

Managed Funds Association

The Voice of the Global Alternative Investment Industry

Washington, D.C. | New York



June 11, 2021

Via electronic mail: rule-comments@sec.gov

Ms. Vanessa Countryman
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

RE: Public Input Welcomed on Climate Change Disclosures (March 15, 2021)

Dear Ms. Countryman:

Managed Funds Association appreciates the opportunity to represent the views of the alternative investment industry in this written response to the Securities and Exchange Commission's (the "Commission" or "SEC") request for input on climate disclosure.

MFA welcomes this important dialogue, which aims to improve the quality and reliability of the climate-related disclosures investors and our markets receive. MFA supports the Commission taking action on the following matters:

- (i) identification of the standards issuers must use to make assessments of material climate-related disclosures in documents they file with the Commission;
- (ii) standard setting by the Commission itself and if delegated authority is granted, that the third-party standard setting body be subject to direct Commission oversight;
- (iii) accountability provisions applicable to issuers that omit climate-related disclosures in documents they file with the Commission;
- (iv) implementation of an issuer disclosure framework that serves as the foundation upon which all other applications of climate-related disclosures are built and which is harmonized with other Commission financial reporting disclosure deadlines; and,
- (v) international leadership by the Commission and regulatory coordination between federal financial regulatory agency members of the Financial Stability Oversight Council ("FSOC") and their international counterparts.

I. INTRODUCTION

MFA represents the global alternative investment industry and its investors by advocating for regulatory, tax, and other public policies that foster efficient, transparent, and fair capital markets. MFA's more than 140 member firms collectively manage nearly \$1.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage

risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, London, Brussels, and Asia, supporting a global policy environment that fosters growth in the alternative investment industry.

Our members utilize a wide spectrum of investment strategies to serve a diverse and representative class of institutional investors. In the U.S. alone, institutional investors – such as pensions, nonprofits, foundations and endowments, and colleges and universities – invest \$1.4 trillion in member firms to help support retirement security, higher education, and the important work done by foundations and charities.

Many of our member firms manage investor assets with a specific focus on climate-related risks or manage assets on behalf of investors who are increasingly attentive to climate risk and to environmental, social, and governance (“ESG”) risks more generally. Consequently, MFA members have been made acutely aware of the need for accurate and decision-useful climate-related disclosures that will facilitate their ability to make informed and financially responsible investment decisions on behalf of the investors they serve.

MFA hopes the Commission will facilitate market participants’ ability to access and rely upon material, accurate, and comparable information regarding climate risk issues. It is important for the transparency and efficiency of our markets that market participants, inclusive of investors, receive clear and reliable information about climate-related risk. It is also important that a framework for such information be developed by the Commission as soon as possible.

II. COMMENTS

A. *PROLIFERATION OF INFORMATION ON CLIMATE RISK*

Given the proliferation of climate-related standards and information, MFA recognizes the benefit of the Commission further clarifying how issuers should make materiality determinations concerning their climate-related disclosures. In recent years, MFA has become increasingly concerned about the variety and volume of ESG (including climate-related) corporate disclosures, whether mandated or voluntarily provided, and certain deficiencies and gaps in climate-related corporate disclosures globally. More and more jurisdictions are imposing mandates or goals for reduced greenhouse gas emissions. Public policy decisions regarding climate risk already have or will have a material financial impact on U.S. issuers whether it is through increasing capital costs, impacts to the physical location of operations, contractual obligations with government entities, reputational risk, or compliance costs associated with mandatory securities disclosure regimes in other jurisdictions.

In the face of varying climate-related disclosures, MFA members are placed in the unenviable position of trying to discern what information will satisfy ever-evolving and complex global regulatory mandates and investor demands. Absent a climate-related disclosure framework or disclosure standards upon which to rely, MFA members are left to discern whether a portfolio company’s climate-related disclosure is accurate and/or complete.

B. COMMISSION IDENTIFICATION OF STANDARDS TO ASSESS MATERIALITY AND IMPROVE UPON THE RELIABILITY AND COMPARABILITY OF CLIMATE-RELATED DISCLOSURES

The Commission has a well-established history of acting on behalf of investors and the financial markets by requiring that issuers provide the information the market needs to make informed economic decisions about capital allocation. A guiding principle for corporate disclosures is the concept of materiality. The application of the materiality standard has not, historically, been left solely to corporate management. The Commission, both directly and through its delegated authority to the Financial Accounting Standards Board, has informed issuers how to apply the materiality standard to questions of first impression.

With regard to climate disclosures, MFA believes the existing materiality standard continues to be a suitable framework against which to assess whether disclosure is warranted. However, MFA believes the SEC should identify standards for issuers to follow in making determinations of what constitutes material climate-related disclosure. The SEC could address, for example, material disclosures issuers provide regarding the jurisdictions where they are subject to enhanced climate-based regulation and management's assessment of and plans for compliance with such mandates.

MFA urges the Commission to identify disclosure standards and to retain control over the standard-setting process. However, if the Commission elects to delegate its authority on climate-related disclosure standard setting, MFA encourages the Commission to leverage an existing third-party standard setter organization that is subject to direct Commission oversight. We also encourage the Commission to play a leadership role internationally to seek globally consistent standards that are compatible with the U.S. disclosure regime.

C. ACCOUNTABILITY OF ISSUERS WITH RESPECT TO CLIMATE DISCLOSURES

Former Treasury Undersecretary Peter Fisher and economist Joseph Stiglitz state that 90% of the companies comprising the S&P 500 make some sort of "sustainability" report.¹ In their response² to this request for public input, the Sustainability Accounting Standards Board noted that in its estimation, 55% of the global S&P 1200 are affected by physical climate risk, 85% are affected by transition risk and 29% are affected by direct regulatory risks.³

MFA agrees with the sentiment expressed by Fisher and Stiglitz that in the absence of minimum corporate disclosure standards, "investors face the risk of being unable to recognize corporate 'greenwashing' hyperbole."

