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Climate Disclosures: Not Quite as Easy as (Scope) 1-2-3

Asset managers' comments on the SEC's proposed rule reveal broad support but also deep concerns.

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Executive Summary

Public policy advocacy is an important part of an asset manager's active ownership strategy. Asset managers recently had a key opportunity to influence U.S. climate policy as the SEC invited comments on its proposed rule for corporate disclosures of climate-related information. Climate-related risks have increasingly become important for many companies within various industries and, as such, disclosures in this area are financially material and a key aspect of investor decision-making—a point emphasized in Morningstar's own response to the SEC. Asset managers that have committed to addressing the climate crisis should be keen to engage with regulators like the SEC in setting guidelines for corporate disclosures on climate change, and they largely have been.

In this paper, we analyze the responses of the 10 largest U.S. asset managers, including Vanguard, BlackRock, Fidelity Investments, Capital Group, State Street Global Advisors, T. Rowe Price, Invesco, JPMorgan, Dimensional, and Franklin Templeton. As our research shows, almost all of these 10 managers have engaged directly with the SEC on the proposed rule. They are generally supportive of the SEC's efforts to mandate consistent disclosure from companies on climate risks, but they also have significant concerns in several important areas.

Key Takeaways

- Eight out of the top 10 U.S. asset managers have responded to the SEC's March 2022 call for comment on its proposed rule. The two exceptions are Invesco and JPMorgan.
- Seven of the eight respondents favor mandatory climate change disclosures by all public companies. One manager, Dimensional, supports the disclosures only for public companies exposed to material climate risk.
- All eight respondents agree on the need for mandatory disclosures of direct greenhouse gas emissions (Scope 1) and indirect greenhouse gas emissions from purchased electricity (Scope 2), where these are material.
- Only one manager, Capital Group, favors mandatory disclosures of other indirect greenhouse gas emissions (Scope 3) at this time. The others are opposed to making such disclosures mandatory, citing a lack of maturity in measurement methods and an absence of materiality for many companies.
- Most respondents' support for the proposals is contingent on how materiality is defined. This is a key area of concern for most managers, who believe the SEC should clarify the definition in the proposals.
- All respondents believe the SEC's actions on climate disclosure should align with internationally accepted standards, particularly the Taskforce for Climate-Related Disclosures, and the emerging International Sustainability Standards Board.

Active Ownership and Public Policy Advocacy

Introduction

Active ownership is "the use of influence by institutional investors to maximize overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."[1]

At Morningstar, we evaluate asset managers' active ownership — also called investment stewardship — as part of our overall assessment of their ESG Commitment Level. Public policy advocacy activity — alongside proxy voting and direct engagement with companies — is one of the key elements of an asset manager's active ownership approach.

Recently, asset managers were given an important opportunity to engage in public policy advocacy regarding corporate disclosures about climate change. In March 2022, the SEC issued its proposed rule, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, which remained open for public comment until June 17, 2022.

The SEC's actions in this area will set the tone for how U.S. companies — and by extension, the asset managers who invest in them — will report on how they are responding to the climate crisis.

Climate Change: A Key Stewardship Theme

Much of the momentum behind the global investment stewardship movement comes from rising public concern and a growing sense of political urgency about the climate crisis. Furthermore, since the 2015 Paris Agreement on climate change, active ownership is viewed as an indispensable tool in shaping corporate behavior toward the global goal of net-zero carbon emissions by 2050.

Asset managers have committed to taking action on achieving net zero, and many have joined industry initiatives such as Climate Action 100+ and the Net Zero Asset Managers Initiative, which seek to encourage investee companies — particularly, the largest greenhouse gas emitters — to:

- implement a strong governance framework on climate change;
- take action to reduce greenhouse gas emissions across the value chain; and
- provide enhanced corporate disclosure.

Robust disclosures from companies on greenhouse gas emissions and climate strategy are needed for asset managers to make climate-conscious investment decisions and to report to investors in their funds. So, it is reasonable to expect asset managers that have committed to addressing the climate crisis to engage with regulators like the SEC in setting guidelines for corporate disclosures on climate change.

The comment period for the SEC's request for information is now closed and submitted comment letters are available to read on the SEC's website. You can read Morningstar's comment letter here. We

1 Principles for Responsible Investment website

researched responses to the SEC's request by the top 10 asset managers in the United States by total assets in open-ended funds and exchange-traded funds.

Vanguard, BlackRock, Fidelity, State Street, Capital Group, and T. Rowe Price—who comprise the top six—all responded to the proposed rule. Dimensional and Franklin Templeton—nine and 10, respectively—also responded, but at the time of writing no comment letter could be found for Invesco or JPMorgan.

The SEC's Proposed Rule

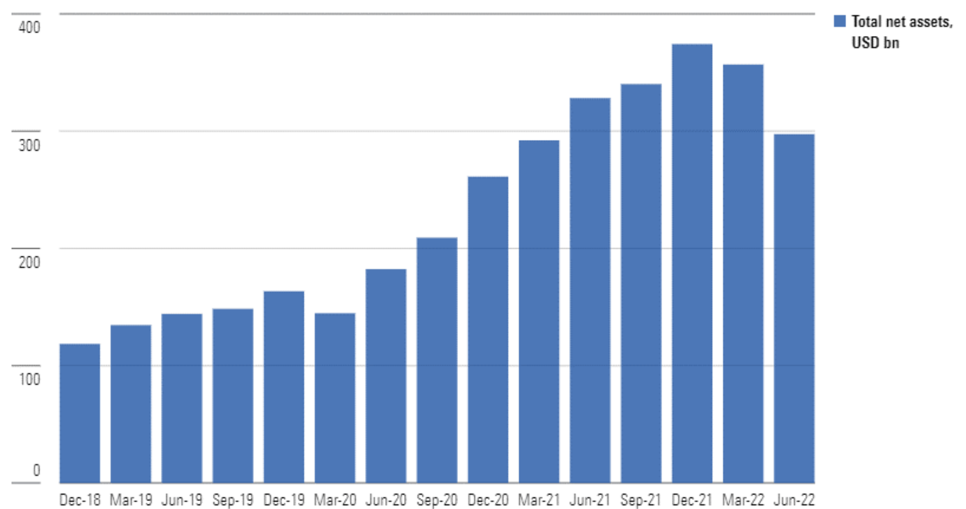
An Important Topic for Investors

The SEC's proposed rule aims to enhance and standardize disclosure of climate-related risks and opportunities by public companies.

