchange Commission, *Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations* (December 2003), available at https://www.sec.gov/rules/interp/33-8350.htm.
[73] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.
[74] Congressional Research Service, *Climate Change Risk Disclosures and the Securities and Exchange Commission* (April 20, 2021), available at https://crsreports.congress.gov/product/pdf/R/R46766.

QUESTION 14: What climate-related information is available with respect to private companies, and how should the Commission's rules address private companies' climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?

The PRI supports creating standardized, consistent and comparable disclosure regimes across all financial markets, including private markets, as climate- and ESG-related activities within these markets could have an impact on other investments, sectors, or economic risks more broadly.[75]

[75] Principles for Responsible Investment, *Implementing the SFDR for Private Markets: A Challenging Inception* (April 28, 2021), available at https://www.unpri.org/implementing-the-sfdr-for-private-markets-a-challenging-inception/7572.article.

QUESTION 15: In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework?

The PRI encourages the SEC to adopt a broader ESG disclosure framework beyond climate change requirements, as academic research and industry data continue to confirm the growing demand for, and influence of, environmental, social and governance issues on investment outcomes.[76] Worldwide, securities regulators have seen the efficacy of ESG disclosure frameworks that incorporate both climate and environmental disclosure as well as social and governance disclosures within the same requirement.[77] Issues such as human capital management, and more broadly, human rights, environmental justice and systemic racism have relevance both in terms of the financial interests of shareholders as well as the expectations and rights of other stakeholders. The intersectionality of these issues requires climate and ESG factors to be considered alongside one another, for example in considering the net-zero transition's impact on workers, or the disproportionate impact of emissions and pollution on minority communities.[78]

In addition to understanding potential financial risks and opportunities, a broader focus on social and environmental - alongside of economic and financial - performance allows both companies and their underlying investors to:

- Identify opportunities through changes to business models, supply chains and through new and expanded products and services;
- Prepare for and respond to legal and regulatory developments, including those that may lead to asset stranding;
- Protect their reputation and license-to-operate, particularly in the event of negative outcomes from operations;
- Meet institutional commitments to global goals, such as the Sustainable Development Goals (SDGS), and communicate progress towards meeting those objectives; and
- Minimize negative impacts and increase the positive impacts of products, services and operations.[79]

HUMAN RIGHTS & SOCIAL ISSUES

The Commission should require mandatory, principles- and rules-based disclosure of investment-relevant human rights and social issues within Regulation S-K that provide investors with the most frequently sought information. In PRI's investor survey, the second most desired information by investors – out of 14 options – was "Quantitative data on Diversity, Equity & Inclusion policies and actions (such as diversity statistics across corporate levels)." The fourth and sixth most desired options were "Quantitative data on human rights policies and activities across supply chains (such as number of

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[76] See Appendix B and Appendix C

[77] See the European Union's "Corporate Sustainability Reporting Directive (CSRD)": https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
See Securities and Exchange Board of India's Circular "Business responsibility and sustainability reporting by listed entities": https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html
See Hong Kong Exchange's "Appendix 27 Environmental, Social and Governance Reporting Guide": https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0

[78] New York Times, *People of Color Breathe More Hazardous Air. The Sources are Everywhere,* (April 28, 2021) available at: https://www.nytimes.com/2021/04/28/climate/air-pollution-minorities.html.

[79] Principles for Responsible Investment, *Consultation Response EU Sustainable Corporate Governance Consultation* (February 2021), available at https://dwtyzx6upklss.cloudfront.net/Uploads/u/h/j/eusustainablecorporategovernanceconsultation08_02_21finalversion_135745.pdf.

contractors and contractor locations)" and "Quantitative data on human capital investments (such as disaggregated pay and benefits information)", respectively.

In the Commission's 2019 proposed rulemaking amending Regulation S-K, the PRI provided extensive comments on the necessity of including a set of mandatory human capital disclosures within Item 101 of the regulation.[80] As cited in the PRI's 2019 comment, one example of specific disclosure requirements the Commission should look to is the analysis by the Human Capital Management Coalition (HCMC) which identified 10 critical data points that investors could most likely find relevant to their investment decision-making:

- Workforce demographics (number of full-time and part-time workers, number of contingent workers, policies on and use of subcontracting and outsourcing)
- Workforce stability (turnover (voluntary and involuntary), internal hire rate)
- Workforce composition (diversity,111 pay equity policies/audits/ratios)
- Workforce skills and capabilities (training, alignment with business strategy, skills gaps)
- Workforce culture and empowerment (employee engagement, union representation, work-life initiatives)
- Workforce health and safety (work-related injuries and fatalities, lost day rate)
- Workforce productivity (return on cost of workforce, profit/revenue per full-time employee)
- Human rights commitments and their implementation (principles used to evaluate risk, constituency consultation processes, supplier due diligence)
- Workforce compensation and incentives (bonus metrics used for employees below the named executive officers level, measures to counterbalance risks created by incentives)[81]

Further, the Commission could consider the work of the International Finance Corporation (IFC) on core social key performance indicators, which include:[82]

- Labor and Working Conditions (worker protection, opportunities and fairness, health and safety, forced and child labor)
- Community (community health and safety, land acquisition and resettlement, infrastructure and public safety, indigenous peoples and cultural heritage).

Community indicators are increasingly important as investors continue to broaden their understanding of investment-useful information to include the communities and environments companies impact through their operations and activities. These considerations are increasingly relevant as economies transition to net-zero and look to ensure a just and inclusive transition for workers and communities most harmed by previously unattributed external harms.

At a minimum, the Commission should require public disclosure of Form EEO-1 which is already required for all private sector employers with 100 or more employees, and federal contractors with 50 or

[80] Principles for Responsible Investment, *Comment on File Number S7-11-19: Modernization of Regulation S-K Items 101, 103 and 105* (October 30, 2019), available at https://d8g8t13e9vf2o.cloudfront.net/Uploads/k/a/a/seccommissionproposedchangestoregulationsk_828859.pdf.
[81] Human Capital Management Coalition, *Petition for Rulemaking pursuant to Rule 192(a) of the Commission's Rules of Practice* (July 6, 2017), available at https://www.sec.gov/rules/petitions/2017/petn4-711.pdf.
[82] International Finance Corporation, *Beyond the Balance Sheet IFC Toolkit for Disclosure and Transparency* (2018), available at https://www.ifc.org/wps/wcm/connect/d4bd76ad-ea04-4583-a54f-371b1a7e5cd0/Beyond_The_Balance_Sheet_IFC_Toolkit_for_Disclosure_Transparency.pdf?MOD=AJPERES&CVID=morp0vo.

more employees.[83] This information exists in a standardized format and, as it is already annually reported to the Equal Employment Opportunity Commission, places no additional burden on reporting companies.