¹ Joseph Stiglitz and Peter R. Fisher, *Corporate America needs to level with investors on climate change*, USA Today (May 5, 2021), <https://www.usatoday.com/story/opinion/2021/05/05/regulations-sec-should-enforce-stop-corporate-greenwashing-climate-change-column/7402368002/>

² Comment Letter dated May 19, 2021, Sustainability Accounting Standards Board, available at <https://www.sec.gov/comments/climate-disclosure/cll12-8815762-238031.pdf>

³ Id.

Investors are ill-served when there is no accountability for the legitimacy of the information being provided to the marketplace. When meeting any standards established by the Commission for climate-related disclosures, a corporation should provide information that is reliable and accurate and upon which asset managers and investors can rely. More specifically, we encourage the Commission to consider ways in which to hold issuers accountable if they omit climate-related disclosures in the reports they file with the Commission.

D. SEQUENCING OF DISCLOSURE FRAMEWORKS AND FINANCIAL AND CLIMATE-RELATED DISCLOSURES

MFA respectfully urges the Commission to establish and implement an issuer disclosure framework with respect to climate-related issues that will be the foundation upon which all other applications of climate-related disclosures are built. Such a foundation and framework will inform and facilitate capital investment and disclosures to end-investors. Otherwise, we are concerned that mandating specific climate-related disclosures to investment fund investors before issuers disclose such information to investors could result in inconsistent investment manager risk assessments and disclosures to fund investors. Further, MFA suggests that the Commission aim to facilitate investors' holistic comprehension of climate-related disclosures by requiring the same reporting period deadlines for climate-related disclosures as that of other financial reports filed with the Commission.

E. COORDINATION WITH FSOC AND OTHER U.S. REGULATORS ENGAGED IN CLIMATE RISK DISCUSSIONS

Treasury Secretary Janet Yellen has repeatedly made clear that climate change represents an “existential threat” to the financial system globally and in the United States, encompassing not just the banking sector in her scope, but also the equity markets of which issuer disclosure is a critical component.⁴

Many of the voting members of the FSOC⁵ are engaged in quantitative and qualitative assessments of the impact of climate risk on their regulated entities. MFA encourages the Commission, as a member of FSOC, to ensure consistent actions on climate-related disclosures and risk assessments.

⁴ See, for example,

<https://www.finance.senate.gov/imo/media/doc/Dr%20Janet%20Yellen%20Senate%20Finance%20Committee%20QFRs%2001%2021%202021.pdf>, as well as <https://home.treasury.gov/news/press-releases/jy0190>, <https://www.wsj.com/articles/yellen-is-creating-a-new-senior-treasury-post-for-climate-czar-11613138479>, and <https://www.reuters.com/business/sustainable-business/yellen-lays-out-bold-climate-agenda-us-economy-markets-2021-04-21/>, <https://home.treasury.gov/news/press-releases/jy0139>

⁵ See, for example, the comments of NCUA Chairman Todd Harper

<https://www.ncua.gov/newsroom/speech/2021/ncua-chairman-todd-m-harper-fsoc-climate-risk-statement>, the testimony of FDIC Chair Jelena McWilliams before House Financial Services Committee, <https://www.fdic.gov/news/speeches/2021/spmay1921.html>

F. POTENTIAL APPROACHES TO DISCLOSURE

Use of a Safe Harbor

In addition to further Commission direction to issuers on materiality with respect to climate-related disclosures, the Commission may also consider how best to incentivize more expansive issuer climate-related disclosure through the creation of a safe harbor. Such a safe harbor provision would be predicated on the Commission's identification of material climate-related disclosures and the standards issuers must follow when providing climate-related disclosures in the documents they file with the Commission. A safe harbor approach may also facilitate the disclosure of metrics or concepts such as stress testing against an increased carbon price, similar to the results of stress scenarios that depository institutions run regularly to comply with prudential regulation. For example, a safe harbor may encourage more issuers to conduct and disclose to investors the results of their company's two-degree Celsius "scenario analysis." The Commission could include, as it has for forward-looking statements, requirements that issuers provide the specific risk factors that could cause the projected results to be unfulfilled.

Graduated Implementation by Market Cap

Historically, the Commission has recognized the benefits of scaling disclosure requirements based on the size of the public reporting company and of phasing in the implementation of any new disclosure guidance in order to help ease the burden on smaller reporting companies. In considering a possible climate-related disclosure framework, we encourage the Commission to implement a scaled regime with graduated implementation periods that recognize the differential costs and burdens borne by companies of different sizes.

III. CONCLUSION

For the reasons stated above, MFA supports the Commission in establishing a framework for climate-related disclosures by issuers. We encourage the SEC to exercise its authority over standard-setting for climate-related disclosures and believe this will result in improved clarity, reliability, and quality of the decision-useful information investors and our markets receive. We look forward to contributing the views of our members as the SEC determines its actions in this important area.

Please do not hesitate to contact Andrew Lowenthal, Executive Vice President for Global Policy, or Jennifer W. Han, Chief Counsel & Head of Regulatory Affairs, at (202) 730-2600.

Respectfully Submitted,

/s/ Bryan Corbett

Bryan Corbett
President and CEO

Ms. Countryman

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CC: The Honorable Gary Gensler, Chairman
 The Honorable Hester M. Peirce, Commissioner
 The Honorable Elad L. Roisman, Commissioner
 The Honorable Allison Herren Lee, Commissioner
 The Honorable Caroline A. Crenshaw, Commissioner