

Attn: The Securities Exchange Commission

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From: J Robert Gibson rgibson@ust.hk;

Fellow Civic Exchange

Adjunct Prof. Hong Kong University of Science & Technology

Responding to the SEC's (the Commission) questions for consideration on Climate Change Disclosures

This letter response to the 15 groups of 'questions for consideration' which you posted¹ on 15th March with replies due by 13th June 2021.

Climate change is a global problem which can only be adequately mitigated by the countries of the world working together. Such international cooperation will be easier if reporting from companies is globally consistent rather than differing by country. A single set of reporting standards should therefore be used globally. Given this, I hope the Commission will seek to stimulate and listen to international voices on the issue.

I support:

- IFRS Foundation's planned International Sustainability Standards Board providing global standards which are interoperable with GRI's multi-stakeholder sustainability reporting.
- The Commission making the ISSB's standards mandatory for the companies it regulates.

Your 15 groups of questions and my response:

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?**

Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

RESPONSE:

The Commission can best regulate, monitor, review, and guide climate change disclosures as follows.

- 1) **By supporting IFRS Foundation's proposal to establish an International Sustainability Standards Board with its priority being to issue standards for reporting on climate change topics based on TCFD's recommendations.** In particular, the requirement to report against future climate change scenarios.

¹ www.sec.gov/news/public-statement/lee-climate-change-disclosures

- 2) **Advocating global adoption of ISSB's standard for globally consistent reporting.**
Such consistency:
 - a. Avoids companies in countries with low governance standards possibly having a competitive advantage over those in countries with high standards.
 - b. Facilitates consistent reporting by MNCs who, by definition, operate in many jurisdictions.
- 3) **By facilitating the creation of reference scenarios for companies to report against.** It would probably be best to have a hierarchy of levels in these scenarios namely:
 - (a) Global climate changes scenarios based on IPCC's summaries of research on impact of different future greenhouse gas concentration profiles.
 - (b) Economic Sector level which providing projections by industry such as cement, steel, electricity generation and ship design/building. These Sector scenarios would take into account potential technological change and sector specific policies.
 - (c) Jurisdiction level with assumptions on policies such as carbon pricing, Carbon Border Adjustment Mechanisms (CBAMs) and the prohibition of the use of gas fired boilers for homes or ICE powered vehicles².
- 4) **By arranging 'safe-harbour' provisions such that companies reporting against the referenced scenarios cannot be sued for the content of these scenarios."**

Disclosures be included in annual reporting which should be structured as follows:

- 1) Divide the reporting into:
 - (a) A **Strategic Report** which provides concise coverage of issues impacting the company's enterprise value.
 - (b) A **Compliance Report** which covers information required for regulatory compliance but not covered in the Strategic Report.
 - (c) One or more **Sustainability Reports** providing required to meet reasonable stakeholders concerns and requests and not already covered in the Strategic Report. NOTE: It may be appropriate for a large MNC to have separate Sustainability Reports for different lines of business or countries of operation.
 - (d) Often important policy information does not change from year to year and is thus best presented as a separate document on a company's website with this document referenced by its annual reporting. The merit of this approach is:
 1. A reader who is familiar with the standing document does not need to read a new presentation of its contents each year.
 2. The annual reports are more concise.
- 2) Guide report users to efficiently find the information they require by providing:

² For more examples of what should be included in the scenarios against which companies report see the IEA's 17th May 2020 report <https://www.iea.org/reports/net-zero-by-2050> One example is its recommendation that gas-fired boilers for home heating should be banned by end 2025. Another example is its projection for the fuel types used by land transport, shipping and aviation.

- a. An index in a prescribed format which allows report users to ‘look up’ where the topics they are concerned about are covered. NOTE: This index should also indicate the assurance level, if any, on each topic. The index which GRI requires is a good example of this practice.
- b. A downloadable, searchable pdf file which includes ALL the information reported on a given reporting period. The merits of this file include:
 - i. Clarity of what the totality of a company’s reporting at the date its reports are published. (NOTE: Websites may be subsequently updated.)
 - ii. Report users can search this pdf file for the topics they require information on.

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

How are markets currently using quantified information?

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)?