GOVERNANCE

While there are a number of relevant governance issues the Commission should look at over time, the PRI encourages the prioritization of corporate tax and political engagement disclosures as investors increasingly seek to incorporate this information in their investment processes.

CORPORATE TAX

The PRI recommends the SEC develop disclosures on corporate tax that require issuers to provide standardized, robust and comparable data on taxes paid.

Corporate tax avoidance is a risk for investors as it can have adverse impacts on the profitability and sustainability of investee companies, affecting investors' portfolio returns.[84] It can limit governments' ability to allocate appropriate funds to critical public services and address externalities like climate change as well as exacerbate economic inequality.

Despite these risks, the lack of comprehensive disclosure from companies on tax has impaired investment analysis and investors' understanding of how companies are positioned on tax issues. Enhanced transparency would provide investors with greater visibility of high-risk transactions, enable identification of misalignments between public commitments and actions on tax issues and promote early discussions with companies when concerns emerge.

The PRI's work with institutional investors since 2015 has reinforced the view that without policy intervention, companies are unlikely to produce comprehensive tax disclosure voluntarily due to concerns about being first movers and consequent competitive disadvantage.[85]

POLITICAL ENGAGEMENT

The PRI recommends the SEC require issuers to:

- Review and disclose their engagement activities with policy makers (including information on objectives, direct and indirect spend and outcomes);
- Report on governance frameworks (including board oversight and ongoing monitoring to identify inconsistencies between companies' policies and practices), and;
- Report on how misalignments between their policy positions and those of their investors' long-term interests are promptly addressed.[100]

Corporate lobbying and other means of political engagement can be legitimate and facilitate informed public policy debates. However, when they are not carried out in a responsible, fair and transparent manner, they can result in policy capture or distort democratic processes. Such political engagement activities can also impede progress on sustainability challenges like climate change[86] and contribute to systemic risk for investors. Indeed, academic evidence[87] demonstrates that abusive political engagement

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[83] US Equal Employment Opportunity Commission, *EEO-1 Data* Collection available at: https://www.eeoc.gov/employers/eeo-1-data-collection.
[84] Principles for Responsible Investment, *Tax Avoidance*, available at https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/governance-issues/tax-avoidance.
[85] Principles for Responsible Investment, *Advancing Tax Transparency: Outcomes from the PRI Collaborative Engagement 2017-2019* (2019) available at https://www.unpri.org/download?ac=10142.
[86] Principles for Responsible Investment, *Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations* (2018), available at https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf.
[87] Organisation for Economic Co-operation and Development, *Lobbying in the 21st Century: transparency, Integrity and Access* (May 2021) available at https://www.oecd-ilibrary.org/sites/c6d8eff8-en/index.html?itemId=/content/publication/c6d8eff8-en.

practices have resulted in negative health outcomes, inaction on climate policies, excessive regulation to protect incumbents, or insufficient regulation to correct market failures or distortions.

As stewards of capital, investors can play an important role in ensuring that the political engagement activities of their portfolio companies are in line with their long-term interests and those of their stakeholders as well as sustainability ambitions. However, the rise in covert influence tactics[88] and patchy disclosure on how companies prioritise and influence public policy agenda items can prevent proper scrutiny of company activities. Even so, many investors are actively engaging with their portfolio companies to improve transparency on political spending[89] and address any misalignments[90] between companies' public policy positions and those of their trade associations. The PRI is partnering with organisations to support investor members of Climate Action 100+[91] to evaluate their portfolio companies on Paris-aligned climate lobbying practices and undertake engagement.

Enhanced corporate disclosure can enable investors to assess company positions on key sustainability issues, corporate channels used to influence policymaking and raise their collective voice when corporate actions are not in line with their stakeholders' long-term interests and sustainability ambitions.

How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?

As much as possible, the Commission should seek to align climate-related and broader ESG disclosure reporting, while understanding and accounting for the fundamental differences in types of information required by investors on these individual issues.

For example, while TCFD provides a strong foundation for climate-related disclosure, the data required by issuers on social and governance issues are not always conceptually aligned to the structure of the TCFD recommendations.

An internal analysis by the PRI of 50 metrics which related to working time; discrimination; diversity; political contributions and traceability in supply chains identified some examples of differences:

- Many existing metrics on social issues rely on international norms such as those established by the International Labor Organization's Labor Standards[92], the United Nation's Guiding Principles on Business and Human Rights[93] and the OECD Guidelines for Multinational Enterprises (OECD Guidelines).[94] The US has established its own set of responsible business norms, the National Action Plan on Responsible Business Conduct, that could guide the Commission in crafting a broader ESG disclosure standard.[95]
- Scenario analysis – a central component of TCFD reporting – would not necessarily provide meaningful information for social or governance issues.

[88] Ibid.
[89] MarketWatch, *Shareholders fight to rein in risk by demanding transparency into public companies' political spending* (May 19, 2021), available at https://www.marketwatch.com/story/shareholders-fight-to-rein-in-risk-by-demanding-transparency-into-public-companies-political-spending-11621471534.
[90] Responsible Investor, *Investors' lobbying resolutions start to get substantial support at US blue-chips* (May 14, 2019), available at https://www.responsible-investor.com/articles/lobbying-resolutions-us.
[91] Climate Action 100+, *Net Zero Company Benchmark*, available at https://www.climateaction100.org/progress/net-zero-company-benchmark/.
[92] International Labor Organization, *Labor Standards,* available at: https://www.ilo.org/global/standards/lang--en/index.htm.
[93] United Nations, *Guiding Principles on Business and Human Rights* (2011) available at: https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf.
[94] Organisation for Economic Co-operation and Development, *Guidelines for Multinational Enterprises*, available at https://www.oecd.org/corporate/mne/.
[95] US Department of State, *U.S. National Action Plan on Responsible Business Conduct* (2016), available at https://www.state.gov/u-s-national-contact-point-for-the-oecd-guidelines-for-multinational-enterprises/u-s-national-action-plan-on-responsible-business-conduct/.

APPENDICES

APPENDIX A: SELECTION OF QUOTES FROM SIGNATORY TRANSPARENCY REPORTS

APPENDIX B: EVIDENCE SHOWS GROWING DEMAND FOR SOCIAL DISCLOSURE

APPENDIX C: GROWING EVIDENCE SHOWS INCORPORATION OF CLIMATE AND ESG INFORMATION LEADS TO BETTER FINANCIAL OUTCOMES

APPENDIX D: RESPONSES TO SIGNATORY SURVEY QUESTION 12:

"How would consistent, comparable, rules-based ESG disclosure assist your firm in investment decision-making?"