We view this rule as timely and necessary. Climate-related risks have increasingly become important for many companies within various industries and, as such, disclosures in this area are frequently financially material and a key aspect of investor decision-making. The SEC puts it like this:

> *"We also believe that enhanced climate disclosure requirements could increase confidence in the capital markets and help promote efficient valuation of securities and capital formation by requiring more consistent, comparable, and reliable disclosure about climate-related risks, including how those risks are likely to impact a registrant's business operations and financial performance."*[2]

Exhibit 1 Total Net Assets in U.S. Sustainable Funds, December 2018 to June 2022



Source: Morningstar Direct. Data as of July 7, 2022. Data for June 2022 is a preliminary estimate.
Note: Includes only "sustainable by prospectus" funds.

2 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.23.

Additionally, although the year-to-date market decline and rotation into value equities has taken a toll on sustainable portfolios in 2022, the amount invested in U.S. sustainable funds has increased by an average 30% a year on a compound annual basis since the end of 2018 (see Exhibit 1 above). Around $300 billion of assets is currently invested in funds defined in their prospectus as sustainable, and with increasing focus on climate change mitigation and adaptation by the investment community, this number is set to continue growing strongly. In order to give investors the information they need to manage climate-related risks, companies first need to have a robust and consistent regulatory framework under which they can disclose relevant information on greenhouse gas emissions and climate-related corporate governance. This makes the SEC's proposals in this area all the more important.

What Is the SEC Proposing?

The SEC's proposed climate-related disclosures are similar to those in existing frameworks—notably the Task Force on Climate-Related Financial Disclosures and the Greenhouse Gas Protocol—which are already used by many companies globally to report climate-related information. This is an important factor in helping ensure much-needed global consistency in such disclosures, which would allow investment decision-makers to compare like-with-like when companies across the globe report climate-related information. Under the Greenhouse Gas Protocol, greenhouse gas emissions are assigned to Scope 1, 2, or 3 depending on whether they:

- are directly emitted by the reported company (Scope 1); or
- represent the company's share of indirect emissions that occur in its value chain (Scope 2 or 3).

Exhibit 2 Scope Definitions for Greenhouse Gas Emissions

Scope	Type of emissions	Sources of emissions	Examples
Scope 1	Direct	Sources owned or controlled by the reporting company.	Direct fuel combustion; company-owned vehicles and machinery; fugitive emissions (such as methane leaks from mining).
Scope 2	Indirect	Generation of power purchased and consumed by a reporting company.	Purchased electrical power.
Scope 3	Indirect	All indirect emissions not accounted for in Scope 2 emissions.	Purchased goods and services; business travel; employee commuting; use of sold products.

Source: SEC proposed rule, the Greenhouse Gas Protocol.

The SEC's proposed rule would require U.S. companies and foreign private issuers to include certain climate-related information in their reporting, including the following areas.

Exhibit 3 Features of the SEC's Proposed Rule for Climate-Related Disclosures

Topic	Required disclosure	Key issue identified by asset managers
Risk management	Climate-related risks and their actual or likely material impacts on the company's business, strategy, and outlook.	What is the definition of materiality?
Greenhouse gas emissions	The company's greenhouse gas emissions, which—for many of the largest companies—would be subject to assurance by a third party with respect to certain emissions. Scope 1 and 2 disclosures would be mandatory for all companies. Scope 3 disclosures would be required if they are material, or if the company has a greenhouse gas emissions target that includes Scope 3.	Should all companies be required to disclose Scope 1, 2 and 3 emissions?
Targets, goals and transition plans	Information about climate-related targets and goals, and transition plan, if any.	Will disclosures be onerous for companies with material risks or targets regarding Scope 3 emissions?
Governance	The company's governance of climate-related risks and relevant risk management processes.	Should a specific board member be responsible for climate governance?

Source: SEC proposed rule, Morningstar research.

Analyzing the Top 10 Managers' Comment Letters

We selected the top 10 U.S. asset managers (by total net assets in U.S. open-ended funds and exchange-traded funds) to analyze their responses to the SEC's proposals. Out of the top 10 U.S. asset managers—who represent over USD 17 trillion of fund assets—nine submitted at least one comment letter to the SEC on its proposed climate disclosure rule issued in March 2022, or its request for input on climate change disclosures issued in March 2021.

- Eight are signatories to the Net Zero Asset Managers initiative.
- Six participate in the Climate Action 100+ initiative for corporate engagement on climate change.
- All 10 are PRI signatories.

Exhibit 4 U.S. Top 10 Asset Managers' Climate Policy Activity

Scope	Rank	Total net assets in US open-ended funds and ETFs, $bn	NZAMI signatory	CA100+ participant	Comment letter on 2022 proposed rule
Vanguard	1	6,142	✓		✓
BlackRock	2	2,409	✓	✓	✓
Fidelity Investments	3	2,136			✓
Capital Group	4	1,878			✓
State Street	5	955	✓	✓	✓
T. Rowe Price	6	635	✓		✓
Invesco	7	588	✓	✓	
JPMorgan	8	451	✓	✓	
Franklin Templeton	9	431	✓	✓	✓
Dimensional	10	423			✓

Source: Fund data from Morningstar Direct as of June 30, 2022; NZAMI and CA100+ information from the respective organizations' websites; comment letters from sec.gov as of June 30, 2022.

The Investment Company Institute—an association of U.S. asset managers, including all of the top 10, representing close to $30 trillion in investment assets in the United States—also submitted a comment letter to the SEC.