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

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

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

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

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

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

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?

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

RESPONSE:

- 1) Company climate change related reporting should prioritise identifying and giving a broad indication of the materiality of physical and transition risks posed by climate change under different scenarios. Further, advising the action the company is taking to mitigate these risks.
- 2) Systems for reporting climate change per scenarios are not mature. The focus of the reporting should therefore be on providing a clear narrative rather than detailed quantification.

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

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

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.)?

RESPONSE:

- 1) Climate change reporting will be in a state of flux for some years. The Commission should, therefore, focus on the principles needed for good reporting in the long-term rather than in writing detailed rules for current circumstances.
- 2) Specifically, the Commission should:
 - a. support the IFRS Foundation’s plan to create an ISSB to issue global standards rather than specifying detailed data standards; and,
 - b. support the IFRS Foundation making ISSB Standards Interoperable with standards from multi-stakeholder sustainability reporting such that the two sets of standards can be used together. For details on this please see my response to the IFRS Constitutional Consultation. This is Response 3 on: www.ifrs.org/projects/work-plan/sustainability-reporting/exposure-draft-and-comment-letters/#view-the-comment-letters

To put it another way: Focus on being ‘Roughly Right’ rather than ‘Exactly Wrong’.

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?*

RESPONSE:

- 1) The impact of climate change varies by industry. It is therefore beneficial to have industry-focused standards and, in particular, industry specific reference scenarios. These industry standards should, however, fit within a system of cross-sector standards and, where possible, issues should be handled in a cross-sector standard rather than an industry specific standard. GRI’s general and sector specific standards provide an example of this approach.
- 2) Given the area will be in flux for some years it is best for the SEC to focus on the principles which should underlie the work.

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

RESPONSE:

- 1) TCFD's scenario planning approach to climate related risks has great merit and should be the core of reporting standards for climate change issues.
- 2) GRI is strongly recommend as providing the foundation for reporting on environmental and social issues. Its standards have been developed and 'battle hardened' over 20 years. They are well structured to meet the diverse needs of many different companies in different sectors and countries. The merits of GRI include:
 - A principle based approach which provides overall guidance on what to report thus covering issues which arise and but are not covered by specific rules.
 - Allowing flexibility in level of reporting sophistication. Namely: (a) GRI Referenced; (b) GRI Core; and (c) GRI Comprehensive. This allows companies to adopt the depth of reporting which is most appropriate for them. In particular, they can start on the 'Referenced' level and develop on this to reach the 'Core' level.
 - GRI allows companies to use any format provided they publish an index in a specified format. This allows companies to provide information in the format best meets their needs, including putting information in different reports or on different web pages, PROVIDED they have an Index in GRI's prescribed format advising readers what information is reported, where it can be found and whether it is assured.
 - GRI's modular approach makes it easy for companies to use the elements within its standards which cover issues which are material to them.

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- Per **KPMG’s Survey of Sustainability Reporting 2020** survey GRI’s sustainability report market share is 67% of the 3,983 companies identified as being the top 100 countries in 43 market.³ Building on GRI thus means building on the existing knowledge of the many-thousand staff in both reporting companies and in report users.
 - The author of the note would be pleased to add to this list of GRI’s merits if requested.
- 3) IIRC’s Integrated Reporting framework provides a good link between the detail per GRI standards and the enterprise value of a company. This is now part of the portfolio of the Value Reporting Foundation.

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

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?

