Speech

Prepared Remarks Before the Principles for Responsible Investment "Climate and Global Financial Markets" Webinar

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Thank you, Fiona, for the kind introduction. It's good to be here with the Principles for Responsible Investment. As is customary, I'd like to note my views are my own, and I'm not speaking on behalf of the Commission or the SEC's staff.

So what does the SEC have to do with climate?

Before we get to the main event — on climate and finance — I'd like to discuss something a lot of us are watching these days: the Olympics.

In the Olympics, there are rules by which we measure an athlete's performance.

In gymnastics, for example, the scoring system is both quantitative and qualitative. Athletes are evaluated based on the numeric difficulty of the skills and the judges' qualitative impression of how well they perform those skills.

This system brings comparability to evaluating the athletes across performances or across generations.

Another thing about the Olympics is that the sports change over the years. If the organizers never made any changes, we'd only get to watch the events from the first modern Olympics back in 1896.[1] No soccer, no basketball, no women's sports. That wouldn't exactly reflect where sports are today.

Occasionally, fans raise their hands and say, "I want something a little bit different."

I think that's a good analogy for public company disclosure. Occasionally, investors in our capital markets tell us that they, too, want something a little bit different. When it comes to climate risk disclosures, investors are raising their hands and asking regulators for more.

Public disclosure isn't new. We've been requiring disclosure of important information from companies since the Great Depression.

The basic bargain is this: investors get to decide what risks they wish to take. Companies that are raising money from the public have an obligation to share information with investors on a regular basis.

Over the decades, there's been debate about disclosure on things that, today, we consider pretty essential for shareholders.

The first disclosures revolved around companies’ financial performance.

Then, there was investor demand for information about who runs the company. Later, investors wanted more information on how much a company’s resources were dedicated to paying those executives.

In 1964, the SEC started to offer guidance about risk factors. In 1980, the agency adopted Management’s Discussion and Analysis sections in Form 10-K.[2] In the 1990s, there was lively debate about whether to include stock compensation in corporate disclosures and financial statements. Of course, there was opposition to many disclosure requirements that have become so integral to our regime that it’s hard to imagine investors making a decision without them.

So why am I talking about climate risk? Simple: because investors are.

Today, investors increasingly want to understand the climate risks of the companies whose stock they own or might buy. Large and small investors, representing literally tens of trillions of dollars, are looking for this information to determine whether to invest, sell, or make a voting decision one way or another.

Investors are looking for consistent, comparable, and decision-useful disclosures so they can put their money in companies that fit their needs.

More than 550 unique comment letters were submitted in response to my fellow Commissioner Allison Herren Lee’s statement on climate disclosures in March. Three out of every four of these responses support mandatory climate disclosure rules.

That includes those of you hosting today’s event. The PRI wrote that standardized climate disclosures would help you all fulfill your “fiduciary obligation to fully consider material information and make informed investment decisions for long-term value creation.”[3]

Companies already are trying to meet the demand for this information. One report found that nearly two-thirds of companies in the Russell 1000 Index, and 90 percent of the 500 largest companies in that index, published sustainability reports in 2019 using various third-party standards.[4]

In 2010, the SEC offered guidance on climate risk disclosure.[5] A lot has changed since then, though, and investors don’t have the ability to compare company disclosures to the degree that they need.

For example, a review of S&P 500 issuers’ filings after the SEC’s 2010 guidance found filers generally did not engage in “quantifying risks or past impacts” with respect to climate. They also tended to use “boilerplate language of minimal utility to investors.”[6]

Companies and investors alike would benefit from clear rules of the road. I believe the SEC should step in when there’s this level of demand for information relevant to investors’ decisions.

Thus, I have asked SEC staff to develop a mandatory climate risk disclosure rule proposal for the Commission’s consideration by the end of the year.

I think we can bring greater clarity to climate risk disclosures.

What might such disclosures look like?

First, I believe they should be consistent and comparable. The consistency with which issuers report information leads to comparability between companies, today and over time.

It’s sort of like the Olympics. Fans can compare athletes across heats, countries, and generations. It’s not like some sprinters run a 100-meter dash and others run 90 meters. Investors today are asking for that ability to compare companies with each other.

Generally, I believe it’s with mandatory disclosures that investors can benefit from that consistency and comparability. When disclosures remain voluntary, it can lead to a wide range of inconsistent disclosures.

In proposing their draft, I’ve asked staff to consider whether these disclosures should be filed in the Form 10-K, living alongside other information that investors use to make their investment decisions.

In addition to that consistency and comparability, investors benefit most when disclosures are “decision-useful.”

What do I mean by that? A decision-useful disclosure has sufficient detail so investors can gain helpful information — it’s not simply generic text. In appropriate circumstances, I believe such prescribed disclosure strengthens comparability.

I’ve asked staff to consider a variety of qualitative and quantitative information about climate risk that investors either currently rely on, or believe would help them make investment decisions going forward.

Qualitative disclosures could answer key questions, such as how the company’s leadership manages climate-related risks and opportunities and how these factors feed into the company’s strategy.

Quantitative disclosures could include metrics related to greenhouse gas emissions, financial impacts of climate change, and progress towards climate-related goals.

For example, some companies currently provide voluntary disclosures related to what’s called Scope 1 and Scope 2 greenhouse gas emissions. These refer, respectively, to the emissions from a company’s operations and use of electricity and similar resources.

