Via Electronic Mail to rule-comments@sec.gov May 06, 2022

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

Re: Public Comment on Enhancement and Standardization of Climate-Related Disclosures for Investors Proposed Rule— Release Nos. 33-11042; 34-94478; File No. S7-10-22

Dear Secretary Countryman,

On behalf of the Value Reporting Foundation (VRF), I welcome the opportunity to respond to the Security and Exchange Commission's (SEC) request for public comment on its Enhancement and Standardization of Climate-Related Disclosures for Investors proposed rule (the "Proposed Rule"). VRF supports the SEC's increased interest and initiative in the area of climate-related financial disclosure to meet investor information needs. Investors need comparable, consistent, and reliable disclosure of sustainability information necessary to inform investment and voting decisions. We believe that this need can best be met through the establishment of a global baseline of sustainability disclosures that will enable primary users of general-purpose financial reporting to assess enterprise value, which will advance investor protection, enable the maintenance of fair, orderly and efficient markets, and promote capital formation. The SEC's Proposed Rule is a significant step toward achieving this global baseline.

Background on the VRF and the VRF's Planned Consolidation with the International Financial Reporting Standards (IFRS) Foundation

The Value Reporting Foundation is a global nonprofit organization that offers resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved or eroded over time. The VRF's resources include the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards, both of which are widely used by entities around the world.

SASB Standards guide the disclosure of financially material sustainability information by entities to their investors. Available for 77 industries, the SASB Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry. SASB Standards are designed to produce information that is decision useful for investors and cost-effective for preparers. As of March 31, 2022, more than 60% of the S&P Global 1200 disclose using SASB Standards.[1] Global investors representing $78 trillion in assets

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[1] VRF research, (available upon request)

under management (AUM) support the SASB standards, including using the SASB Standards in investment processes and/or asking portfolio entities to report using the SASB Standards.[2]

SASB's industry-based standards development approach identifies the sustainability disclosure topics most likely to have a significant effect on enterprise value for the typical entity in an industry. SASB Standards also identify metrics for each disclosure topic to enable entities to disclose comparable information that helps investors understand how an entity measures and manages sustainability-related risks and opportunities.

On November 3, 2021, the IFRS Foundation Trustees announced the creation of the International Sustainability Standards Board (ISSB) and the intention to consolidate the VRF, including the SASB Standards.[3] The IFRS Foundation is a not-for-profit, public interest organization established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards to meet the needs of the capital markets and to promote and facilitate adoption of the standards.

The IFRS Foundation Trustees oversee two standard-setting bodies, the International Accounting Standards Board (IASB) and the newly created ISSB. The IASB sets IFRS Accounting Standards, and the ISSB sets IFRS Sustainability Disclosure Standards. The ISSB has been formed in response to requests from G20 leaders, the International Organization of Securities Commissions, global investors, and others for enhanced information from entities on sustainability-related risks and opportunities.

On March 31, 2022, the ISSB's first two proposed standards were published: (1) the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (the "ISSB General Requirements Exposure Draft")[4] and (2) the Exposure Draft IFRS S2 *Climate-related Disclosures* (the "ISSB Climate Exposure Draft")[5]. The ISSB also announced its plans for building upon the SASB Standards and embedding SASB's industry-based standards development approach into the ISSB's standards development process.[6]

The consolidation of the VRF into the IFRS Foundation is planned to close at the end of the second quarter of 2022. Upon close, the VRF's intellectual property, people, processes and

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[2] VRF research, (available upon request)

[3] https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

[4] https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

[5] https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

[6] https://www.ifrs.org/news-and-events/news/2022/03/issb-communicates-plans-to-build-on-sasbs-industry-based-standards/

relationships will transfer to the IFRS Foundation to support the ISSB in establishing a global baseline of sustainability disclosure standards focused on the information needs of investors.

ISSB General Requirements and Climate Exposure Drafts

As noted above, on March 31, 2022, the ISSB General Requirements Exposure Draft and ISSB Climate Exposure Draft were published. The proposals—exposure drafts—set out requirements for the disclosure of material information about an entity's significant sustainability-related risks and opportunities that is necessary for investors to assess an entity's enterprise value. The proposals build upon the recommendations of the TCFD, and the Climate Exposure Draft incorporates industry-based disclosure requirements derived from SASB Standards.

When the ISSB issues the final standards, they will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors in assessing enterprise value. The ISSB is working closely with other international organizations and jurisdictions to support the use of the global baseline.