APPENDIX A: SIGNATORY TRANSPARENCY REPORTS

Below are selected quotes from signatory annual transparency reports filed with the PRI.[96] These quotes are just a few examples of thousands of similar reports filed with the PRI annually that describe investor and asset owner utilization and incorporation of ESG factors in investment activities.

Adams Street Partners: "Adams Street Partners believes that environmental, social and governance ("ESG") considerations are an integral part of an investment decision-making process aimed at maximizing returns for investors. As part of its investment diligence process, Adams Street Partners considers such factors as a fund's or portfolio company's governance practices, the quality, sustainability and transparency of the operations of the fund or portfolio company, and the geographic scope, industry focus, and other impacts of the fund's investments or the portfolio company's business. In furtherance of its objective to formalize the various ESG considerations that factor into Adams Street Partners' 9 investment process, Adams Street Partners adopted an Environmental, Social, and Governance Policy (the "ESG Policy"). Pursuant to the ESG Policy, Adams Street Partners commits to integrate ESG factors into its analysis of current and potential investments. Where consistent with its fiduciary responsibilities to its clients, Adams Street Partners will, for example:

1. Consider general ESG factors associated with particular industry sectors and use this information to evaluate potential investments;
2. Evaluate specific ESG factors associated with particular general partners and portfolio companies and integrate these considerations into its investment decision-making process;
3. Seek opportunities to raise general partner and portfolio company awareness of the ESG Policy and promote dialogue with them regarding the investment risks associated with ESG factors; and
4. Evaluate Adams Street Partners' integration of ESG factors into its investment decision-making and the ESG performance of general partners and portfolio companies."

"In addition to integrating ESG considerations into its investment decision-making process, Adams Street Partners has an active Diversity and Inclusion initiative. The goal of this initiative is to increase access, contribute to education and engage staff in outreach opportunities designed to raise awareness and bring greater numbers of women and men of diverse backgrounds into the industry. In furtherance of this goal, Adams Street Partners has employed interns in partnership with the Sponsorship for Educational Opportunity program. Adams Street Partners supports organizations that foster leadership development and career opportunities for diverse finance professionals and actively engages with community organizations that share in the commitment to diversity, eliminating discrimination, and attracting as well as promoting the long-term development of individuals in the financial, investment management, and private equity industries."[97] Pg. 8

AEW Capital Management, LP: "Pursuit of sustainability goals will generally be undertaken in cases where it is consistent with the broader investment goals of our clients. Generally, AEW incorporates sustainability objectives into its business strategy at acquisition and through the annual business process. The investment summaries which are presented to AEW's Investment Committee address initial goals and objectives for each new acquisition. Throughout AEW's ownership of assets, ESG factors are considered and monitored alongside other investment metrics. Investment annual business plans address sustainable measures to be implemented for the upcoming year, as well as the long-term, five-year capital plan."[98] Pg. 19

[96] Principles for Responsible Investment, *Public Signatory Reports* (2020) available at: https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports.
[97] Adams Street Partners LLC, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Adams%20Street%20Partners%20LLC_2020.pdf.
[98] AEW Capital Management, LP, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_AEW%20Capital%20Management,%20LP_2020.pdf.

Breckenridge Capital Advisors: "Since 2011, we have integrated material ESG criteria into our core research process. To help incorporate this research, we developed proprietary ESG frameworks and an engagement process to help our analysts understand the ESG profile of an issuer and assign a sustainability rating for our holdings. The sustainability ratings inform our internal credit ratings for issuers. We believe that integrating ESG analysis with traditional financial analysis provides a long-term, forward-looking perspective that can help identify and price risk." Pg. 19

"We believe the market can, at times, underprice certain longer-term and idiosyncratic risks, such as those posed by material environmental, social and governance (ESG) issues. We believe that consideration of ESG factors in our investment process allows us to better assess long-term risks and identify opportunities. Our fundamental belief is that ESG-related challenges may manifest themselves in the coming years. Some challenges are environmental, related to increasing waste and constraints on resources and as well as climate risks. Other challenges are social, in which companies and municipalities may increasingly be held accountable to broader stakeholder groups for poor labor practices or for issues related to corruption and bribery. Still others are governance-related, such as the importance of a diverse, independent corporate board or a high level of transparency and disclosure from a municipality."

"Our approach to ESG integration emphasizes direct involvement by our research team. Analysts consider the output from quantitatively based ESG frameworks as well as internal and external qualitative research, enhanced by our engagement efforts, when assigning a sustainability rating on bond issuers. The sustainability rating may influence our analysts' fundamental credit opinion on the issuer, which could affect security selection." Pg. 39

"Our investment approach recognizes that a comprehensive analysis of environmental, social and governance (ESG) factors can help us identify and price risk that may be overlooked by traditional analysis. Since 2011, we have integrated ESG analysis into our investment process and have developed proprietary frameworks to generate sustainability ratings that inform our internal credit ratings for issuers. We believe that this type of analysis provides a long-term, forward-looking perspective that can help identify and price risk. In addition to integrating ESG into our investment process, we have built proprietary systems that allow us to accommodate a wide range of customizations while keeping portfolios well-aligned with the selected investment strategy."[99] Pg. 39

Harvard University Endowment: "For our fund investments we seek to integrate and manage ESG issues throughout the investment cycle. The aim of our ESG integration process is to evaluate the alignment of the manager's investment process and ESG practices with HMC's approach to sustainable investing."

"Currently, we use a due diligence framework to assess prospective fund investments in public equity, private equity, fixed income, absolute return/hedge funds, and real estate. This framework includes ESG due diligence questions to ensure that ESG-related questions are assessed and considered during the due diligence process. Specific issues that are identified during the due diligence process are escalated to the MD - Sustainable Investing, who works with the relevant portfolio manager on HMC's response."

"By asking questions about managers' ESG policy and governance, ESG integration, and ESG monitoring and reporting, we seek to:

Assess the time horizon of the investment manager's investments; the quality of the ESG policy; and how ESG objectives are implemented in the investment process;
Assess the ESG expertise of the manager's investment team; the oversight and responsibilities of ESG implementation; and how ESG implementation is ensured; and

[99] Breckinridge Capital Advisors, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Breckinridge%20Capital%20Advisors_2020.pdf.