Exhibit 5 Summary of Top 10 U.S. Asset Managers' Responses to the Proposed Rule

Topic	Summary of asset managers' responses
Overall need for consistent disclosures	✓ Broad support
Definition of materiality	✗ Significant concerns
Mandatory greenhouse gas emissions disclosures	
– Scope 1 and 2	✓ Broad support
– Scope 3	✗ Significant objections
Board-level climate expertise	✗ Significant objections
International alignment	✓ Broad support

Source: Morningstar research.

Overall Need for Consistent Disclosures

The SEC's Proposal

“We are proposing to require registrants to provide certain climate-related information in their registration statements and annual reports, including certain information about climate-related financial risks and climate-related financial metrics in their financial statements. The disclosure of this information would provide consistent, comparable, and reliable—and therefore decision-useful—information to investors to enable them to make informed judgments about the impact of climate-related risks on current and potential investments.”[3]

Asset Managers' Views

✓ Broad support

Eight of the top 10 asset managers submitted their views on the overall need for consistent climate-related disclosures in response the proposed rule published in March 2022: Vanguard, BlackRock, Fidelity, State Street, Capital Group, T. Rowe Price, Dimensional, and Franklin Templeton. Additionally, one of the top 10—Invesco—responded only to the SEC's request for public input in March 2021. Six of the asset managers responded to both of the SEC’s requests for comment (see Appendix 2).

All these respondents agree with the SEC that consistent, comparable, and reliable information on climate-related financial risks and financial metrics are important to allow investors to make informed investment decisions. The comments below by three respondents are broadly representative of the overall consensus.

> *“Fund managers desire access to comparable, consistent, and comprehensive information on how companies are affected by, or are seeking to respond to, climate change. Therefore, it is critical for the Commission to implement more uniform reporting standards for companies for the benefit of investors, efficient allocation of capital, and enhanced capital formation.”—ICI*

> *“Because we firmly believe that climate risk is investment risk, we also write to express our strong support for the Commission’s goal of implementing a framework for public issuers to provide investors with more comparable and consistent climate-related disclosures.”—BlackRock*

> *“The broad adoption of meaningful climate disclosures would also preserve and create shareholder value by providing investors with the consistent climate data they need to (1) evaluate whether issuers are aware of, and adapting to, these rapidly evolving business and regulatory risks and (2) gain a more informed understanding of the climate risk management process at portfolio companies.”—Vanguard*

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3 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.7.

A few managers highlight their perception of the need for climate-related disclosures to be "grounded in the well-understood concept of materiality"—Dimensional and Fidelity are particularly vocal about this matter, which is reflected in their comments on the definition of materiality and the proposed requirements for greenhouse gas emissions disclosures, examined in the following sections of this paper.

Morningstar's View

Morningstar appreciates the Commission's intention to enhance and standardize disclosure of climate-related risks and opportunities by public companies. Morningstar supports the Commission's Proposed Rule because we recognize that it will add depth and standardization to today's voluntary reporting, as mandated reporting on climate-related information will provide comprehensive, consistent, and comparable information, which supports informed investor decisions.

Definition of Materiality

The SEC's Proposal

"The proposed rules would require a registrant to disclose whether any climate-related risk is reasonably likely to have a material impact on a registrant, including its business or consolidated financial statements, which may manifest over the short, medium, and long term."[4]

Asset Managers' Views

✗ Significant concerns

The definition of "material" is an area of significant concern in the comment letters we have analyzed, and one that the SEC will need to address when drafting its final rule. Materiality is a central point of discussion in international consultations on the future of climate and sustainability reporting standards, so it is not surprising to see it emerge as a key issue here.

Respondents to the SEC note that the proposed climate rule appears to deviate from the materiality definition long established by the U.S. Supreme Court.[5] As summarized in BlackRock's response to the SEC:

> *"A fact is material "if there is a substantial likelihood that a reasonable shareholder would consider it important" in making an investment decision or if it "would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available" to the shareholder."*

A majority of the top 10 asset managers, and the ICI, agree that aspects of the proposed rule deviate from the Supreme Court's definition of materiality, with potential unintended negative consequences. The ICI's comment letter—supported by several of the asset managers—puts it this way:

4 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.63.

5 TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976).

> *"By requiring companies to disclose in SEC filings information that the SEC believes to be 'decision-useful' without regard to whether the information is material to the company, the Commission would undermine the important protections provided by the traditional materiality standard… A departure from this standard will expose companies to unnecessary litigation risk."*

Much of this concern relates to proposals to require Scope 3 emissions disclosures for some companies, which is covered in detail below. But there are also broader concerns that the proposed rule requires companies to make certain climate-related disclosures regardless of materiality. T. Rowe Price's comment letter says:

> *"To require disclosure of immaterial information will be detrimental to investors, making it difficult for them to determine exactly what information, of the wealth of data presented, is in fact useful, relevant, and comparable across registrants."*

Morningstar's View

Climate risks have increasingly become material for many companies within various industries and, as such, disclosures in this area are financially material and a key aspect of investor decision-making. The Commission should provide guidance on materiality for industry standards for firms to reference.

Mandatory Greenhouse Gas Emissions Disclosures

The SEC's Proposal

"The proposed rules would require a registrant to disclose its total Scope 1 emissions separately from its total Scope 2 emissions after calculating them from all sources that are included in the registrant's organizational and operational boundaries. A registrant would also be required to disclose separately its total Scope 3 emissions for the fiscal year if those emissions are material, or if it has set a greenhouse gas emissions reduction target or goal that includes its Scope 3 emissions. For each of its Scopes 1, 2, and 3 emissions, the proposed rules would require a registrant to disclose the emissions both disaggregated by each constituent greenhouse gas… and in the aggregate."[6]

Asset Managers' Views

Scope 1 and 2

✓ Broad support

Most of the 10 asset managers' comment letters mention their support for mandatory disclosure of Scope 1 and 2 greenhouse gas emissions by companies. The ICI's letter well reflects the majority view when it states:

> *"Doing so would make more consistent, comparable, and reliable data available for fund managers to use in making investment decisions."*

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6 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.151.

