

# Congress of the United States

Washington, DC 20510

June 17, 2022

The Honorable Gary Gensler  
Chair  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

Re: File Number S7-10-22

Dear Chair Gensler:

As the Securities and Exchange Commission works to update its regulations to improve disclosure of a range of risks, we welcome the proposed rule on climate-related financial disclosures. The rule is squarely within your authority and mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate formation of capital. We urge you to finalize the rule to ensure that investors have timely and accessible information regarding registrants' climate-related risks that are reasonably likely to have a material impact on a company's business, operations, or financial condition.

The economic impact of climate change is clear. Last year in the United States alone, climate change-fueled extreme weather caused more than \$145 billion in damage. These events, from increasingly severe wildfires to more frequent flooding, affect numerous corporate assets and operations by disrupting essential supply chains, damaging facilities, endangering workers, and undermining the ability of businesses to meet targets. A 2021 report from the Financial Stability Oversight Council identified that climate change is an emerging threat to U.S. financial stability.<sup>1</sup> However, in the same year, fewer than half of registrants reported aligning with frameworks for disclosing risks and impacts of climate change.<sup>2</sup> Such trends show that the system is making unacceptably slow progress towards the intended effect of the Commission's 2010 interpretive guidance, which instructed firms to disclose material risks from climate change.<sup>3</sup> As the impacts of climate change continue to drive increasingly severe economic disruption and loss, investors are intensifying their demands for information regarding the legal, technological, and market changes from these impacts and the global transition to a net-zero economy.

Investors need climate-related disclosures that are standardized to be comparable, specific, and decision-useful to enable meaningful evaluation of the risks associated with the physical impacts of a changing climate and the ongoing transition to a clean energy economy. Registrants should be required to disclose: 1) information about their corporate governance of climate-related risks and relevant risk management processes; 2) how climate-related risks can affect the registrant's strategy, business model, and outlook; and 3) the impacts of climate-related events, such as

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<sup>1</sup> Financial Stability Oversight Council, "Fact Sheet: The Financial Stability Oversight Council's Response to Climate-Related Financial Risk," (2021).

<sup>2</sup> See Sankalp Gaur, et al., "TCFD-Aligned Reporting by Major U.S. and European Corporations," Moody's Analytics (February 2022).

<sup>3</sup> Securities and Exchange Commission, "Guidance Regarding Disclosure Related to Climate Change," Release No. 33-9106, 75 FR 6290 (Feb. 8, 2010).

severe weather, and transition activities on the registrant's consolidated financial statements, as well as on the estimates and assumptions used in those statements. In addition, specific climate-related metrics should be required in a registrant's disclosures. These metrics should include physical risks and risk reduction targets; Scopes 1-3 greenhouse gas emissions and any clean energy and emissions reduction targets; and performance against those targets.<sup>4</sup> Scenario analyses that test the resilience of a company's strategy in different climate-related futures, such as a 1.5°C warming scenario, also should be considered to enhance financial disclosures.

Without a robust disclosures approach, widespread asset mispricing could lead to market disruptions due to abrupt price corrections. In 2016, Mark Carney, then-Governor of the Bank of England, warned that sharp changes in valuations of energy equities could cause a chain reaction throughout the financial sector.<sup>5</sup> In 2019, Commissioner Rostin Behnam of the Commodity Futures Trading Commission (CFTC), who is now Chairman of the CFTC, compared the financial risks of climate change to the 2008 financial crisis.<sup>6</sup> For these reasons, the CFTC's Climate-Related Market Risk Subcommittee concluded that climate change "poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy."<sup>7</sup> It is precisely this sort of instability that consistent disclosures can uncover and address, preventing abrupt market disruptions.

It is the Commission's responsibility to exercise its authority to address the needs of investors and issuers alike by requiring that registrants disclose consistent, comparable climate-related information that may affect financial performance. Climate-related metrics and methodologies are available to support approaches from U.S. regulators and counterparts around the world to ensure disclosure of consistent, comparable, and decision-actionable information about climate risks of companies. The rule will support greater consistency for investors and companies working to navigate regulatory systems in international markets by better aligning U.S. reporting with other countries that already require these types of disclosures.

We applaud the Commission and staff for the thorough approach in seeking input, exploring the full range of options and methods, and designing a rule to respond to growing investor demand for climate-related risk information.

We urge the Commission to finalize the rule as quickly as possible.

Sincerely,

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<sup>4</sup> These disclosures should be similar to those that many companies already provide based on broadly accepted disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol. *See, e.g.*, TCFD, Guidance on Metrics, Targets, and Transition Plans (Oct. 2021).

<sup>5</sup> Mark Carney, Governor, Bank of England, Chair, Financial Stability Board, "Resolving the Climate Paradox," Arthur Burns Memorial Lecture (Sept. 22, 2016).

<sup>6</sup> Commodity Futures Trading Commission, Opening Statement of Commissioner Rostin Behnam Before the Market Risk Advisory Committee (June 12, 2019).

<sup>7</sup> Commodity Futures Trading Commission Climate-Related Market Risk Subcommittee of the Market Risk Advisory Committee, "Managing Climate Risk in the U.S. Financial System," (2020).