Understand the fund's ESG objectives (i.e., ESG risk reduction, exclusions, and ESG considerations in the investment process); understand how the manager identifies, measures and manages ESG risk; review how ESG materiality is evaluated by the manager; review the manager's process for communicating on ESG incidents."[100] Pg. 13-14

Wellington Management Company LLP: "At Wellington Management, we believe that understanding securities holistically, including their ESG characteristics, helps to inform investment decision making. We view ESG analysis and integration as both return enhancing and risk mitigating. To help our portfolio managers and investment teams better assess risks and opportunities in client portfolios, we have integrated the analysis of ESG factors into our investment and risk-management processes firmwide. We do this by producing ESG research and ratings, conducting ESG portfolio reviews with investment teams, and engaging with company executives and board members on ESG issues for the benefit of our clients. ESG analysts specialize by sector, which helps investors to consider common material ESG risks and opportunities across the sector as well as the relative performance of potential investments against a relevant peer set.

We believe it is important for each portfolio manager and investment team to have a genuine and credible articulation of how ESG considerations are integrated into their investment philosophy and process. This means the integration is intrinsic to the process and not externally imposed. This can manifest itself within the investment thesis or portfolio weighting for a particular security, as well as within our proxy voting and company engagement efforts." Pg. 25

"ESG criteria have the same relevance to investment analysis as traditional financial criteria, and are incorporated into the investment decision to the extent that an investor believes that they will have an impact on financial returns."

"Given the impact that issues like these can have on financial performance, we believe it is our fiduciary duty to integrate ESG analysis into our investment process to help pursue better investment results for our clients."

"Due to the way the firm has organized its research and portfolio management functions, we don't have a chief investment officer. Instead, our investment capabilities are organized as a community of teams - each functioning as an entrepreneurial entity within an established organization. Each of our portfolio managers develops their own investment approach whereby ESG considerations are integrated into their research and decision-making processes to the extent that they believe these issues may affect the long-term success of a company and investment returns. This can manifest itself within the investment thesis or portfolio weighting for a particular security, as well as within our proxy voting and company engagement efforts."

"In recent years, we have further developed our specialized, in-house ESG Research team to help our portfolio managers and analysts gather deeper intelligence on ESG topics and integrate these considerations into the investment process. Core to our ESG integration philosophy is the belief that material ESG issues are strategic business issues, so we focus on understanding these material issues so that we can make more informed investment decisions for our clients."

"We provide central ESG integration resources to portfolio teams firm-wide, and approach ESG integration as a tailored process, applied to all asset classes. We analyze ESG risks and opportunities in client portfolios, engage with companies in which we invest to discuss material ESG issues, and vote proxies on clients' behalf to support decisions we believe will maximize the long-term value of securities. Our culture

[100] Harvard University Endowment, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Harvard%20University%20Endowment_2020.pdf.

is built to support collaboration and our open-architecture "community of investors" naturally lends itself to the integration of ESG considerations."

"Our ESG Research team, part of the central Investment Research function, helps portfolio managers and analysts gather deeper intelligence on ESG topics and integrate these considerations into the investment process. We believe a holistic understanding of how companies deploy capital - financial, physical, and human - is helpful in framing an investment thesis, and examining ESG issues gives us a more complete picture. ESG analysts are responsible for conducting in-depth analysis of the ESG factors most relevant to the sectors within their coverage area. They are also responsible for coordinating the proxy voting and ESG engagement strategies for the companies in their sectors with equity and fixed income analysts and portfolio managers. Our ESG team works closely with investment teams to incorporate our research into the investment process - regularly conducting in-depth portfolio reviews with investment teams to discuss holdings with the greatest ESG risks and strengths."[101] Pg. 25-26

Putnam Investments, LLC: "As investment managers, we affirm that an effective, sustainable global economy is essential to the creation of long-term value. We believe that transparency and reliability of information regarding all types of material investment topics benefit our clients and shareholders, and that consideration of relevant environmental, social, and governance information can contribute to fulfilment of our fiduciary duty.

Putnam's active, research-intensive investment approach inherently recognizes the importance of fundamental business operations to the investment process, including thoughtful assessment of environmental, social, and governance factors and the promotion of transparency and integrity of data and disclosures.

Putnam Investments became a signatory of the United Nations-backed Principles for Responsible investment (PRI) in April 2011 and is committed to sustainable investing, including a focus on understanding how ESG factors may influence performance, generate alpha, and/or mitigate risk in client portfolios. We believe that incorporating ESG considerations into the investment process has the potential to enhance what asset management can accomplish, and that ESG analysis can be an important component of the research process." Pg. 22

"Putnam incorporates considerations of ESG elements in our equities and corporate credit investment research processes. We do not require that portfolios limit their universe or their investments in any company, industry, or country based on ESG criteria (except as stated in a fund's prospectus or as mutually agreed upon with a client). Rather, we expect sustainability-related insights to be a component of the research processes that are used to arrive at investment decisions. Both the mix of relevant ESG issues and the level of their fundamental importance will vary depending on issuer context and the investment approach. It is through this type of integrated research that we expect to continue to provide value for our clients." Pg. 22

"Examples of relevant and material ESG issues that we research might include carbon intensity, water use, or plans to reduce waste; employee well-being or commitments to workplace equality and diversity; board independence or alignment of management incentives with the company's strategic sustainability objectives. Relevant factors for investments we make are considered within the operating context of the company or issuer. It is through this type of integrated research that we expect to continue to provide value for our clients.

As a fiduciary on behalf of our asset management clients, Putnam generally looks at the entire investment universe to identify attractive securities. We do not require that portfolios limit their universe or their investments in any company, industry, or country based on ESG criteria (except as stated in a fund's

[101] Wellington Management Company LLP, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Wellington%20Management%20Company%20LLP_2020.pdf.

prospectus or as mutually agreed upon with a client). Rather, we expect sustainability-related insights to be a component of the research processes that are used to arrive at investment decisions. ESG issues, data, and analysis are all actively evolving, and likewise we expect our research and investment approaches to continue to develop in ways that are attuned to the contexts of various issuers, asset classes, and investment strategies."[102] Pg. 40-41

PIMCO: "Importantly, PIMCO believes that by analyzing ESG risk factors alongside traditional financial risk factors, the firm will have a more complete picture of the risk and return opportunities that will ultimately help PIMCO to deliver better outcomes for its clients." Pg. 52

"In practice, we seek to translate climate-related data available at scale (e.g. portfolio-level) into granular metrics that are actionable in the context of PIMCO's credit analysts' assessments and investment decisions. To help analysts evaluate climate risk, PIMCO's ESG specialists designed proprietary tools. The insights these tools provide are intended to help portfolio managers to better manage and mitigate climate-related credit risks and align ESG dedicated portfolios with the Paris Agreement targets - as always, working within specific portfolio objectives and guidelines. These analytical frameworks serve the whole spectrum of PIMCO's ESG-specific and broader investment strategies and enable PIMCO's ESG dedicated strategies to align with the recommendations of the TCFD. This covers both our evaluation of issuers and our engagement with them. Indeed, this an iterative process in that, for example, conclusions at the issuer level are to the extent feasible informed by issuer's disclosure and in turn also help assess the gaps in their reporting on climate -related risk scenarios and their strategy, which PIMCO seeks to address when engaging with them as bondholder (including in the context of the Climate Action 100+ initiative)."[103] Pg. 34