The ISSB is seeking feedback on the proposals over a 120-day consultation period closing on July 29, 2022. It will review feedback on the proposals in the second half of 2022 and aims to issue the final standards by the end of the year, subject to the feedback.

Investor Support for a Global Baseline of Sustainability Disclosure Standards

As was noted in the comments to the SEC's request for public input on climate-related financial disclosure issued by Acting Chair Allison Herren Lee on March 15, 2021 (the "2021 SEC Request for Input"), the landscape of sustainability disclosure has been characterized by fragmentation among voluntary reporting standards, frameworks, and guidance. More recently, there has been an increase in jurisdictional mandates for disclosure of climate and other sustainability-related information. This mosaic of voluntary and mandated disclosure elicits corporate disclosure that is non-comparable, inconsistent and difficult for investors to use, while creating significant inefficiencies for entities. As a result, growing numbers of investors have repeatedly articulated their need for a global baseline of sustainability-related disclosure standards that will provide consistent and comparable information on sustainability topics that are relevant to enterprise value.

In this context, market forces have—over the last several years—established the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and SASB Standards as the most widely used frameworks for disclosure to investors of climate and sustainability information relevant to enterprise value. As supported by our review of public responses to the 2021 SEC Request for Input, 53% of respondents reviewed (101/191) supported use of both

TCFD and SASB for development of SEC disclosure guidance.[7] Further underscoring the widespread support of the SASB Standards and TCFD Recommendations, the Morrow Sodali 2021 Institutional Investor Survey[8] found that the majority of all respondents recommended the use of SASB Standards and TCFD Framework.[9]

By relying on an investor-focused and market-tested approach to climate disclosure, the SEC is responding to investor requests for regulators and standard setters to leverage leading voluntary disclosure frameworks. Leveraging the TCFD framework, which is widely accepted by investors and already applied by many entities, will facilitate robust climate disclosure, drive greater comparability and consistency to investors' benefit and promote cost-effectiveness for issuers.

It is also worth noting that jurisdictions around the world have implemented formal TCFD-aligned disclosure requirements including Brazil, the European Union, Hong Kong, Japan, New Zealand, Singapore, Switzerland, and the United Kingdom.[10] As we will discuss in more detail, the ISSB Climate Exposure Draft also significantly incorporates the TCFD recommendations, along with the SASB Standards. Thus, the SEC's decision to build on TCFD is responsive to investor calls for global standards. However, while we celebrate this consistency, there are opportunities to deepen the investor and issuer benefits of commonality between the climate disclosures required in the world's largest capital market and the ISSB's proposed climate-disclosure requirements intended for application across jurisdictions. We will elaborate on these opportunities in the remainder of this letter.

<u>Content of the ISSB Climate Exposure Draft</u>

The ISSB Climate Exposure Draft would require an entity to provide information that enables users of general-purpose financial reporting to understand:

- **Climate-related disclosures** (based on and enhancing TCFD recommendations) including:
  - <u>Governance</u>—the governance, processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities;
  - <u>Strategy</u>—the climate-related risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term, including:
    - description of significant climate-related risks and opportunities including the effects on the entity's business model and value chain;

[7] VRF research, (available upon request)
[8] Source: Morrow Sodali 2021 Institutional Investor Survey of 40+ institutional investors with $29 trillion in AUM
[9] Morrow Sodali 2021 Institutional Investor Survey, Key Finding Number 9, p. 17, states "Three quarters of all surveyed investors nominated *TCFD* as their preferred ESG reporting framework, followed by 53% for SASB…"
[10] SEC Proposed Rule, p. 300

        - whether and how information about climate-related risks and opportunities informs management's strategy and decision-making;
        - the current and anticipated effects of climate-related risks and opportunities on its business model;
        - the effects of climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term;
        - the resilience of its strategy (including its business model) to climate-related risk.
    - <u>Risk management</u>—how climate-related risks and opportunities are identified, assessed, managed and mitigated by an entity.
- **Metrics and targets disclosures**:
    - <u>Performance and outcome measures</u> that support the qualitative disclosures across governance, risk management and strategy requirements;
    - <u>Targets</u> that an entity uses to measure its performance goals related to significant climate-related risks and opportunities;
    - <u>Cross-industry metric categories</u> derived from TCFD recommendations (e.g., transition risk, physical risk, climate opportunities, capital development, internal carbon price, remuneration, greenhouse gases);
    - <u>Industry-based climate-related metrics</u> derived from the SASB Standards, are an integral part of the Exposure Draft requirements.
- **Greenhouse Gas (GHG) emissions**:
    - <u>Aggregate GHG emissions</u> in C02e for Scope 1, Scope 2, and Scope 3;
    - <u>GHG intensity metrics</u> for each scope expressed in GHG ton(s)/per unit of physical or economic output.
- **Internal Carbon Price:**
    - <u>Cost/per metric ton</u> and explanation of carbon price's use in decision-making (e.g., investment decisions, transfer pricing and scenario analysis).
- **Offsets:**
    - <u>Type of carbon offset</u>, including whether the offset's avoided emissions will be nature-based or based on technological carbon removals and whether the avoided emissions are achieved through carbon removal or emission reduction;
    - <u>Whether offsets will be subject to third-party verification</u> or certification scheme and, if so, which scheme or schemes.

