CDSB Response to the U.S. Securities and Exchange Commission consultation on Climate Change Disclosures

The Climate Disclosure Standards Board (CDSB) would like to thank the Securities and Exchange Commission for the opportunity to provide comments on its agenda regarding climate change disclosures.

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural and social capital with financial capital.

We do this by offering companies a framework for reporting environment- and social-related information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators have also benefited from CDSB's compliance-ready materials.

Recognising that information about natural, social and financial capital is equally essential for an understanding of corporate performance, our work builds trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework[1] is used by large, listed companies globally and is referenced in government guidance to reporting regulation in the E.U. Commission Guidelines to the U.K. Companies Act 2006, the EU Non-Financial Reporting Directive and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the U.N. Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance and financial regulators. CDSB also hosts the TCFD Knowledge Hub[2] on behalf of the Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

In response to growing and urgent demand to improve the global consistency and comparability in sustainability reporting, the Trustees of the IFRS Foundation have begun work on preparing a new International Sustainability Standards Board(ISSB) to build on existing initiatives (including the TCFD Recommendations and CDSB Framework, among others) and develop standards for climate-related reporting and other sustainability topics. This direction has also recently received the endorsement of the G7. CDSB is a member of this working group to build a unified standard on climate disclosure (followed by other areas of sustainability), in order to set a global foundation in sustainability reporting as it pertains to enterprise value creation.

Our detailed comments relating to specific discussion points and questions are provided in the Appendix below. Overall, our comments are the following:

- The SEC should implement rules on climate disclosure, given that neither the voluntary approach, nor the issuing of interpretive guidance has resulted in a sufficient amount or quality of climate-related disclosures;

[1] Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework
[2] TCFD & Climate Disclosure Standards Board (2020) TCFD Knowledge Hub. [Online]. Available from: https://www.tcfdhub.org/

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- The rules should be supported by international standards, initially based on the existing standards and frameworks, such as the TCFD recommendations until a unified climate standard on value creation is developed by the International Sustainability Standards Board of the IFRS Foundation; and
- The proposed actions will require further expertise and capacity within the SEC. CDSB would like to offer its support in providing SEC staff with training on climate change reporting to support this effort based on its 15 years of experience in standard setting and training market actors, including supervisors, globally in climate-related and other ESG disclosure over the past decade.

Please do not hesitate to contact us via Michael Zimonyi, Policy & External Affairs Director, CDSB (michael.zimonyi@cdsb.net) if we can be of further assistance.

With kind regards,

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Appendix: CDSB responses to Questions for Consideration

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?

CDSB strongly believes that there is a need for a global set of internationally recognised and aligned sustainability reporting standards. We recognise the need for the harmonisation and further convergence within the reporting ecosystem, of which we are part. This is reflected in our support of the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting[3] as one of the five leading sustainability organisations in September 2020 and the follow-up paper on a prototype climate-related financial disclosure standard[4].

We suggest the Commission pursue a multi-pronged approach to provide more consistent, comparable and reliable climate change disclosure for investors and greater clarity to registrants. This approach should include:

Regulation (climate change disclosure rules)

Climate change disclosure rulemaking is the most critical near-term action the SEC can pursue. In comparison with interpretive or staff guidance or other strategies, rulemaking will provide the most direct path to more consistent, comparable and reliable climate change disclosure by providing the most clarity to issuers about what information they should disclose. Clear rules also lay the foundation for consistent and comparable disclosures that satisfy the minimum information requirements of current and potential shareholders. Rules are also essential for effective monitoring and supervision of such reporting.

With widespread support of the recommendations of the Task Force on Climate-related Financial Disclosure, we recommend that the Commission uses the TCFD's 11 recommended disclosures as the foundation for its disclosure rules. These disclosures also formed the foundation of the Prototype Climate-related Standard[5] that is the basis for the current preparatory work to establish the International Sustainability Standards Board under the IFRS Foundation.

Regular monitoring and enforcement of disclosures by the Corporation Finance and Enforcement divisions

Monitoring and enforcement are key to ensure that investors receive high-quality information they can rely on to make decisions, while also providing issuers with feedback on their implementation of rules. Monitoring of the quality of climate change disclosures should occur in both the Corporation Finance and Enforcement divisions and other offices as appropriate. In the Division of Corporation Finance, climate change disclosure should be monitored as part of the Sarbanes-Oxley Act requirement that the Division undertake some level of review of each reporting company at least once every three years and review a significant number of companies more frequently.[6]

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[3] Climate Disclosure Standards Board (2021) Progress towards a comprehensive corporate reporting system. [PDF]. Available from https://www.cdsb.net/events/1140/progress-towards-comprehensive-corporate-reporting-system
[4] Climate Disclosure Standards Board (2020) Global sustainability and integrated reporting organisations launch prototype climate-related financial disclosure standard. [PDF]. Available from https://www.cdsb.net/corporate-reporting/1139/global-sustainability-and-integrated-reporting-organisations-launch
[5] ibid
[6] Response adapted from Ceres' response to this consultation.