Nuveen, A TIAA Company: "We believe that incorporating ESG factors into investment research, due diligence, portfolio construction and ongoing monitoring allows us to improve financial performance, mitigate risk, and create new investment opportunities. We are proud of the leadership role we have played for over five decades in RI and of our track record of achieving positive financial and non-financial client outcomes related to ESG practices. We believe that by driving transparency, innovation and global adoption of RI best practices across all asset classes, we have the opportunity to provide enduring benefits for portfolio companies, investors, society and our local and global communities." Pg. 37

"Impacts from climate change may include significant risks to global financial assets and economic growth. As investors, our primary objective is to mitigate investment risks stemming from climate change. We recognize that long-term investment performance depends on other well-functioning systems, including natural systems that provide clean water, abundant food, and many other resources to the global economy. These systems are threatened by global climate change, which in turn threatens economic growth and investment performance. Therefore, our focus on mitigating climate risk is grounded in this orientation." Pg. 39

"Nuveen factors physical and transition risks of climate change into investment strategies in a variety of ways. Individual investment teams identify and manage risks that apply to the specific assets that they oversee. Nuveen's Responsible Investing professionals work closely with investment teams in each asset class to integrate ESG considerations, including climate risk, into the fundamental investment process. For example, investment teams receive specialized training and have widespread access to carbon and climate data for their asset class." Pg. 39

"Technology enabled solutions are central to our responsible investing efforts and expanding our innovative capabilities is a top priority. With the launch of our custom-built RI Data Platform in 2018, we

[102] Putnam Investments, LLC, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Putnam%20Investments,%20LLC_2020.pdf
[103] PIMCO, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_PIMCO_2020.pdf.

are able to put ESG/sustainability data directly in the hands of investment teams and are driving the creation of proprietary ratings and analytics. Our commitment is to providing actionable data:

- Nuveen assigns proprietary ESG ratings and scores to corporate and municipal fixed income issuers and is expanding coverage to sovereign and structured issuers in 2020
- All fixed income portfolio managers have access to proprietary ESG ratings in their portfolio management systems
- All corporate fixed income portfolio managers serving the TIAA General Account review ESG performance quarterly
- Nuveen is one of the first managers to develop internal ESG ratings for private markets ESG rationale is increasingly being captured in analyst notes and company tear sheets
- Public equities teams began developing proprietary ESG ratings in 2019 and continue to expand this effort in 2020
- Our real estate portfolio establishes fund-level sustainability targets in line with achieving a competitive ranking in GRESB, the ESG benchmark for real assets
- With our farmland in Brazil we undertake annual KPI driven ESG audits to monitor and enhance sustainability
- "In order to evaluate the financial implications of climate risk and other environmental factors in our portfolios, Nuveen is:
- Sourcing next-generation climate risk data which models value at risk (VaR) of an investment under various future macroeconomic and climate change scenarios
- Partnering with vendor, The Climate Service, to co-create VaR methodologies for real estate, real assets and fixed income
- Using aerial spectral imagery in California to optimize water and nitrogen use among our tree nut operators
- Using satellite imaging of Brazilian farmland to confirm land ownership and assess environmental issues. We look at historical use of land, cultivation patterns, transformation or development and indigenous population presence." Pg. 98

"We believe that incorporating ESG factors into investment research, due diligence, portfolio construction and ongoing monitoring allows us to improve financial performance, mitigate risk, and create new investment opportunities. At Nuveen, responsible investing is an integral part of our history and our future as we believe that it can help provide enduring benefits for our clients and our communities. The ability to accurately forecast long-term industry and entity-specific trends increasingly requires an understanding of relevant ESG factors and their potential financial impacts. Through ESG integration, we seek to expand our investment research and portfolio construction lens to incorporate ESG risks and opportunities that can inform investment decision making beyond traditional financial analysis."

"ESG integration within listed equities is implemented using centralized frameworks, insights and processes developed at the enterprise level by Nuveen's Responsible Investing (RI) Team which are then tailored to meet the specific investment approaches and needs of our investment specialists. RI team support activities include training investment management teams on material ESG issues by sector, facilitating access to and uptake of quality ESG data housed in Nuveen's RI Data Platform (RIDP) and developing proprietary frameworks and insights specific to asset class and investment process. Public equity investment specialists supported by the RI team include: TIAA Investments, Nuveen Asset Management, Winslow Capital Management, NWQ, and Santa Barbara Asset Management." Pg. 109

“Across all equity specialists, our ESG integration activities generally focus on building out the financial relevance of material ESG themes and factors, and facilitating systematic access to and uptake of quality ESG information in the investment process. This involves engaging directly with our analysts and portfolio managers on ESG issues, facilitating our investment teams' access to relevant data and tools, and providing guidance on emerging ESG themes across industries. Continuing improvements in the quality, disclosure and accessibility of ESG information have enabled greater applications for incorporation into investment portfolios. In a mutually reinforcing manner, market related insights gained through engagement provide additional information for decision-making at the security, sector and portfolio management levels. Further details are elaborated within specific questions.” Pg. 109

“Our overall goal is to integrate ESG information systematically so that it can be leveraged across a range of investment strategies. Nuveen's primary source of ESG information is our proprietary Responsible Investing Data Platform (RIDP), which provides all investment teams access to high quality ESG data and ratings and facilitates deeper, more actionable ESG analysis. This information is used to enhance investment processes. In addition, equity research analysts may also directly source ESG information from company reports, sell-side research, NGO reports, and direct discussions with a company's senior management as part due diligence for potential and existing investments. Other inputs include materials from, or discussions with, regulatory agencies and independent research providers with sector expertise. The RI team may also conduct additional research (including company, sector, thematic and issue research) as part of on-going due diligence to substantiate the research we receive.” Pg. 111

“Broad concerns relating to ESG factors can be expressed as risk factors which may reduce an investments fair value and increase the potential downside risk associated with an investment. This would occur via a higher discount rate used to value future projected cash flows given the uncertainty and potential for future liabilities. Known factors such as increased expense associated with regulatory requirements or changing consumer preferences are explicitly captured when modelling the estimated future cash flows of a company. ESG considerations can also represent opportunities. Companies positively aligned with secular ESG trends (for example, clean energy, data security, human capital management and health/ wellness) may experience above industry average growth and profitability, which we endeavour to explicitly capture in the relevant sector analyst's company model and valuation.” Pg. 120

See Pages 124 through 127 for specific applications of ESG information informing investment decisions and risk analysis.