Additionally, disclosures of Scope 1 and 2 emissions are now commonplace for companies that do report climate-related information. Fidelity's comment letter puts it this way:

> *"We believe that Scope 1 and 2 emissions data are now table stakes and part of investors' fundamental expectations of companies."*

Amid this broad support for the proposal, there are two dissenting opinions. T. Rowe Price mentions:

> *"We support the SEC's proposal to include Scope 1 and Scope 2 greenhouse gas (GHG) emissions disclosures utilizing the approach set forth in the GHG Protocol, yet we oppose disaggregation by constituent GHG. We recommend instead that registrants be required to provide CO2-equivalent information for Scopes 1 and 2."*

T. Rowe Price does not believe that the cost and effort of obtaining disaggregated data is justified either by the quality of the data that would be obtained or its usefulness to investors.

Dimensional's objection is broader than this—they do not support the idea that greenhouse gas emissions disclosures should become mandatory information in regulatory filings for all public companies. Their letter states:

> *"We strongly believe that only companies that have identified climate change as a material risk to their business should be required to disclose specific climate-related information… In our view, if a company has not identified climate change as a material risk to its business, the costs of requiring that company to disclose specific climate-related information will outweigh benefits to shareholders."*

One additional point of concern for several managers is the timing of reporting and whether such mandatory disclosures would be "filed" or "furnished" with the SEC.[7] Some are concerned that requiring companies to provide greenhouse gas emissions reporting in the 10-K annual report filed with the SEC could prove impractical and expose companies to additional risk of litigation. BlackRock says:

> "*Given the methodological and estimation challenges issuers face today in collecting Scope 1 and 2 data on a timely basis, we are of the view that it is impracticable to require this information to be disclosed in SEC filings on the annual report timeline, even if material, although that may change over time as these challenges abate.*"

A potential solution suggested by the ICI and several asset managers is that companies would furnish a separate climate report with the SEC 120 days after the fiscal year-end, rather than including this information in a filing.

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7 This is a legal technicality—all disclosures are registered with the SEC in the same way. However, what is important for the purpose of this analysis is that companies can benefit from certain liability protections regarding information that is "furnished" rather than "filed."

Scope 3

✗ Significant concerns

The proposal to mandate disclosure of Scope 3 greenhouse gas emissions receives the strongest opposition from the top 10 asset managers. Such disclosures are widely seen as premature because reliable measurement methodologies for Scope 3 emissions (which necessarily overlap with the Scope 1 and Scope 2 emissions of other reporters, raising the risk of double counting) are still being developed. The ICI’s comment letter reflects the views of most of the top 10 asset managers when it states:

> *“A large majority of our members believe that the Commission should not require companies to report Scope 3 emissions at this time, because of significant data gaps and the absence of agreed-upon methodologies to measure Scope 3 emissions. These deficiencies seriously undermine the ability of most companies to report consistent, comparable, and verifiably reliable data.”*

Several managers mention their willingness to accept mandatory disclosures in time once measurement methodologies have improved and companies are routinely reporting Scope 1 and 2 greenhouse gas emissions—a necessary input for Scope 3 calculations. Several managers also favor the disclosure of Scope 3 emissions data on a "targeted and flexible" basis where such information is material and can be reasonably estimated.

Capital Group’s response to the SEC stands out, as it takes a more positive line on Scope 3 disclosures than the rest of the group, supporting mandatory Scope 3 disclosures for larger companies.

> *“Scope 1 and Scope 2 GHG emissions data alone provide an incomplete (and potentially inaccurate) picture of a company’s overall carbon footprint and its ability to create and sustain long-term value through shifting consumer demands or changes in energy policy. Scope 3 GHG emissions data is thus a necessary supplement to Scope 1 and Scope 2 GHG emissions data, and we support making this disclosure mandatory for larger companies.”*

Morningstar's View

We agree with the Commission that Scope 1 and Scope 2 greenhouse gas emissions should be disclosed by all registrants. We further agree with the Commission’s Proposal to require that Scope 3 emissions only be disclosed by registrants with a Scope 3 emissions-reduction target, or by companies for which those emissions are material.

Board-Level Climate Expertise

The SEC's Proposal

“The proposed rules would require a registrant to disclose a number of board governance items, as applicable. The first item would require a registrant to identify any board members or board committees responsible for the oversight of climate-related risks. The responsible board committee might be an existing committee, such as the audit committee or risk committee, or a separate committee established to focus on climate-related risks. The next proposed item would require disclosure of whether any

member of a registrant's board of directors has expertise in climate-related risks, with disclosure required in sufficient detail to fully describe the nature of the expertise."[8]

Asset Managers' Views

✗ Significant concerns

Both the ICI and several asset managers who comment on this oppose the proposed disclosure regarding climate expertise at board level. T. Rowe Price's comment letter reflects the overall consensus:

> *"Although we support the requirement for enhanced transparency around climate risk governance, we recommend eliminating the requirement that registrants identify if a board member has climate-related expertise and the process and frequency of board-level discussions. Single-issue expertise is not a quality that we have traditionally sought in board members, preferring instead well-rounded candidates who are able to contribute in multiple ways to a company's governance."*

Respondents cite several reasons for their opposition to this:

> *"We believe that robust board oversight with respect to climate requires a whole-of-the-board approach, and the identification of "specialist" directors is not conducive to a holistic undertaking by the board." –BlackRock*

> *"This requirement goes beyond TCFD recommendations, is duplicative of existing disclosure requirements… and also fails to recognize the supervisory nature of the board's role." —Capital Group*

> *"This [requirement] could imply that boards without directors with such specific expertise are deficient, which we believe is inaccurate." —State Street*

> *"There is no justification for singling out climate-related risks for requiring such a heightened level of board disclosure concerning their member's qualifications and oversight responsibilities." —Fidelity*

> *"The proposed approach may cause companies to create larger, and possibly less cohesive, boards to the detriment of the company's investors." —ICI*

Morningstar's View

We agree with the Commission that disclosures regarding board and management oversight of climate-related risks should be mandated. Additionally, disclosure of board and management oversight of climate-related opportunities should be mandated. We would also like the Commission to mandate disclosure of how executive remuneration within existing discussion and analysis of incentive pay

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8 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.94.

arrangements in companies' annual proxy statements reflect climate-related goals, including emissions targets.

