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Re: Public Input on Climate Change Disclosures

<https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

We encourage the SEC to leverage existing ESG and climate standards as developed by SASB, CDP and TCFD to be disclosed in integrated annual reports through a comply or explain framework.

Third Economy is a sustainable investment research and consulting firm that works with institutional investors to develop and implement sustainable investment capabilities and with companies to develop and implement sustainability strategies.

We know that investors assess corporate sustainability from two different perspectives:

- 1) First, most investors want to know how Environmental, Social and Governance (ESG) factors, including climate risk, may be correlated with long-term financial performance from a risk and opportunity perspective, and,
- 2) Second, a growing number of investors care about the actual impact, outcomes or consequences that an investee company's products and services may have on the environment and society.

In order for investors to adequately assess these two aspects, they need year-over-year data that is comparable across companies within sectors and considers market capitalization. This analysis can then be utilized in portfolio construction (e.g., buying and selling) and investment stewardship (e.g., voting and engaging). Unfortunately, this scenario does not currently exist because not all companies report the same data and, if they do, they don't necessarily do so consistently year-over-year.

We believe SEC-mandated ESG and climate disclosures can solve for this, and be implemented in a way that helps investors conduct their analysis effectively but without being overly burdensome to companies as follows:

1. **There's no need to recreate the wheel.** The SEC can draw on existing standards and frameworks such as the Sustainability Accounting Standards Board (SASB), CDP (formerly the Carbon Disclosure Project) and the Task Force on Climate-Related Financial Disclosures (TCFD). Many investors are already relying on these in their assessments, have encouraged companies to adopt them, and companies have in turn done so. Therefore, many investments have already been made on both sides of the capital markets leveraging these entities, and the entities themselves continue to advance their level of cooperation with each other to help the market reduce complexity and understand their unique value add.
2. **For fairness, this isn't a one-size-fits-all mandate.** We know that the bulk of greenhouse gas (GHG) emissions are produced by a relatively small percentage of companies in a handful of sectors. Therefore, we shouldn't expect the world's largest oil and gas companies to have the same mandated disclosure requirements as a recent-IPO or small business in a sector

that has limited exposure to climate risk. We want to help investors, but not in a way that unnecessarily harms businesses, because that's bad for their investors too. So, it makes sense to consider business size and sector, and this can be self-implemented through a comply or explain framework. Companies that believe certain ESG or climate related factors are not financially relevant have the option to opt out if they explain why. Investors through their direct engagement with companies and the shareholder proposal process can encourage compliance if they disagree with a company's explanation.

3. **If it's financially material, it should be in the annual report.** As the body of research grows connecting SASB with potential financial relevance, SASB data tables and commentary should thus be disclosed in the annual report. This is also consistent with the market trend toward integrated reporting, which many companies both private and public are already voluntarily adopting. Furthermore, we should encourage companies to keep their data tables consistent year-over-year and publish time series data (unless there is a valid business driver for the change), and to leverage the aforementioned standards to ensure comparability. Lastly, ESG, CSR or sustainability reports and web pages should be leveraged for other important information that may not necessarily rise to the level of financial materiality, such as outcomes or impacts, as this too will inform investors which ESG and climate related aspects of the business companies themselves deem material.
4. **Model the rise of modern accounting.** Just as the SEC facilitated advances in modern accounting, including the requirement for independent audits, a similar approach can be implemented for ESG and climate. Requiring third-party assurance on ESG and climate disclosures in the annual report should be part of that rise.

Ultimately, if the SEC were to take action considering the points above, we believe that it can help both sides of the capital markets achieve the efficiencies, cost savings and mutual understanding that all parties are seeking.

Thank you for your consideration.

Sincerely, Chad Spitler
Founder and CEO
Third Economy LLC