See Pages 155 through 163 for specific examples of proxy voting and engagement on specific ESG issues.[104]

Mellon Investments Corporation: “ESG considerations are incorporated throughout Mellon's investment processes and each of the firm's research analysts and portfolio management teams are responsible for recognizing material, relevant ESG considerations and incorporating them appropriately. Analysts and portfolio managers incorporate the risks and opportunities relating to E, S, and G issues when assessing each investment. ESG considerations are monitored throughout the investment period and explored as part of the firm's regular engagement with company management. Mellon relies on the expertise of its analysts and portfolio managers to identify ESG-related themes, trends and issues and assess their impact on individual investments and managed portfolios. Their insights are recorded in Mellon's research database, shared at research meetings and discussed at cross sector reviews.” Pg. 28

“Mellon has made the deliberate decision to imbed ESG analysis throughout the investment processes rather than segregating these efforts in a separate team or division. Each analyst and portfolio manager is responsible for identifying material, relevant ESG considerations in their space and applying these insights

[104] Nuveen, a TIAA Company, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Nuveen,%20a%20TIAA%20Company_2020.pdf.

appropriately. The result is firm-wide, bottom up integration with a mandate from the firm's senior management."

"Our research expertise is the foundation for our investment processes. ESG data varies in terms of disclosures, materiality, and comparability. In addition, data and scores are typically backwards looking and may not reflect potential risks and opportunities. As part of Mellon's investment process, our analysts actively pursue information, including ESG-related and extra-financial information that will impact a holding's investment theses. We pride ourselves with our cross firm collaboration incorporating equity and fixed income insights, quantitative expertise, proxy related data and analysis, and investigative research studies. Consequently, Mellon is better able to evaluate the quality of third party data, assess where ESG risks or opportunities exist, and determine an outlook for value creation."

"Analysts embed identified ESG risks and opportunities within their fundamental analysis and develop an ESG specific investment thesis. The thesis, outlook, and drivers for the outlook are captured and tracked in shared quantitative databases. Portfolio Managers conduct periodic reviews to assess the strategy's positioning and drivers for risk and performance. As part of an investment's ongoing analysis, analysts participate in upwards of 2,500 phone calls and meetings with management throughout the year to assess and monitor changes, including factors relating to ESG considerations. These management meetings also offer an opportunity for analysts to influence change."[105] Pg. 42

Invesco Ltd: "We apply ESG (environmental, social, governance) concepts in several dimensions, from the products we offer and our investment processes, to our corporate behaviour. Invesco has been implementing ESG strategies for over 30 years, and today delivers these through equities, fixed income, multi-asset, alternatives, real estate, ETFs and bespoke solutions. Each investment center has a unique approach defined in its investment process as well as the respective asset class."

"Within our investment process our approach focuses on integrating ESG risk and opportunity factors into investment decisions, differentiated by asset classes and decentralized by local investment centres. This integration extends to engagement and active ownership, and we discuss material ESG factors with investee companies or issuers, track and monitor engagement, and vote according to a proprietary approach to proxy voting."

"Our approach on ESG integration - where every investment centre defines their own holistic ESG approach - is we believe, key to achieving a robust ESG practice across all investment centres. As a consequence, every analyst, whether credit or equities focused, also understands the ESG risks inherent to a respective investment. ESG risks are generally evaluated and identified at the security level and may impact portfolio performance. Material ESG considerations may adversely impact the fundamentals of the securities the portfolios hold, which in turn may impact shareholder value." Pg. 10-11

"Invesco may choose to avoid issuers below a threshold environmental, social, governance or overall score. We may also avoid designated names, industries and sectors. This results in an ESG-augmented investable universe from which to maximize returns."[106] Pg. 43

[105] Mellon Investments Corporation, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Mellon%20Investments%20Corporation_2020.pdf.
[106] Invesco Ltd, *RI Transparency Report* (2020), available at https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Invesco%20Ltd_2020.pdf.

APPENDIX B: GROWING DEMAND FOR SOCIAL DISCLOSURE

- In a recent survey of US PRI signatories, when given 14 options of the most important ESG information for investment decisions, "Quantitative data on Diversity, Equity & Inclusion policies and actions (such as diversity statistics across corporate levels)" was ranked second, behind only quantitative data on corporate actions to address climate change.[107]
- More than 125 investors, some of which are PRI signatories, signed on to a letter by As You Sow, calling for companies to release relevant data on their diversity policies. The letter specifically argues that meaningful data on board diversity is needed, and that investors consider this information in their investment analyses. The letter also states that, there is a "significant divergence between the public commitments companies make to workplace equality and the disclosures they provide to investors showing how, and if, they are meeting their stated goals."[108]
- Edelman's Special Report showed that social issues matter to investors more than ever, being the top issue in the US with a 15-percentage point increase since 2019.[109] Edelman also found that 92% of respondents agree that strong diversity and inclusion metrics have a positive financial impact on a company share price and 71% apply exclusionary screening based on Diversity, Equity and Inclusion metrics.
- In PRI's 2019 Reporting Framework, 269 signatories provided examples of engagements on labor practices and supply chain management, 229 on human rights and 190 on health and safety. On voting activities specifically, 87 signatories provided examples on human rights, 65 provided examples on labor practices and supply chain management and 44 provided examples on health and safety.[110]
- A Government Accountability Office (GAO) report highlighted the lack of comparable and standardized social metrics and unclear calculations of data.[111] For example, some companies even change their metrics from year to year.[112]
- On average, data providers agree on a company's social score less than half the time.[113] This disagreement between data providers can be traced back to the lack of any disclosure regime around social and human rights issues.[114]

[107] Appendix B
[108] As you Sow, *Investors Representing $1.61 Trillion in Assets Demand That Companies Disclose Their Workplace Equity Data* (June 19, 2019), available at https://www.asyousow.org/press-releases/investors-demand-workplace-equity-data.
[109] Edelman, *Special Report: Institutional Investors U.S. Results* (2020), available at https://www.edelman.com/sites/g/files/aatuss191/files/2020-11/Edelman%202020%20Institutional%20Investor%20Trust_FINAL.pdf.
[110] Principles for Responsible Investment, *Listed Equity Snapshot 2017-2020* (October 8, 2020), available at https://www.unpri.org/listed-equity/listed-equity-snapshot-2017-2020/6541.article.
[111] US Government Accountability Office, *Public Companies Disclosure of Environmental, Social and Governance Factors and Options to Enhance Them* (July 2020) available at https://www.gao.gov/assets/710/707949.pdf.
[112] Ibid., p.12.
[113] Principles for Responsible Investment, *ESG rating disagreement and stock returns* (March 2020), available at https://www.unpri.org/pri-blog/esg-rating-disagreement-and-stock-returns/5625.article.
[114] Edelman, *Special Report: Institutional Investors U.S. Results* (2020), available at https://www.edelman.com/sites/g/files/aatuss191/files/2020-11/Edelman%202020%20Institutional%20Investor%20Trust_FINAL.pdf.