International Alignment

The SEC's Proposal

"Our proposed climate-related disclosure framework is modeled in part on the TCFD's recommendations. A goal of the proposed rules is to elicit climate-related disclosures that are consistent, comparable, and reliable while also attempting to limit the compliance burden associated with these disclosures."[9]

Asset Managers' Views

✓ Broad support

The top 10 asset managers who responded unanimously agree that alignment with the TCFD framework—"the leading global standard for material climate-related disclosures," according to Capital Group—is the right way forward.

This is because TCFD-aligned climate-related disclosures are mandatory, or on the path to becoming so, in several capital market jurisdictions. Additionally, major asset managers have been encouraging companies globally to report in line with TCFD guidelines for over two years—BlackRock CEO Larry Fink's 2020 letter to company CEOs[10] was a key catalyst in this regard.

T. Rowe Price explains the rationale well, saying:

> *"Consistency across jurisdictions and within each regulatory regime is critical for global asset managers, who need comparable sustainability and climate-related disclosures in every country in which they invest."*

At the same time as the SEC's request for comments on its proposed rule for climate-related disclosures, the new International Sustainability Standards Board—part of the IFRS Foundation, which sets reporting standards for companies in most jurisdictions outside the U.S.—also published its draft standard on the same topic.[11]

Several asset managers emphasize the importance of ensuring that the SEC's and ISSB's final proposals remain aligned to facilitate the global consistency that aids investment decision-making. Some managers also called on the SEC to allow foreign private issuers to report under global standards such as those published by the ISSB.

As Fidelity's comment letter notes:

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9 SEC proposed rule The Enhancement and Standardization of Climate-Related Disclosures for Investors, p.41.

10 A Fundamental Reshaping of Finance, January 2020.

11 Exposure Draft IFRS S2 Climate-related Disclosures.

> *"We applaud the SEC for recognizing the current efforts of global sustainability standards and strongly support the reliance on global standards, such as the ISSB, for reporting by foreign private issuers. This will achieve the SEC's goal of providing investors with useful information while mitigating the potential burden on issuers to disclose on regionally nuanced standards. We believe permitting reliance on global sustainability standards will enhance disclosure by promoting consistency and comparability for investors."*

Consultations on climate and sustainability standards in Europe are currently being conducted by the ISSB and EFRAG—the European Commission's advisory body for financial reporting standards. Given managers' responses to the SEC on climate-related disclosures, we would expect to see them provide similar responses to the ISSB and EFRAG to help deliver the global consistency that is important to investors. We will review managers' comments to the ISSB and EFRAG after those consultations have closed.

Morningstar's View

We support the Commission's use of TCFD terminology and definitions. We encourage alignment with TCFD-based terminology and definitions as much as possible to maximize comparability, integration, and understanding of the new climate disclosures because the framework proposed by the TCFD has gained traction globally. M

Appendix 1: Quotes From Comment Letters

In this appendix, we share extracts from the top 10 U.S. asset managers' and the ICI's comment letters to the SEC on climate-related disclosures. A full list of sources can be found in Appendix 2.

- ► Overall need for consistent disclosures
- ► Definition of materiality
- ► Mandatory greenhouse gas emissions disclosures
- ► Board-level climate expertise
- ► International alignment

Overall Need for Consistent Disclosures

"Because more comparable and consistent climate-related disclosures are in issuers' as well as investors' interests, BlackRock supports the SEC mandating climate-related disclosures."—BlackRock, June 2021

"Because we firmly believe that climate risk is investment risk, we also write to express our strong support for the Commission's goal of implementing a framework for public issuers to provide investors with more comparable and consistent climate-related disclosures."—BlackRock, June 2022

"Investors increasingly view material climate (and other ESG)-related risks and opportunities as critical drivers of a company's ability to generate value over the long-term. To that end, there is a strong need for climate-related issuer disclosure that is consistent, comparable and rooted in materiality."—Capital Group, June 2021

"We very much support the Commission's goal of facilitating the disclosure of consistent and reliable information on climate change. As an investment adviser, we rely on public disclosure made by portfolio companies to help us make investment decisions on behalf of our clients and the retail investors who have entrusted us with their savings."—Dimensional, June 2021

"In our view, consistent and reliable disclosure on climate change would be best achieved by leveraging the existing public company disclosure framework, which is rooted in the concept of materiality. Climate change does not pose the same level of risk for all companies. The costs of requiring a company to include climate change information can be high, and those costs are passed on to the company's investors, including funds and their shareholders. Accordingly, we strongly believe that the Commission

should require disclosure of specific climate change information only where companies have determined that climate change may have a material impact to their business."—Dimensional, June 2021

"Fidelity is supportive of efforts to make more consistent and comparable SEC registrant disclosures of climate-related factors that are grounded in the well-understood concept of materiality. We agree that policies associated with such disclosures are important to companies' long-term economic success and that *material* climate-related disclosures can enhance the investment research process in order to better capture the totality of a company's risks and opportunities."—Fidelity, June 2022

"Public companies currently take a variety of approaches to disclosing climate change-related information, including what information to disclose, when to disclose it, and where to provide that disclosure. Fund managers desire access to comparable, consistent, and comprehensive information on how companies are affected by, or are seeking to respond to, climate change. Therefore, it is critical for the Commission to implement more uniform reporting standards for companies for the benefit of investors, efficient allocation of capital, and enhanced capital formation."—ICI, June 2021

"We are supportive of the Commission's efforts to evaluate the regulatory approach to public company disclosure on climate change and other ESG-related items. As investors, we believe that access to reliable and meaningful disclosures on climate change is becoming increasingly important for investors and asset managers and we welcome the evaluation of ways to enhance the availability, quality and reliability of such disclosures."— Invesco, June 2021

"We support a well-designed disclosure framework to help investors and companies understand and manage climate-related risks and protect long-term shareholder value… The broad adoption of meaningful climate disclosures would also preserve and create shareholder value by providing investors with the consistent climate data they need to (1) evaluate whether issuers are aware of, and adapting to, these rapidly evolving business and regulatory risks and (2) gain a more informed understanding of the climate risk management process at portfolio companies."—Vanguard, June 2021