Feedback to the market

We recommend that the Commission draws from best practice by its counterparts in other jurisdictions, such as the UK Financial Reporting Council (FRC)[7] and the French AMF[8] by providing recommendations based on periodic reviews of corporate disclosures to help clarify areas of requirements that may be incorrectly understood or highlight common gaps in reporting. This approach helps to correct errors in implementation.

Close collaboration with the International Financial Reporting Standards Board (IASB) 's International Sustainability Standards Board (ISSB), to be established later this year, to ensure that a common foundation is used to provide investors with aligned information on global issues in a global market

At CDSB, we firmly believe that a coherent global set of reporting standards is the best approach to avoid further fragmentation of reporting. Therefore, we encourage the SEC to focus on building on the foundations developed by the International Sustainability Standards Board, established at the global level, which may be complemented by extensions that relate to national priorities. There is no need to reinvent the wheel as existing frameworks have all been developed with rigorous stakeholder engagement and due diligence processes and are in use by registrants. As a result of building on this globally aligned foundation, investors will be able to access consistent and comparable information across different markets via this new global standard. We believe interconnection, consistency and comparable disclosure will help investors to allocate capital more efficiently.

Ensure that the approach is capable of expanding to other ESG matters beyond climate, such as broader environmental and social issues, which may be material for an understanding of a business' ability to create value

There is a clear understanding that climate change is not the only issue that affects corporate value creation. Other environmental and social matters are equally important and pose material risks to businesses and their shareholders. As such, the system of rules and standards to be implemented must be designed in a way that allows for their expansion to all areas of sustainability. Periodic reviews of selected issues (such as the current review of compliance with the SEC's 2010 interpretive guidance on climate disclosure) can be a pragmatic and helpful way to identify other areas of sustainability to focus on next.

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[7] UK Financial Reporting Council (2020) Climate Thematic. [PDF]. Available at: https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews
[8] Autorité des Marchés Financiers (AMF) (2019) Report on Social, Societal and Environmental Responsibility of Listed Companies. [PDF]. Available at: https://www.amf-france.org/sites/default/files/2020-02/report-2019-on-the-social-societal-and-environmental-responsability-of-listed-companies.pdf

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?

We strongly believe that material climate-related disclosures should be incorporated into the SEC's existing disclosure rules and provided in annual reports. Additional information to support these disclosures may be reported elsewhere (such as on the registrant's website) and clearly referenced in the annual report. There is a range of reasons why disclosure in the annual report is essential.

As outlined in the SEC's 2010 Guidance Regarding Disclosure Related to Climate Change[9], if aspects of the registrant's business are materially affected by climate change and other environmental matters, they should be disclosed, pursuant to Regulation S-K and Regulation S-X. This interpretive guidance has not achieved broad adoption and therefore clearer and more binding rules are needed to ensure that material corporate information on climate change is available to investors.

The recommendations of the Task Force on Climate-related Financial Disclosures also outlines why reporting climate-related disclosures in the annual report (referred to here as "mainstream filing") is crucial:

The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e., public) annual financial filings. In most G20 jurisdictions, companies with public debt or equity have a legal obligation to disclose material information in their financial filings—including material climate-related information. The Task Force believes climate-related issues are or could be material for many organisations, and its recommendations should be useful to organisations in complying more effectively with existing disclosure obligations.4 In addition, disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others. The Task Force also believes that publication of climate-related financial information in mainstream annual financial filings will help ensure that appropriate controls govern the production and disclosure of the required information. More specifically, the Task Force expects the governance processes for these disclosures would be similar to those used for existing public financial

[9] SEC (2010) Commission Guidance Regarding Disclosure Related to Climate Change. [PDF]. Available from: https://www.sec.gov/rules/interp/2010/33-9106.pdf

disclosures and would likely involve review by the chief financial officer and audit committee, as appropriate." [10]

In addition to the benefits of including material climate disclosures in the annual report, reporting this information separately brings with it a number of considerations, such as:

- Given that current climate disclosures are already disconnected from financial and other information disclosed in annual reports, allowing them to be reported separately would bring further inconsistencies between climate-related information and information that is reported in the annual report. Examples of such inconsistencies include different reporting periods, different organisational boundary definitions and contradicting disclosures on the same topic, such as material risks faced by the issuer;
- On what legal basis would the SEC have the mandate to supervise disclosures in other filings? How would the SEC find these filings if they are not filed to the SEC?
- Will investors be able to find information reported elsewhere? Will this incur costs, posing a barrier to entry to some? and
- Information reported elsewhere often goes through less stringent signoff in practice, thereby lower quality information that is less trustworthy. This is a key issue we are trying to address through this work.

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?

While the materiality of certain metrics varies depending on the activities of the business, disclosures on Governance and Risk Management are universally material to all, as outlined in the TCFD recommendations. Disclosures on Strategy, as well as Metrics and Targets should be reported based on their materiality.

High quality quantitative information should, at a minimum, be provided for material sources of environmental impact from operations, entities and activities within the organisation's reporting boundary (see REQ-07 of the CDSB Framework)[11]. Narrative should accompany quantitative results where it assists the reader in understanding them. Where quantitative information is unavailable for sources of environmental impact from operations, entities and activities with the organisation's reporting boundary, results should be expressed in qualitative terms.

Where Scope 3 emissions expose the reporting organisation to risks, opportunity or financial impacts, the effect should be disclosed.

CDSB is supportive of standardised metrics to ensure comparability for users, particularly across sectors and industries. However, appropriate flexibility should be allowed, where necessary, to ensure that the metrics disclosed are relevant for the company in question to ensure they are decision-useful for users.

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[10] TCFD (2017) Final report – Recommendations of the Task Force on Climate-related Financial Disclosures, page iv. [PDF]. Available from: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf
[11] Ibid.

Building on international standards will ensure that the resulting information is decision-useful in a global market, while also reducing the burden on issuers that are listed on multiple exchanges in different jurisdictions.

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

We do not believe that the reporting expectations and needs with regards to investors and other stakeholders would change dramatically based on the size of the companies. Lack of direct correlation between company size and climate risk: smaller businesses may have significantly larger exposures to climate-related financial risks and opportunities than some larger ones. This is in part due to the fact that the activities of a business determine their climate risk, not their turnover or the number of employees.

Materiality is a more appropriate tool to ensure that there is no undue burden on businesses. We recommend the Commission to consider all 11 TCFD recommended disclosures with materiality clauses included for recommended disclosures under Strategy, as well as Metrics and Targets. We believe it would be a more useful and appropriate way to find a balance between reaching the necessary completeness of information without overburdening the reporting entity unduly.

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

The UN Intergovernmental Panel on Climate Change's Global Warming of 1.5°C special report[12] clearly states that significant action is needed before 2030 to allow for a trajectory to avoid the most severe impacts of climate change.

Meeting the challenge and setting the economy on the path towards a 1.5°C world is estimated to provide by 2030:

- Direct economic gain of $26 trillion;
- 65 million new low-carbon jobs; and
- Over 700,000 fewer premature deaths from air pollution.[13]

What the market now needs are the strong signals to guarantee a fast and smooth transition.

The world needs urgent climate action. Climate change, the global pandemic and the increasingly clear connection between sustainability performance and financial risk and return are driving the urgency. Stakeholders across the financial have recognised this and, through the various initiatives and calls for action from many players, including policy makers, there is a groundswell of support for better integration of climate-related and other sustainability matters into investment decision-making.

As Acting Commissioner Lee confirmed, "no single issue has been more pressing for [her] than ensuring that the SEC is fully engaged in confronting the risks and opportunities that climate and

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[12] United Nations Intergovernmental Panel on Climate Change (2019) Global warming of 1.5°C – An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. [PDF]. Available from: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf
[13] A summary for financial policymakers of the IPCC Special Report on 1.5°C has been prepared by CDSB and is available at: https://www.cdsb.net/sites/default/files/implications_of_climate_science_for_financial_markets_cdsb_0.pdf

ESG pose for investors, our financial system, and our economy[14]." The current voluntary ESG disclosure is not adequately satisfying investor demand; it does not offer comparability, reliability or appropriate levels of assurance and many companies don't provide any ESG disclosure. As such, urgent action is necessary.