APPENDIX C: GROWING EVIDENCE SHOWS INCORPORATION OF CLIMATE AND ESG INFORMATION LEADS TO BETTER FINANCIAL OUTCOMES[115]

General Outperformance

- A study evaluating 745 sustainable funds in Europe indicates they outperformed the market over the past ten years.[116]
- Larry Fink, CEO of BlackRock, in his annual letter to CEO's stated, "...companies with better ESG profiles are performing better than their peers, enjoying a 'sustainability premium.'"[117]
- Edelman found that many investment managers shared Mr. Fink's conclusion of an ESG premium.[118]
- Calvert Research and Management found that over a ten-year period, companies in the top fifty percent of ESG ratings outperformed the bottom half by 6.8 percent.[119]
- Research has also shown that responding to ESG risks can reduce operating costs by up to 60 percent, for example through reduced energy and water use.[120]
- A study evaluating the "100 Best Companies to Work for in America" showed these companies performed above industry average from 1984 to 2009 and exhibited more positive earnings as well as better announcement returns.[121]

Climate Factors Outperformance

- A recent meta-analysis of over 1,000 research papers published between 2015-2020 confirms the finding that companies preparing for a low-carbon future financially outperform those that are not.[122]
- A study shows that bond credit ratings and yield regulatory risks are influenced by a firm's environmental performance.[123]
- ESG integration and environmental efficiency may be considered "intangible assets/risks" and indicators of underlying company value and may thus predict future stock price movements.

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[115] Mozaffar Khan et al., Corporate Sustainability: *First Evidence on Materiality* (January 2016), available at https://doi.org/10.2308/accr-51383.

[116] Hale, Jon, *Sustainable Equity Funds Outperform Traditional Peers in 2020* (January 8, 2021), available at https://www.morningstar.com/articles/1017056/sustainable-equity-funds-outperform-traditional-peers-in-2020. See also Morningstar, *How Does European Sustainable Funds' Performance Measure Up?*, available at https://www.morningstar.com/en-uk/lp/European-Sustainable-Funds-Performance and Financial Times, *Majority of ESG funds outperform wider market over 10 years*, available at https://www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824.

[117] Fink, Larry, *Larry Fink's 2021 letter to CEOs* (2021), available at https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.

[118] Edelman, *Special Report: Institutional Investors U.S. Results* (2020), available at https://www.edelman.com/sites/g/files/aatuss191/files/2020-11/Edelman%202020%20Institutional%20Investor%20Trust_FINAL.pdf.

[119] Principles for Responsible Investment, *Financial Performance of ESG Integration in US investing* (2018) available at https://www.unpri.org/download?ac=4218.

[120] McKinsey Quarterly, *Five Ways that ESG Creates Value (*November 2019), available at https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.pdf.

[121] Edmans, Alex. 2011. "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices." Journal of Financial Economics 101 (3): 621–40.

[122] NYU Center for Sustainable Business, *ESG and Financial Performance Uncovering the relationship between ESG and financial performance through meta-analysis of 1,000+ studies*, available at https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance.

[123] Seltzer, Lee, Laura T. Starks, and Qifei Zhu, "Climate Regulatory Risks and Corporate Bonds" (2020), available at SSRN 3563271.

- The Congressional Research Service found that there are already supply chain disruptions due to climate change.[124]

Crises Outperformance

- During the 2008 financial crisis firms with better corporate social responsibility ratings had 4-7% higher stock returns, as well as higher profitability, growth and sales per employee.[125]
- A recent meta-analysis by the NYU Stern Center for Sustainable Business confirms the finding that ESG integration in investment strategies helps provide downside protections during economic crises.[126]
- In the initial months of the COVID-19 global pandemic, 88% of sustainable indices outperformed their non-sustainable counterparts.[127]
- Over the course of the year, ESG funds consistently and overwhelmingly outperformed similar, non-ESG funds[128] [129] and stock prices of sustainable companies remained more stable during the pandemic.[130]
- Financial analysis firm Morningstar reported 51 of their 57 sustainable indices outperformed market counterparts in the first quarter of the year, and MSCI reported 15 of their 17 did the same.[131]

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[124] Congressional Research Service, *Climate Change Risk Disclosures and the Securities and Exchange Commission* (April 20, 2021), available at https://crsreports.congress.gov/product/pdf/R/R46766.
[125] Lins, Karl V., Henri Servaes, and Ane Tamayo, Social Capital, Trust, and Firm Performance: "The Value of Corporate Social Responsibility during the Financial Crisis" (2017), available at The Journal of Finance 72 (4): 1785–1824.
[126] NYU Center for Sustainable Business, *ESG and Financial Performance*
Uncovering the relationship between ESG and financial performance through meta-analysis of 1,000+ studies, available at https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/esg-and-financial-performance.
[127] BlackRock, *Sustainable investing: resilience amid uncertainty*, available at https://www.blackrock.com/corporate/literature/investor-education/sustainable-investing-resilience.pdf.
[128] Lihouan Zhou et al., "Three Things to know about ESG fund behavior during the pandemic" (September 14, 2020), available at https://www.wri.org/blog/2020/09/3-things-know-about-esg-fund-behavior-during-pandemic.
[129] Hale, Jon, *Sustainable Equity Funds Outperform Traditional Peers in 2020* (January 8, 2021), available at https://www.morningstar.com/articles/1017056/sustainable-equity-funds-outperform-traditional-peers-in-2020.
[130] Ding, Wenzhi, Ross Levine, Chen Lin, and Wensi Xie, "Corporate Immunity to the COVID-19 Pandemic" (2021), available at the Journal of Financial Economics.
[131] Principles for Responsible Investment, *COVID-19 accelerates ESG trends, global investors confirm* (September 3, 2020), available at https://www.unpri.org/pri-blogs/covid-19-accelerates-esg-trends-global-investors-confirm/6372.article.