"We strongly welcome the Commission taking initiative in this area… Improved climate disclosure will benefit investors that are increasingly integrating climate-related financial risks and opportunities into their investment decisions. Increased standardization will also benefit U.S. companies that are currently navigating a myriad of requirements and expectations from a broad range of stakeholders."—State Street, June 2022

"As an institutional investor, we welcome the Commission's recognition of the need to improve reliability, consistency, and comparability of climate-related data from issuers. As a public company that will be subject to the new rules, we recognize that some of these disclosures may be difficult and costly to create. We predominantly support the proposal, and hope that our letter—written from both perspectives—can help the Commission strike the appropriate balance in its rulemaking between these two sometimes competing views."—T. Rowe Price, June 2022

Definition of Materiality

"We respectfully request that the Commission link an issuer's climate risk disclosure obligations in its annual reports and registration statements ('SEC filings') to the well-established definition of materiality established by the Supreme Court in TSC Industries, Inc. v. Northway, Inc… (holding that a fact is material 'if there is a substantial likelihood that a reasonable shareholder would consider it important' in making an investment decision or if it 'would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available' to the shareholder)." —BlackRock, June 2022

"The Proposed Rule appears to deviate from the long-standing definition of materiality set out by Supreme Court precedent that has shaped the practice and enforcement of federal securities laws to date. For one, the Proposed Rule contemplates mandating Scope 3 GHG emissions disclosure even when not material. In addition, the Proposed Rule suggests that, where a company's Scope 3 GHG emissions constitute over 40% of its overall GHG emissions, it would be deemed material. Any such quantitative materiality thresholds would be inconsistent with the definition that the Commission and courts have applied for over thirty (30) years. We highlight the comments submitted by the ICI on materiality and join them and others in urging the Commission to revisit the materiality standard used in the Proposed Rule." —Capital Group, June 2022

"We urge the Commission to avoid adopting prescriptive regulations, particularly where the benefits to investors do not justify the inevitable costs to companies and their shareholders. Instead, we urge the Commission to adopt a principles-based approach that is rooted in the existing materiality framework. Such an approach would enable companies to produce disclosures that are proportionate to the climate-related risks faced by each individual company, which would be more meaningful to investors." —Dimensional, May 2022

"We are also concerned by the reference in the Proposing Release to a quantitative threshold for determining whether a company's Scope 3 emissions are 'material.' The Commission notes "that some companies rely on, or support reliance on, a quantitative threshold such as 40 percent when assessing the materiality of Scope 3 emissions." In our view, materiality should be assessed in terms of whether a company's Scope 3 emissions present a material risk to the company, not whether a company's Scope 3 emissions make up a material portion of a company's overall GHG emissions." —Dimensional, May 2022

"Fidelity's ESG ratings are based on materiality maps that help provide a comprehensive view of a company's positioning on material ESG issues… We strongly urge the SEC to take a similar approach by requiring that its proposed climate-related disclosures be grounded in materiality. As discussed below, we believe there are several aspects of the Proposal that exceed, or redefine the well-recognized definition of, materiality and should be reconsidered by the SEC." —Fidelity, June 2022

"By requiring companies to disclose in SEC filings information that the SEC believes to be "decision-useful" without regard to whether the information is material to the company, the Commission would undermine the important protections provided by the traditional materiality standard… A departure

from this standard will expose companies to unnecessary litigation risk. In the event the final rule purports to prescribe disclosures without regard to materiality in SEC filings, the rule should at the very least make clear that any required disclosure of non-material information is not intended to change the long-established materiality standard for liability in the event of litigation over alleged misstatements or omissions."—ICI, June 2022

"We echo concerns about the SEC's proposed definition of materiality and related guidance and encourage the Commission to utilize a standard of materiality that investors and registrants understand and are familiar applying."—T. Rowe Price, June 2022

"Our recommendation is that a consistent definition of materiality be adopted across standards and throughout the course of the Commission's rule. The proposed rule states that the definition of materiality used by a registrant should be consistent with the Supreme Court's definition; that is, where there is a substantial likelihood that a reasonable shareholder would consider it important in making an investment or voting decision, or if disclosure would have significantly altered the total mix of information made available… Under the Commission's proposed rule, certain disclosures are required regardless of materiality, such as Scope 1 and Scope 2 GHG emissions data, risk management, and governance disclosures… To require disclosure of immaterial information will be detrimental to investors, making it difficult for them to determine exactly what information, of the wealth of data presented, is in fact useful, relevant, and comparable across registrants. From an issuer perspective, preparing immaterial information will increase costs and divert attention and time from data that is material."—T. Rowe Price, June 2022

Mandatory Greenhouse Gas Emissions Disclosures

Scope 1 and 2

"We recommend that the SEC require issuers to disclose their Scope 1 and 2 GHG emissions estimates on the New Form regardless of materiality, as this information helps investors assess exposure to climate-related risks and opportunities across a variety of sectors."—BlackRock, June 2022

"Given the methodological and estimation challenges issuers face today in collecting Scope 1 and 2 data on a timely basis, we are of the view that it is impracticable to require this information to be disclosed in SEC filings on the annual report timeline, even if material, although that may change over time as these challenges abate. If the SEC provides for a robust safe harbor that affords meaningful protection from liability for Scope 1 and 2 disclosures made on a "filed" basis, we would support the SEC requiring material Scope 1 and 2 disclosures to be incorporated by reference from the New Form into issuers' SEC filings."—BlackRock, June 2022

"Climate-related disclosures often require companies to collect and aggregate data from various internal and external sources. Practical realities of data-collection and reporting do not cleanly line up with financial reporting cycles. Giving companies adequate time (e.g., 120 days) after their fiscal year-end to accurately collect and analyze this data will increase the quality of the climate-related information investors receive. This timeline should still result in companies-producing climate-related data in

advance of their annual meetings, giving investors time to assess it before making proxy voting decisions." —BlackRock, June 2022