<u>Rationale for Industry-Based Disclosures in the ISSB Climate Exposure Draft</u>

While climate change affects all economic sectors, the degree and type of exposure and the current and anticipated effects of climate-related risks and opportunities on the assessment of enterprise value are likely to vary by sector, industry, geography and entity. As a result, the

ISSB proposals include industry-based disclosure topics and metrics that seek to identify and measure the most significant climate-related risks and opportunities based on an entity's business model and value chain. The ISSB Climate Exposure Draft incorporates industry-based disclosure topics that were developed using SASB's evidence-based, market informed due process.

For example, in health care, entities would disclose how extreme weather events may affect both business continuity and demand for services. In real estate, entities would disclose the energy efficiency of buildings and the vulnerability of building stock due to geographic location. In automobiles, entities would disclose progress on developing alternative-fuel vehicles that curb use-phase emissions and capitalize on changing consumer preferences. These and other "leading indicators" that focus on the direct levers available to an entity in managing climate risk—and measure how the entity is using them—provide actionable data to management and decision-useful information to investors.

<u>Key Areas of Consistency Between the Proposed Rule and the ISSB Climate Exposure Draft and Opportunity for Further Consistency</u>

As alluded to above, the Proposed Rule and the ISSB Climate Exposure Draft are largely consistent. Specific items where there is consistency include:

Investor Focus

- Investors are the intended primary users.

TCFD Recommendations

- Both based on TCFD-related disclosure which may benefit preparers;
- TCFD recommendations leveraged as the basis for governance, strategy, and risk management disclosure requirements with similar sub-requirements; Similar TCFD approach to defining climate-related physical risks and transition risks.

GHG Emissions

- Similar disclosure requirements of Scope 1, Scope 2, and Scope 3 GHG emissions, including intensity metrics;
- Both approaches utilize GHG Protocol for preparing GHG emissions disclosures.

Timing of Disclosure

- Both approaches require climate-related disclosures to be disclosed at the same time as the financial reporting package.

Resilience/Scenario Analysis/Targets and Goals

- Require disclosure of the resilience of issuer's strategy due to changes in climate risk;
- Disclosure around the use of internal carbon price(s) and carbon offsets.

Connection to Financial Statements and Financial Performance

- Require disclosure of material financial impacts of climate-related risks in the reporting period, as well as over the short, medium, and long term.

Taken together, these common elements across the SEC and ISSB form a strong starting point for a global baseline of consistent and comparable climate-related disclosure needed by global investors, along with mitigating the reporting burden on global preparers that could result from fragmented requirements in multiple jurisdictions. To further drive consistency, the ISSB has created a working group of jurisdictional representatives to establish dialogue for enhanced compatibility between the ISSB's exposure drafts that are currently open for comment and ongoing jurisdictional initiatives on sustainability disclosures. The formation of the working group is part of an extensive program of outreach activity designed to encourage feedback on and engagement with the ISSB's consultation from all jurisdictions and stakeholder groups.[11]

<u>Use of the ISSB Climate Exposure Draft by Foreign Private Issuers</u>

The Proposed Rule seeks comment on whether the SEC should allow all issuers or "foreign private issuers" (FPIs)[12] to use disclosure pursuant to the ISSB Climate Exposure Draft[13] as "alternative reporting" under the SEC's Proposed Rule. Allowing the use of IFRS Sustainability Disclosure Standards as alternative reporting to satisfy issuer SEC climate reporting obligations would enhance global comparability for investors. The capital formation and cost effectiveness rationale for allowing alternative reporting using the ISSB's requirements for FPIs is similar to the basis for the SEC to allow FPIs to provide financial statements prepared in accordance with IFRS Accounting Standards as issued by the IASB without reconciliation to U.S. generally accepted accounting principles[14] and to the SEC's basis for allowing the filing accommodations under the Multijurisdictional Disclosure System (MJDS).