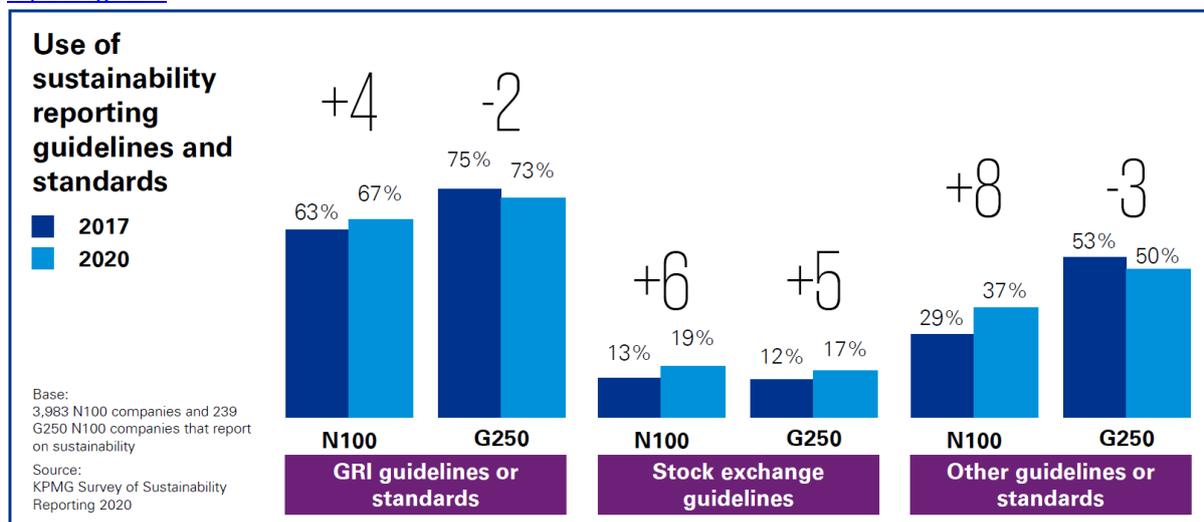
Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be?

Is there an existing climate disclosure standard setter that the Commission should consider?

RESPONSE:

The Commission should support the work of the IFRS's proposed ISSB. It should also lobby the ISSB to make its standards interoperable with those of TCFD, GRI while following the framework of the IIRC.

³ <https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html>



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?*

RESPONSE: Not answered as this reviewer does not know the detail of US regulations.

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?*

RESPONSE: The GRI standards provide answers on most aspects of these questions.

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?*

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

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?

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

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

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

RESPONSE:

Climate change is a global problem which can only be adequately mitigated by the countries of the world working together. Such international cooperation will be easier if the reporting from companies in different countries is consistent. There should therefore be a single set of reporting standards which is used globally.

I support:

- IFRS Foundation's ISSB providing global standards which are interoperable with GRI's multi-stakeholder sustainability reporting.
- The Commission making the ISSB's standards mandatory for the companies it regulates.

10. **How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance?**

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?

RESPONSE:

- 1) For many companies, topics within climate-related reporting will be of paramount importance making assurance of this reporting important. The standards the Commission applies to assurance of this information should follow the same principles as assurance of financial information.
- 2) Given the variety of ESG issues and the differing extent to which they are material to each company:
 - a. A company's Board should have discretion as to which items are assured.
 - b. The index to the topics covered by the company's report should identify which data items are assured.
 - c. A company's auditor should report, with reasons, which unassured issues may be most material to the company's enterprise value.

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?**

RESPONSE:

Climate related issues are likely to be of great importance to many companies. At the same time managing and reporting on them is likely to be difficult. There should therefore be mechanisms to promote strong governance and the CEO and CFO taking responsibility.

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?**

RESPONSE: Given the significant innovation which climate change disclosures require it is probably best to have a "comply or explain" framework for their introduction. Then, once experience has been built up, some of the requirements can be made mandatory.

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

RESPONSE:

It is highly beneficial to have 'Management Discussion' with appropriately chosen disclosed metrics can drive this.

The Commission should therefore advocate for IFRS's ISSB's standard to include these requirements. This will aid globally consistent reporting. Such consistency:

- (a) Avoids companies in countries with low governance standards possibly having a competitive advantage over those in countries with high standards.
- (b) Facilitates consistent reporting by MNCs who, by definition, operate in many countries.

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?*

RESPONSE:

Private companies should be subject to the same rules as public companies of the same size.

The Commission should work with ISSB to provide starting reporting level for a small companies and a 'staircase' of higher levels for companies of greater capability. The objective is for each step up this staircase to be both rewarding and of practical size.

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?*

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?

RESPONSE:

Yes, climate related disclosures should be part of ESG reporting. The Commission should liaise with ISSB with the objective of the ISSB's standards appropriately covering all ESG issues which materially impact a company enterprise value and being inter-operable with standards used for multi-stakeholder reporting.

End