It is important to note that, through the work of the global ESG standard setters such as CDP, CDSB, the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board, registrants had more than two decades to prepare for such reporting and will have additional time to prepare as these requirements are enact. In addition to this, the SEC's Guidance Regarding Disclosure Related to Climate Change[15], issued in 2010 has resulted in additional, specific direction to encourage registrants to disclose such information. It is clear therefore delaying regulatory action is not the right approach.

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?

CDSB has no comments on this matter.

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?

In our review of European companies' reporting practices, we found that only 18% of companies provided information on scenario analysis with resilience conclusions[16]. The TCFD made similar conclusions in their global review[17]. One in 15 companies reviewed disclosed information on the resilience of its strategy under different climate-related scenarios. The percentage of companies disclosing strategy resilience was significantly lower than that of any other recommended disclosure.

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

CDSB has no comments on this matter.

[14] SEC (2021) A Climate for Change: Meeting Investor Demand for Climate and ESG Information at the SEC. Available at https://www.sec.gov/news/speech/lee-climate-change
[15]SEC (2010) Commission Guidance Regarding Disclosure Related to Climate Change. [PDF]. Available at https://www.sec.gov/rules/interp/2010/33-9106.pdf
[16] CDSB (2020) The state of EU Environmental Disclosure in 2020. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_eu_environmental_disclosure_in_2020_21_update_spreads.pdf
[17] TCFD (2020) Task Force on Climate0realted Financial Disclosures 2020 Status Report. [PDF] Available at https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

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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.)?

We believe an opportunity exists to leverage established market-tested practices and frameworks to drive immediate action that meets the urgency of the challenge. Given the already complex corporate reporting landscape, minimising the emergence of new frameworks and market practices will be vital to enhancing the effectiveness and uptake of climate- and broader sustainability-related disclosure at scale. Starting early will prepare them for more comprehensive reporting as they grow to meet the proposed criteria in this consultation.

We believe that, to avoid further fragmentation of reporting, the SEC should focus on building on the foundations developed by the TCFD recommendations, with the view of implementing the standards to be developed by the International Sustainability Standards Board, established at the global level. These may be complemented if deemed necessary by extensions that relate to national priorities.

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?

Industry-specific standards can be helpful in providing the readers of reports with specific information that is also consistent across sectors. At the same time, it is also essential to build these standards on a basic set of universal requirements for registrants, regardless of their industry. For example, many disclosure elements on governance are the same across industries and are material to all registrants.

Industry-specific requirements should therefore be developed to complement industry-agnostic requirements that are universally applied. Industry-specific standards should be built on the principle of materiality. CDSB Principle 1 provides a definition of materiality for the disclosure of environmental (including climate)-related information that is built on, and consistent with, definition of materiality used for financial reporting[18]:

"P1.2 Environmental information is material if:

- *The environmental impacts or results it describes are, due to their size and nature, expected to have a significant positive or negative impact on the organisation's financial condition and operational results and its ability to execute its strategy;*
- *Omitting, misstating or obscuring it could reasonably be expected to influence the decisions that users of mainstream reports make on the basis of that mainstream report, which provides information about a specific reporting organisation.*

Indicators, measures, quantitative and qualitative information should therefore be treated as material and reported to reflect the extent to which the organisation has:

[18] FSB (2019) FSB Framework.[PDF] Available from https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

- *Undertaken activities that actually or potentially give rise to environmental outcomes and/or impacts; and*
- *Those outcomes and/or impacts have an actual or potential effect on the organisation's ability to operate its business model and execute its strategy over the period management considers for the purposes of assessing the prospects of the business through changes in:*
    - *Resource availability, supply, pricing, degradation, policy/regulatory constraints – particularly resources on which the organisation is dependent;*
    - *Relationships on which the organisation is dependent (for example, the extent and probability that an organisation's business activities may cause stakeholder actions to protect environmental resources, benefits and ecosystem services);*
    - *The organisation's capacity to innovate (for example, whether a renewable alternative offers opportunities to the organisation in maximising its ability to create value);*
    - *The organisation's ability to influence natural capital, for example through its supply chain, procurement of resources from sustainable sources and impacts associated with the use of the organisation's goods and services; and*
    - *Brand and reputational consequences.*

For the purposes of conformance with REQ-04, GHG emissions as a contributor to climate change shall be treated as material and reported in all cases."[19]

In relation to a climate-related disclosure standard, we also encourage the consideration of integrating the use of Science Based Targets and other non-arbitrary approaches into goal and pathway setting for companies. Such initiatives could be expanded by the IFRS Foundation also to cover the related financial risks and opportunities.