Many investors, though, are looking for information beyond Scope 1 and Scope 2, to Scope 3, which measures the greenhouse gas emissions of other companies in an issuer’s value chain.[7]

Thus, I’ve asked staff to make recommendations about how companies might disclose their Scope 1 and Scope 2 emissions, along with whether to disclose Scope 3 emissions — and if so, how and under what circumstances.

I’ve also asked staff to consider whether there should be certain metrics for specific industries, such as banking, insurance, or transportation.

Another question is whether companies might provide scenario analyses on how a business might adapt to the range of possible physical, legal, market, and economic changes that it might contend with in the future. That could mean the physical risks associated with climate change. It also could refer to transition risks associated with stated commitments by companies or requirements from jurisdictions.

In fact, many companies have announced their intentions to reduce their greenhouse gas emissions by a certain date, making “net zero” commitments or other climate pledges. 92 percent of companies in the S&P 100 plan to set emission reduction goals.[8]

Today, though, companies could announce plans to be “net zero” but not provide any information that stands behind that claim. For example, do they mean net zero with respect to Scope 1, Scope 2, or Scope 3 emissions?

Even if they haven’t made such statements themselves, companies often operate in jurisdictions that have made commitments, such as to the Paris Agreement, that could lead to regulatory or economic changes within those locations. I’ve asked staff to consider which data or metrics those companies might use to inform investors about how they are meeting those requirements.

As staff put together their recommendations, we have benefited from the comments that the public submitted this spring. Among other frameworks and standards, many commenters referred to the Task Force on Climate-related Financial Disclosures (TCFD) framework, which was recently endorsed by the Group of Seven.[9]

I’ve asked staff to learn from and be inspired by these external standard-setters. I believe, though, we should move forward to write rules and establish the appropriate climate risk disclosure regime for our markets, as we have in prior generations for other disclosure regimes.

Relatedly, I’d like to discuss the other side of the equation: funds.

We’ve seen a growing number of funds market themselves as “green,” “sustainable,” “low-carbon,” and so on.

What information stands behind those claims? The basic idea is truth in advertising.

If a relay team claims to be the "fastest of all time," you can see objective figures, like the world record, to check that claim.

In investing, funds often disclose objective metrics as well. A "high-yield bond fund" tends to disclose things like summaries of the underlying bonds' credit ratings and interest rates. Investors get a window into the criteria asset managers use for the fund, and the data that underlies the name.

When it comes to sustainability-related investing, though, there's currently a huge range of what asset managers might mean by certain terms or what criteria they use.

Some of these funds screen out certain industries. Others make assertions about the greenhouse gas emissions or water sustainability of their underlying assets.

Some funds involve human judgments. Others might track an outside index.

Labels like "green" or "sustainable" say a lot to investors. Which data and criteria are asset managers using to ensure they're meeting investors' targets — the people to whom they've marketed themselves as "green" or "sustainable"?

I think investors should be able to drill down to see what's under the hood of these funds.

Thus, I've directed staff to consider recommendations about whether fund managers should disclose the criteria and underlying data they use. I've also asked staff to consider whether we might take a holistic look at the Names Rule.[10]

Together, I think updates to public company disclosures and to fund disclosures could bring needed transparency to our capital markets. This gets to the heart of the SEC's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

When it comes to disclosure, investors have told us what they want.

It's now time for the Commission to take the baton.

Thank you. I look forward to answering your questions.

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[1][1] *See* "Athens 1896 Olympic Games," *available at* https://www.britannica.com/event/Athens-1896-Olympic-Games.

[2] *See* Guides for Preparation and Filing of Registration Statements, Release No. 33-4666 (Feb. 7, 1964) [29 FR 2490 (Feb. 15, 1964)]. *See* Release No. 33-6231 (Sept. 1980) [45 FR 63630].

[3] See Principles for Responsible Investment, "Request for Comment on Climate Change Disclosure" (June 11, 2021), *available at* https://dwtyzx6upklss.cloudfront.net/Uploads/g/q/m/priclimatedisclosuresignatorysignonletter_15524.pdf.

[4] *See* Governance & Accountability Institute, Inc., "2020 Russell 1000 Flash Report," *available at* https://www.ga-institute.com/research-reports/flash-reports/2020-russell-1000-flash-report.html.

[5] *See* Commission Guidance Regarding Disclosure Related to Climate Change, Release No. 33-9106 (Feb. 2, 2010) [75 FR 6290 (Feb 8, 2010)] ("2010 Climate Change Guidance"), *available at* https://www.sec.gov/rules/interp/2010/33-9106.pdf.

[6] *See* Ceres, "Cool Response: The SEC & Corporate Climate Change Reporting" (Feb. 2014), *available at* https://www.ceres.org/sites/default/files/reports/2017-03/Ceres_SECguidance-append_020414_web.pdf.

[7] *See* U.S. Environmental Protection Agency, "GHG Inventory Development Process and Guidance," *available at* https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance.

[8] *See* Ceres, "Practicing Responsible Policy Engagement," *available at* https://www.ceres.org/practicingRPE.

[9] *See* “Carbis Bay G7 Summit Communiqué” (June 13, 2021), *available at* https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/13/carbis-bay-g7-summit-communique/.

[10] *See* Gary Gensler, “Prepared Remarks Before the Asset Management Advisory Committee” (July 7, 2021), *available at* https://www.sec.gov/news/public-statement/gensler-amac-2021-07-07.