APPENDIX D

Responses to Q12: "How would consistent, comparable, rules-based ESG disclosure assist your firm in investment decision-making?"[132]

> *"Would assist in like-to-like comparison for investment choice / decision making."*
>
> *"In general, consistent, comparable, rules-based ESG disclosure would be helpful. However, actual disclosure should be limited to information that is material for investment decisions."*
>
> *"Consistent ESG disclosure would allow to make informed investment decisions based on companies' ESG risk, expected financial implications and expected impact"*
>
> *"Not sure. We use a 3rd party provider already and are expanding to include climate change risk analytics provider."*
>
> *"Our approach to sustainability assessment and our fundamental, systematic global macro analysis require high quality data, and we therefore welcome any effort that makes it easier for both issuers and investors to communicate this information."*
>
> *"The integration of companies climate disclosures is a material part of our stock selection process. As a systematic asset manager, we value consistency in reporting in order to compare companies on a like-for-like basis. Our research findings suggest that U.S. companies that report forward-looking climate disclosures in their 10-K/Q filings, together with the announcement of quantitative targets, benefit from a lower implied cost of equity."*
>
> *"It would aid comparison of companies across different geographies/jurisdictions and increase accountability."*
>
> *"Having consistent and comparable, rules-based ESG disclosure would make it easier to compare companies."*
>
> *"quantitative data is difficult to assess as the data inputs/outputs are difficult to understand, assess and compare"*
>
> *"It would certainly make it easier to more accurately and fairly compare and contrast ESG-related data across firms and managers."*
>
> *"Currently, there is not a lot of data transparency (especially for private companies) in the loan market so having a neutral benchmark / comparable disclosures of information would be helpful to standardize our own review of ESG issues across issuers and industries."*
>
> *"Tremendously. Right now it is easy to disregard because there is no standard and viewed as "just a bunch of language"*
>
> *"It would greatly facilitate investment analysis by enhancing cross-comparability of companies."*
>
> *"It would be consistent with the framework we are working to develop internally."*
>
> *"It would be easier to get the data we need to evaluate ESG at the initial phases of due diligence."*
>
> *"Rules-based ESG disclosure would allow for less time seeking data and more time to analyze that data. It would also lend to consistency of analysis across issuers."*
>
> *"Increased consistency would give us more confidence in our research and analysis."*

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[132] Principles for Responsible Investment, *US PRI signatories support mandatory climate & ESG disclosure* (June 2021), available at https://www.unpri.org/pri-blog/us-pri-signatories-support-mandatory-climate-and-esg-disclosure/7849.article.

“It would allow us to compare the ESG profiles across portfolio holdings in a quantitative manor”

“Largely by holding accountable those funds who claim ESG practices but lack follow through re investment decision making”

“Look at consistent metrics across investible universe to create comparable assessments across issuers and assess metrics across portfolio.”

“Given the number of holdings we have, consistency would provide the ability to automate the data acquisition and metric calculation processes.”

“Might help but since we invest in startups we don't want it to be too Onerous.”

“It would allow us to track our portfolio performance on ESG topics, as well as help us identify areas of engagement with companies”

“This will promote improved comparison across sectors and industries and reward companies with better ESG 'scores' with lower cost of capital.”

“A consistent, comparable, rules-based ESG disclosure will assist our firm by allowing us to rate issuers relative to peers in the same group. Being able to compare issuers among one another will be beneficial to our investment decision making.”

“It would allow us to have the information necessary to properly value and assess the financial impact of the factors being evaluated.”

“We could more effectively compare ESG investing opportunities cross sector/industry.”

“It would facilitate streamlined analysis and reporting.”

“Provide tangible and comparable data to justify ownership and asset valuations.”

“This would make reporting and monitoring a lot more easily defined and therefore easier to follow.”

“It would provide benchmarks for us to compare ourselves against.”

“help identify peer-leaders, support analytics and integration into valuation modelling”

“Would accelerate our research and decision making.”

“It would be easier to have a standard baseline that everyone is working from.”

“A consistent, comparable and rules-based ESG disclosure would help us to compare any company's ESG ratings/disclosures to its previous ratings and with that we will be able to analyze if the company is doing better or worse ESG wise.”

“If the ESG disclosure is rules based, we will be able to rate/compare all the companies equally based on their ESG disclosures. Peer comparison would be very easy in that case.”

“Having a consistent, comparable, rules based ESG disclosure allows for uniform decision making as it relates to the companies peer groups”

“Would allow for better comparison of company policies and actions against their peer group.”

“it would give us the ability to compare across countries and industries the sustainability of our holdings.”

“More date, lower risks, better decision making.”

“It would allow us to better compare apples to apples and bring a minimum consistency to evaluation of ESG factors.”

“It would provide a level of confidence in the data and enable us to compare performance across companies and industries. Frankly, it would save us and issuers a great deal of time and resources.”

“We would include rules based ESG data in our stock selection models.”

“We could quickly integrate rules based disclosures in our quantitative models.”

“Well, it would reduce the time commitment in analysis of a very nebulous topic and help us better serve shareholders holistically. It also should squeeze out so many organizations that are simply trying to make money off of the subject. This is a topic we care about, but it is nebulous and dominating time. Too much information proliferation. Too many service providers. Too much fragmentation. Too much qualitative marketing that takes hours to reads and adds nothing to my understanding of the risks and opportunities. There should be a standard source...perhaps, the SDR, or perhaps an international accounting standard. The risk is over-regulation again, as the proliferation of regulation itself is problematic to fiduciary duties.”

“It would give us a clear handle on the financial risk to the firm (as climate risk, transition risk and social risk are all actually financial risk!) and make international comparison possible. It would also help us make a much better assessment of the company's intangibles value.”

“Would save significant timing during diligence and also make sure that the most important metrics are being consistently disclosed.”

“Better transparency in diligence process and identifying post-close areas for engagement”

“It would make it much easier to understand which companies are improving over time in their ESG efforts by having standardized units for certain ESG indicators so comparisons can be made relatively with ease.”

“We would have better data.”

“It would make it easier for companies to report the data publicly in a consistent way to a platform that investors use. Ideally, this data would be readily accessible and third party verified. Regulating this would stop companies from making excuses to not collect and report this data. More information into the markets would help the markets be more efficiently allocate capital.”

“consistent decision making based on standardized ESG metrics”

“We endeavor to create these data sets internally. A mandated consistent set of data would be beneficial.”

“In creating opportunities for our investment managers to tilt toward positive ESG performers using comparable ESG datasets, we will be able to more closely align to our stakeholders' missions.”

“It provides us with quantitative numbers that determine the commitment of the firm to the ESG principles”

“Having the data in a downloadable format is the most helpful. Currently the data is spread throughout the sustainability report.”