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?

In close connection with our emphasis on speed and avoiding duplication in the interest of report preparers and report users, CDSB believes it is essential for the Commission to build on existing, market-tested mainstream reporting practices for climate-related and wider sustainability issues. With the current work on establishing International Sustainability Reporting Standards, we believe that focusing on joint work by the standard setters named above is the best approach in the long term.

We see the tremendous progress and potential in this joint effort and believe that the creation of ISSB will accelerate convergence in global sustainability reporting standards focused on enterprise value, offering a set of standards that will satisfy the needs of many jurisdictions and offering a foundation to other who wish to go further.

In particular, we recommend that the Commission applies the structure and approach of the TCFD for its rules, complemented by more detailed guidance/standard based on the upcoming Climate Standard by the ISSB. In the event of the ISSB climate standard not being ready in time for the

[19] Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: http://cdsb.net/Framework

Commission's timeline for implementation, we recommend using the Prototype Climate Standard developed by and built on the widely used standards and frameworks by CDP, CDSB, GRI, IIRC and SASB. This prototype standard proposes the structure and content of a climate-related disclosure standard and it was designed to align with the TCFD recommendations, as well as financial reporting practices.

We strongly believe that it is essential that there is a globally standardised baseline of reporting standards that ensures comparability fora core set of information. At the same time, it is equally essential to ensure that a globally aligned reporting foundation allows for jurisdictional extensions to support regional policy priorities, foster innovation and thereby developing and testing approaches that may be suitable for global adoption and dissemination. Where there are additional elements needed, those should be developed with the aim of ensuring complementarity with international standards.

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?

The Commission should first propose climate change disclosure rules, which should then be supported by more detailed standards to support its implementation by report preparers. To ensure efficiency of standard setting, as well as global consistency, the SEC should establish a body that is has two main tasks:

- Act as an endorsement mechanism for standards developed by the ISSB, assessing them against their applicability to satisfy disclosure rules set by the SEC, as well as provide guidance on their application in the U.S. regulatory context; and
- Act as a national sustainability standard setter to develop standards that may be needed to fill gaps that are not satisfied by international standards.

Such a body should:

- Have adequate of governance structure to ensure independence, as well as representation of key stakeholders;
- Have appropriate technical expertise; and
- Have effective synergies with financial reporting; and
- Sustain through appropriate long-term economically viable funding model.

When producing standards, this body should ensure that the standards:

- Are connected to and complement the international standards that are adopted;
- Are aligned with similar requirements in other jurisdictions;
- Are assurable;
- Connect to financial accounting standards;
- Maintain significant market support;
- Blend and build out from existing efforts; and
- Enable structured advice on potentially relevant topics from a multi-stakeholder expert consultative committee.

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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?

Climate change poses financial risks that affect all industries, which every company should consider. Investors need transparency about those risks. Cordoning these disclosures off in a separate report would risk depriving investors of an understanding of the financial impacts of the risks associated with climate change and the energy transition, and how climate change risks affect other core business risks and opportunities. For this reason, incorporating climate considerations explicitly into Regulations S-K and S-X is preferable to establishing a stand-alone approach devoted entirely to climate change risks, opportunities and impacts.

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?

We believe that disclosures shall describe the governance of environmental policies, strategy and information. The CDSB framework is designed to demonstrate transparency about and accountability for the organisation's oversight of environmental policies, strategy and information. Successful environmental policies require the support and leadership of an organisation's Board and Management. In particular, disclosures should:

- Identify the CEO/senior executive/Board committee responsible for environmental policies, strategy and information; and
- Explain:
  - How responsibility for environmental policies, strategy and information is delegated and how management is held accountable and/or incentivised for implementation of the organisation's policies;
  - The nature and reliability of the underlying information and control systems used by the Board to prepare environmental information and provide related disclosures;
  - Whether the organisation's environmental policies and strategies are subject to the same governance processes and disclosure controls and procedures that are used for financial management; and
  - Who approves the release of environmental information.

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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?

The global nature of business, finance and climate risk itself means that we cannot afford a fragmented corporate climate disclosure landscape. We believe that a global baseline of climate-related disclosure standards is essential. There is a clear signal from that the current landscape of sustainability reporting creates a significant burden to prepare multiple disclosures to different markets (e.g.: for dual-listed registrants) and from investors that the information received from businesses across jurisdictions is difficult to compare. A global foundation on climate-related and other sustainability reporting would lead to consistency between jurisdictions.

