

June 13, 2021

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington D.C. 20549-100

Re: March 15, 2021 Request for Public Input on Climate Change Disclosures

Dear Chair Gensler,

The Standards Board for Alternative Investments (“SBAI”) welcomes the opportunity to respond to the U.S. Securities and Exchange Commission’s request for public input on climate change disclosure.¹

The SBAI is an active alliance of institutional investors and alternative investment managers committed to advancing responsible practice, partnership, and knowledge. We ensure the quality and efficacy of the alternative investment industry through responsible standards and industry guidance. Institutional Investors with over USD 4tn in assets support our work and managers with USD 2tn in assets are signed up to the SBAI Alternative Investment Standards². We are also an Affiliate Member of the International Organization of Securities Commissions (IOSCO).

At the SBAI, we support efforts to facilitate fair and efficient markets, reduce systemic risk, and enable investors to make well informed investment decisions. Accurate and timely disclosure of all types of risk, including climate risk (where applicable), are a critical input to investors’ risk management processes. Climate change is increasingly considered a potential “systemic risk” by institutional investors with long-term investment horizons and the “net zero” target, embraced by many national governments, has significant implications for capital allocation. Therefore, there is a strong desire by institutional investors to measure and monitor climate change related exposure. With increasing focus on sustainability among major global institutional investors, adequate and consistent disclosure is becoming a key success factor in attracting capital.

Effective risk management and disclosure is at the heart of the SBAI Alternative Investment Standards which our alternative investment managers sign up to on a comply or explain basis. We actively contribute to the

¹ <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

² <https://www.sbai.org/standards/>

global debate on Responsible Investment and ESG and have included an overview of our recent work in Appendix A for reference.

This letter does not answer all the specific questions raised in the request for comment, but we highlight key considerations or guiding principles that we view as important when developing regulatory guidance or rules in this space.

As guiding principles, we would suggest that the SEC take account of the following:

- **Make use of existing ESG disclosure frameworks:** Any disclosure requirements should make use of existing frameworks. As examples the SEC could consider the industry-led Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), the UN Global Compact and the Institutional Investors Group on Climate Change (IIGCC) framework, among others. Creating a new set of disclosures would add unnecessary complexity to investors’ risk assessments and increase the reporting burden on issuers that have reporting requirements in several jurisdictions.
- **Ensure global consistency in ESG disclosure requirements:** Due to the global nature of capital markets, globally consistent reporting allows comparison across jurisdictions and avoids market fragmentation. The SEC should take note of requirements already put in place by other regulators, for example in the European Union (EU)³. The divergence of regulations in different financially important markets and jurisdictions will likely make it more difficult for investors to accurately assess and compare their climate related exposures. The SEC should also take note of efforts of the International Organization of Securities Commissions (IOSCO) to create an International Sustainability Standards Board (ISSB) under the IFRS Foundation, which also seeks to build on existing initiatives.
- **Climate vs. other ESG risks:** ESG or sustainability risks are not limited to climate risk, different E, S, and G risk factors (including climate risk) will have varying financial materiality depending on factors such as the industry sector of the issuer. Consideration should be given to including other ESG metrics in any disclosure requirements or the flexibility to identify the specific ESG risks that are applicable in different circumstances.
- **Proportionality:** Disclosure requirements should also be designed with a view to the resources that will be required to produce the required reporting. The burden of reporting on smaller companies will be disproportionately larger than for more sizeable firms. Excessive disclosure requirements may create a barrier to entry for smaller firms wishing to list their equity publicly and as such could negatively impact investor choice.
- **Sequencing and implementation of regulation:** At the SBAI, we support regulation in this area that is sequenced in an appropriate way and positively note this first step is targeted at issuers not asset managers. We believe it is more appropriate to focus on rules and standards for issuers in advance of imposing downstream reporting requirements on asset managers. The SEC might wish to consider a phased approach to the implementation deadlines with a series of smaller milestones as opposed to

³ Relevant EU regulations: Sustainable Finance Disclosure Regulation (SFDR), upcoming EU Taxonomy, and the Corporate Sustainability Reporting Directive (CSRD)

one target date for full compliance. This will allow firms to implement the new rules in realistic timeframes (noting especially the proportionality point above for smaller issuers).

At the SBAI, we believe that investors require appropriate disclosures to manage their risks, transparency is a key theme within the Alternative Investment Standards and the supplemental guidance we produce available on our Toolbox website⁴. We welcome the opportunity to discuss ESG risk disclosure and other responsible investment topics with the SEC and are happy to share the insights we have gained from conversations with both asset managers and allocators as part of our work on this topic within our Responsible Investment Working Group.

Respectfully Submitted

Thomas Deinet
 Executive Director – The Standards Board for Alternative Investments
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Appendix A - SBAI Publications – Responsible Investment

Title	Content
Review of Regulatory Expectations (October 2020)	A Memo exploring the regulatory approaches for institutional investors, investment managers, and issuers across Europe, North America, and Asia.
Basic ESG Policy Framework Guidance for Investment Managers (Mar 2021)	A non-prescriptive tool that assists investment managers in determining their own Responsible Investment approach and importantly to documenting it in a clear and transparent policy.
Consultation Response to the Hong Kong Securities and Futures Commission (SFC): Management and Disclosure of Climate-related Risks by Fund Managers (Jan 2021)	Focus on how principle-based risk management regulation should deal with specific investment risks (such as climate-related risks) and flexibility of regulatory approach (given varying materiality of different risk factors) to ensure risk management resources are focussed on the most material risks.

⁴ <https://www.sbai.org/toolbox/>