Allowing the use of the proposed IFRS S2 Climate-related Disclosures Standard, would also furnish investors with additional decision-useful information from issuers due to the ISSB's incorporation of the industry-based disclosure requirements based on the SASB Standards as proposed in the ISSB Climate Exposure Draft.

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[11] https://www.ifrs.org/news-and-events/news/2022/04/issb-establishes-working-group-to-enhance-compatibility-between-global-baseline-and-jurisdictional-initiatives/

[12] SEC Proposed Rule, p.295; SEC estimates there are "approximately 740 FPIs that filed on Forms 20-F"

[13] SEC Proposed Rule, p. 283; Request for Comment (RFC) no. 189; "If we adopt an alternative reporting provision, should that provision be structured to encompass reports made pursuant to criteria developed by a global sustainability standards body, such as the ISSB? If so, should such alternative reporting be limited to foreign private issuers, or should we extend this option to all registrants? What conditions, if any, should we place on a registrant's use of alternative reporting provisions based on the ISSB or a similar body?"

[14] https://www.sec.gov/divisions/corpfin/internatl/foreign-private-issuers-overview.shtml#IIIB1a

As a result, we strongly believe the SEC should permit FPIs to use disclosure made pursuant to the proposed IFRS S2 Climate-related Disclosures Standard as compliance with SEC climate disclosure requirements, with certain caveats or additions.

Value of the ISSB General Requirements Exposure Draft

As noted earlier, the ISSB Climate Exposure Draft incorporates industry-based disclosure requirements derived from the SASB Standards. Investors and entities recognize, however, that the informational benefit of industry-based sustainability disclosures transcend climate reporting. Indeed, of the 146 commenters to the SEC[15] who supported mandatory climate-related disclosures and were reviewed by VRF, 53% supported broader ESG disclosure requirements.[16]

The ISSB General Requirements Exposure Draft sets out overall requirements that entities provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value. In the absence of an applicable IFRS Sustainability Disclosure Standard, an entity is required to consider other specified materials including the disclosure topics and associated metrics included in the industry-based SASB Standards in order to identify significant sustainability-related risks and opportunities and to develop appropriate disclosures.[17] The incorporation of SASB Standards in this manner in the ISSB General Requirements Exposure Draft enables IFRS Sustainability Disclosure Standards to make use of the full range of sustainability-related risks and opportunities identified by the industry-based SASB Standards. This responds to investor demand for comparable, consistent and reliable information about all significant sustainability risks and opportunities.

Investors have clearly articulated their need for industry-based sustainability disclosure standards that address all significant sustainability issues. The proposals in the ISSB General Requirements Exposure Draft fulfill this need in a targeted manner and are a significant step toward establishing a global baseline of sustainability disclosure standards for topics other than climate. We encourage the SEC to consider the utility of the ISSB General Requirements Exposure Draft for both domestic and foreign issuers.

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[15] SEC Request for Comments on Climate, March 2021; SEC.gov | Comments on Climate Change Disclosures
[16] VRF research, (available upon request)
[17] The disclosure topics in SASB Standards represent specific sustainability-related risks and opportunities that are likely to be applicable, based on the activities conducted in an industry. The disclosure topics help identify significant sustainability-related risks and opportunities that entities with similar business models are likely to face. The associated metrics are intended to measure performance to assist primary users in assessing an entity's management of those sustainability-related risks and opportunities. The metrics were developed by the SASB to facilitate the decision-useful disclosure of comparable information by entities participating in the industry or engaging in its essential activities.

Conclusion

In summary, we support the SEC's actions to improve climate disclosure, and we are encouraged by the degree of consistency between the SEC's Proposed Rule and the ISSB Climate Exposure Draft. This level of consistency represents a concrete step toward the establishment of a global baseline of investor-focused climate disclosures. Such a global baseline will reduce the reporting burden on preparers and provide investors with comparable, consistent, and reliable information about climate-related risks and opportunities . We note that the ISSB has announced a jurisdictional working group designed to facilitate the development of a global baseline and applaud such efforts to seek even greater consistency between the SEC's Proposed Rule and the ISSB's proposals.

Sincerely,

Janine Guillot,
Chief Executive Officer
Value Reporting Foundation

CC: Chair Gary Gensler
Commissioners Caroline Crenshaw, Allison Lee, and Hester Peirce
Renee Jones, Director of the Division of Corporate Finance
Paul Munter, Acting Chief Accountant
Emmanuel Faber, Chair, International Sustainability Standards Board
Sue Lloyd, Vice Chair, International Sustainability Standards Board