Second, an international set of standards can also allow for extensions to its standards by jurisdictions. This would ensure maximum consistency, while allowing for innovation and experimentation that is necessary considering the dynamic nature of materiality and regional differences in sustainability concerns, as needed.

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?

By providing environmental information in mainstream reports, an expectation is set that registrants must apply the same rigour and management responsibility as is appropriate to all statements and disclosures presented in the mainstream report.

CDSB encourages organisations to engage with assurance providers to agree an appropriate assurance approach. Assurance engagements conducted according to existing standards such as ISAE 3000 or 3410, or similar national standards are suited to provide assurance on environmental information under the CDSB Framework. Where an assurance opinion is provided for environmental information, organisations should specify the environmental information within scope of the assurance activities and include or cross-refer to the assurance report in the statement of conformance (REQ-11 of CDSB Framework).

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?

The Commission should ensure that environmental information in annual reports is decision-useful to investors, is correct and complete and is based on criteria that are suitable for conducting assurance activities. As such, we suggest adopting existing reporting principles, such as the principles outlined in the CDSB Framework:

Environmental information shall be:
P1 Prepared applying the principles of relevance and materiality
P2 Faithfully represented
P3 Connected with other information
P4 Consistent and comparable
P5 Clear and understandable
P6 Be verifiable
P7 Be forward looking

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?

Yes. A set of requirements would be helpful in ensuring sufficient analysis of controls around climate reporting.

Management commentary/information should be free from bias, or 'balanced', where it does not unnecessarily overemphasise positive news but deals even-handedly with both 'positive' and 'negative' aspects. As such, we suggest adopting existing reporting requirements.

- Governance
- Management's environmental policies, strategy and targets
- Reporting policies
- Conformance

Should the Commission consider requiring a certification by the CEO, CFO, or other corporate officer relating to climate disclosures?

Governance is of utmost importance when assessing a registrant's ability to manage climate risks and opportunities and its ability to create value. The CEO/senior executive/Board committee is responsible for setting environmental policies, strategy, and information. Meanwhile, we also encourage organisations to engage with assurance providers to agree on an appropriate assurance approach. Assurance and audit will have a similarly important part to play in the success of any new model for corporate reporting, particularly in relation to the disclosure of climate and wider sustainability information.

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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?

CDSB believes that a comply or explain approach will not yield sufficient transparency fast enough to allow financial markets to manage and price these risks appropriately. One of the key weaknesses of "comply or explain" is the tendency towards inadequate explanations and a "checking of the box" by firms choosing not to disclose. Given the urgency and magnitude of climate and other sustainability risks, it is essential for investors to have market-wide information on these matters.

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?

Incorporating the TCFD recommendations into Reg. S-K will provide ample opportunity for registrants to provide their perspectives on climate-related risks and opportunities. Climate change metrics should be clearly supported with further narrative and it is crucial to ensure that information is interspersed throughout the annual report in locations where it is material. A separate Sustainability section is likely to send an unhelpful message to registrants: that sustainability issues should be considered separately from other financial issues[20].

Climate risk, including risks associated with Scopes 1-3 GHG emissions, should be factored into the company's financial reporting. Allowing or encouraging companies to provide disclosure about climate risks and opportunities separate from financial disclosure risks investors, banks and companies themselves underestimating the financial impact of climate risks to companies' business models and asset valuations.

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?

CDSB has no comments on this matter.

[20] Veena Ramani, Jim Coburn, ELR, The Need for SEC Rules on ESG Risk Disclosure (2020). Available at https://elr.info/news-analysis/50/10650/need-sec-rules-esg-risk-disclosure.]

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?

Yes. We believe the disclosure framework should cover a broader spectrum. Climate change is a material issue to enterprise value, but it is by no means the only one posing significant threats.

The most widely used frameworks and standards already consider material environmental concerns, as well as social issues which also aims to achieve a systemic understanding of a company's governance and strategy, risks and opportunities, position and performance, and outlook.

We commend the Commission on embarking on improving climate-related disclosure and urge it not to stop work at this stage, but instead to use the institutional foundations established through this process to address all sustainability issues material to enterprise value. It is in the interest of investor protection, registrants and society at large that these issues are visible and within finance, allowing actors to address and manage them.

We suggest therefore that the Commission moves ahead on climate disclosure, developing foundations in a manner that is ready to accommodate other sustainability matters. This is the approach of the preparatory work for the establishment of an International Sustainability Standards Board as well and close collaboration therefore has the potential to yield a comprehensive reporting system at pace that meets the needs of the US market.