Climate and ESG Policy Update:
Reading between the lines on Chairman Gensler's remarks

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Overview of today's presentation

- Background on SEC's climate change and ESG focus.
- SEC Chairman's July 28 remarks and what they mean for climate change and ESG disclosures.
- Open discussion.

Background on the SEC's climate change/ESG focus

- SEC Division of Examinations announced its 2021 examination priorities, which included focusing on climate risks (March 3, 2021).
- Created SEC climate and environmental, social, governance (ESG) Task Force (March 4, 2021).
- SEC Request for Input (RFI) on climate change disclosures (March 14, 2021).
    - MBA responded with guiding principles.
- SEC's Asset Management Advisory Committee (AMAC) provided the SEC with recommendations on climate and ESG disclosures on (July 7, 2021).
- Chairman Gensler's prepared remarks at the AMAC meeting (July 7, 2021).
- Climate-related and ESG disclosure rulemaking expected later this year or early next year.

SEC Chairman’s July 28 Remarks

Context

- Prepared remarks at a webinar hosted by the Principles for Responsible Investment.

What did he say?

- Climate change disclosures will be “**consistent, comparable**, and **mandatory**” along with being “**decision useful**.”
- Climate change disclosure document filed as part of **annual 10-K**.
- Disclosure of specific **qualitative** and **quantitative** information.
    - Qualitative: How a company’s leadership manages impact of climate change progress towards climate-related goals.
    - Quantitative: Specific metrics related to greenhouse gas emissions, including disclosure of **scope 1** (direct emissions under a company’s control), **scope 2** (indirect and related to consumption of sources of power), and **scope 3** emissions (measurement of greenhouse gas emission of other companies in an issuer’s value chain.)
- Disclosures for **different industries.**

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SEC Chairman’s remarks continued..

What else did he say?

- Disclosure of metrics used to describe how companies are meeting **climate change pledges** (“net zero”).
- Inspired by, but **not relying on**, external standard setters, like the Task Force on Climate-related Financial Disclosures.
- Disclosures on **data backing claims** of “green or sustainable” fund investment strategy.
- Revisiting the **Naming rule**.

What does this all mean?

- Still early, but the SEC's climate-related scope is clarifying and materializing.
- MBA member engagement is important as we navigate through the rulemaking process.
- MBA's guiding principles on climate change and ESG disclosures:
    - Clearly distinguish between climate change risk and ESG.
    - Focus on the agency's statutory mission and authority (stay in your lane).
    - Apply a principles-based vs. prescriptive approach.
    - Employ an iterative and interactive process.
    - Balance costs with benefits.
    - Harmonize efforts with other standard setters.

What do you think?

Contact information and additional resources

If you have any further questions, please don't hesitate to reach out:

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Link to the MBA CMF Climate Change and ESG Webpage:
https://www.mba.org/advocacy-and-policy/cmf-policy-issues/climate-and-esg