"We strongly believe that only companies that have identified climate change as a material risk to their business should be required to disclose specific climate-related information. As the Commission has acknowledged, companies are not equally impacted by climate change. In our view, if a company has not identified climate change as a material risk to its business, the costs of requiring that company to disclose specific climate-related information will outweigh benefits to shareholders… The Commission argues that many companies already report Scope 1 and 2 emissions, but even companies that already voluntarily report their Scope 1 and 2 emissions will need to spend more time and money to prepare this data for inclusion in regulatory filings. We believe these costs will outweigh the benefits to investors." —Dimensional, May 2022

"Fidelity supports requiring companies to disclose in the Form 10-K (on both an aggregated and disaggregated basis) Scope 1 and 2 emissions, and requiring disclosure of the data in gross and net terms to enable investors to understand how a company uses carbon offsets and renewable energy credits (RECs) and the role those play in that company's climate-related business strategy. We believe that Scope 1 and 2 emissions data are now table stakes and part of investors' fundamental expectations of companies." —Fidelity, June 2022

"We support the Commission requiring companies to disclose Scopes 1 and 2 emissions on an aggregated basis and additionally on a disaggregated basis for any particular constituent GHG that is material to the company... Doing so would make more consistent, comparable, and reliable data available for fund managers to use in making investment decisions." - ICI, June 2022

"We recommend that the Commission require each company to provide material climate-related disclosure in SEC filings and also require a company to furnish that information and any additional mandated information that the company determines is not material in a new climate report. A company would furnish its climate report to the Commission 120 days after its fiscal year-end. If a company subsequently determines that information included in the furnished climate report (that had not been included in the SEC filings) is actually material, it would incorporate it by reference when making its next SEC filing." —ICI, June 2022

"We fully agree with the Commission's proposal to require registrants to publish Scope 1 and Scope 2 GHG emissions in line with the TCFD and the GHG Protocol. For investors, these disclosures will be most effective if they enhance and standardize material climate information flows across the investment chain." —State Street, June 2022

"We support the SEC's proposal to include Scope 1 and Scope 2 greenhouse gas (GHG) emissions disclosures utilizing the approach set forth in the GHG Protocol, yet we oppose disaggregation by constituent GHG. We recommend instead that registrants be required to provide CO2-equivalent information for Scopes 1 and 2." —T. Rowe Price, June 2022

"We express concern that registrants will not have sufficient time to gather and validate GHG emissions data in a state fit for inclusion in Form 10-K. We recommended that such requirements only apply prospectively, and that Scope 1 and 2 GHG emissions be disclosed in a furnished form due within 120 days of the fiscal year end, aligning with the timing of proxy statements."—T. Rowe Price, June 2022

"We appreciate that the Proposal would ensure public companies provide clear, consistent, and comparable foundational climate-related information, including uniform reporting of Scope 1 and Scope 2 greenhouse gas (GHG) emissions. This information will help investors better understand a company's exposure to, and management of, climate risk without imposing undue burden on companies."—Vanguard, June 2022

Scope 3

"We view Scope 3 emissions differently from Scope 1 and 2, given the methodological complexity and lack of direct control by companies over the requisite data to assess Scope 3 emissions. In our experience as investors, these issues, and the usefulness of Scope 3 disclosures more generally, vary significantly across industries and the 15 categories of Scope 3 emissions. For these reasons, while we are generally supportive of the Commission's proposal to require disclosure of Scope 1 and Scope 2 emissions, we respectfully disagree with the Commission's approach to requiring disclosure of Scope 3 emissions in SEC filings."—BlackRock, June 2022

"We recommend that the Commission require material Scope 3 disclosures to be furnished in the New Form on a "comply or explain" basis, which allows issuers to either disclose material Scope 3 emissions or explain why certain emissions categories are not relevant to the issuer or not subject to reasonable estimation."—BlackRock, June 2022

"As proposed, a company's Scope 3 GHG emissions would include 15 distinct categories of its upstream and downstream activities. We recognize that not all of them will be relevant or material to all companies, and that reporting emissions relating to each such category would be onerous. In the interest of minimizing burden to companies while driving greater transparency for investors, we agree with limiting the Scope 3 GHG emissions disclosure requirement to apply only with respect to those categories of a company's activities in its value chain that are determined to be material."—Capital Group, June 2022

"Scope 1 and Scope 2 GHG emissions data alone provide an incomplete (and potentially inaccurate) picture of a company's overall carbon footprint and its ability to create and sustain long-term value through shifting consumer demands or changes in energy policy. Scope 3 GHG emissions data is thus a necessary supplement to Scope 1 and Scope 2 GHG emissions data, and we support making this disclosure mandatory for larger companies."—Capital Group, June 2022

"While some investors believe it is premature to mandate Scope 3 GHG emissions disclosure, and we recognize the challenges involved in measuring the same, we strongly believe—as described more fully

below—that larger companies should disclose this information to the extent material, subject to a safe harbor and regardless of whether the company has an emissions-related target or goal."—Capital Group, June 2022

"We also appreciate that the Commission recognizes the difficulties in calculating Scope 3 emissions and has proposed to require disclosure of Scope 3 emissions only if material, or if the company has set a GHG emissions reduction target or goal that includes its Scope 3 emissions… However, even if only a subset of public companies must disclose their Scope 3 emissions, the Proposed Rules will still have a wider impact. Companies not regulated by the Commission will have to estimate their GHG emissions so that the public companies they do business with can include these estimates in their required Scope 3 emissions disclosures. This could have unintended detrimental consequences for small-business formation, because it would make GHG emissions reporting another barrier to entry for companies."—Dimensional, May 2022

"Any disclosure requirements must be grounded in materiality and to that end, the SEC should not require mandatory reporting of Scope 3 Greenhouse Gas ("GHG") emissions ("Scope 3 emissions") at this time as this is an evolving space and current data is speculative. Should the SEC retain the requirement to disclose Scope 3 emissions in the Form 10-K, we strongly suggest it only require this disclosure if material to an industry (and thus material to the financial performance of companies within that industry), regardless of whether a company has set GHG emissions reduction targets or goals that include its Scope 3 emissions."—Fidelity, June 2022

"We do not believe that Scope 3 emissions—by definition—meet the materiality threshold for disclosure since this information is speculative, nascent, unreliable, and there are no current standards to ensure consistent and comparable data, resulting in the potential for investor confusion."—Fidelity, June 2022

"We strongly recommend that the SEC reconsider requiring the reporting of Scope 3 emissions data at this time and instead allow time for this area to mature. However, the SEC should not chill the voluntary disclosure and continued development of this information."—Fidelity, June 2022

"A large majority of our members believe that the Commission should not require companies to report Scope 3 emissions at this time, because of significant data gaps and the absence of agreed-upon methodologies to measure Scope 3 emissions. These deficiencies seriously undermine the ability of most companies to report consistent, comparable, and verifiably reliable data… As more companies make their Scopes 1 and 2 emissions data publicly available, these data can serve as the input for other companies' Scope 3 calculations. Mandating Scope 3 emissions after companies and investors gain experience with Scopes 1 and 2 reporting therefore ultimately will allow for more accurate reporting that will redound to the benefit of investors."—ICI, June 2022

"The Release requests comment on whether the Commission should require companies to use a quantitative threshold, such as a percentage of total emissions (e.g., 25%, 40%, 50%) when assessing

the materiality of Scope 3 emissions for purposes of determining their disclosure obligations. We recommend that the Commission not include in any final rule, or reference in any adopting release, such a quantitative threshold. Basing a mandate to disclose Scope 3 emissions on its relationship to overall aggregated emissions would require so many assumptions and caveats that ultimately it will be of little or no value for investors. Further, our members are concerned that if the Commission were to adopt the 40 percent threshold referenced in the Release, it effectively would encompass almost all companies, even financial services firms, given the wide breadth of emissions sources in a company's value chain."—ICI, June 2022

"The Commission should, however, provide greater flexibility with respect to Scope 3 emissions disclosures. Many aspects of the calculation and attribution of GHG emissions disclosures are in early stages of development, but Scope 3 emissions disclosure remains particularly untested. There continues to be significant practical challenges as a result of absent reliable emissions data and inconsistent methodologies, as well as wider technical issues such as 'double counting'… We urge the Commission to refrain from mandating Scope 3 emissions disclosures, and consult further with a range of constituencies regarding the path forward on Scope 3 GHG reporting."—State Street, June 2022

"It also should be acknowledged that there will always be an inherent timing lag in the availability of Scope 3 emissions data, even estimated or modeled, given interdependence on Scopes 1 and 2 emissions data. This lag presents a legitimate practical challenge to contemporaneous disclosure of Scope data with Scopes 1 and 2 data with respect to the same period."—State Street, June 2022

"We recommend that the Commission revisit the question of mandatory Scope 3 GHG data disclosure in the future, rather than adopting mandatory requirements now. This does not mean that we have changed our view. As we said in our June 2021 letter, we believe that, in a future state, the SEC should require Scope 3 GHG data for industries where these emissions are material. For other industries, we reiterate our recommendation that the Commission phase-in this disclosure requirement once sufficient experience has been gained reporting Scope 1 and Scope 2 GHG data consistently and accurately."—T. Rowe Price, June 2022

"With respect to these companies [that have more acute climate risks or that have set climate-related targets using metrics not addressed in the foundational disclosures], investors would be best served by more targeted and flexible disclosures than the full Scope 3 framework proposed, which includes significant data requirements and potentially broad applicability. We encourage the Commission to ensure that any additional disclosure burdens that flow to companies that have set targets, or with more acute climate risks, are limited to the specific data elements required to describe the target set or the more acute risk."—Vanguard, June 2022

Board-Level Climate Expertise

"We do not think it is necessary or, in some cases, appropriate to require issuers to disclose the identity of directors who are responsible for such oversight, or to identify "climate expert" directors. We believe that robust board oversight with respect to climate requires a whole-of-the-board approach, and the

identification of "specialist" directors is not conducive to a holistic undertaking by the board." — BlackRock, June 2022

"Fidelity is a supporter of board governance and transparency, however we believe that the Proposal's requirements [regarding climate-related expertise at board level] are overly prescriptive and would insert new obligations on boards that are inconsistent with their general oversight obligations. We would expect that a board's duties already encompass reasonable inquiries about climate-related risks that are relevant and material to a registrant's business. Indeed, a board's oversight responsibility would include review of many other aspects of a registrant's business and not be limited specifically to climate-related risks. In other words, there is no justification for singling out climate-related risks for requiring such a heightened level of board disclosure concerning their member's qualifications and oversight responsibilities." – Fidelity, June 2022

"We also agree with the ICI that companies should not be required to disclose whether any member of their board of directors has expertise in climate-related risks. This requirement goes beyond TCFD recommendations, is duplicative of existing disclosure requirements (namely, Item 401(e) of Regulation S-K) and also fails to recognize the supervisory nature of the board's role; to the extent needed and desired, boards rely on experienced employees or outside advisers for advice on matters such as climate-related risks. As-is, we believe this disclosure requirement will place undue pressure on companies to add a climate expert to their board of directors when what matters more is the collective experience and expertise that the board brings to bear as a whole." — Capital Group, June 2022

"We support the disclosure that is consistent with the TCFD framework regarding a board's process, whether the board considers climate-related risks as part of its oversight, and its oversight of any targets or goals. We recommend, however, that any final rule not require companies to disclose "the identity of any board members or board committee responsible for the oversight of climate-related risks" and whether any director "has expertise in climate-related risks, with disclosure detailed enough to fully describe the nature of the expertise." These two aspects of the proposed requirement are particularly unnecessary given that boards provide oversight and rely on experienced employees or outside advisers for advice on such technical matters. The proposed approach may cause companies to create larger, and possibly less cohesive, boards to the detriment of the company's investors." — ICI, June 2022

"Specifically, the proposed requirement that registrants disclose the climate risk expertise of a designated member of a board of directors is not appropriate. This could imply that boards without directors with such specific expertise are deficient, which we believe is inaccurate. It also suggests that the full board should defer to a single director with respect to the oversight of potential material climate-related financial risks. We believe it is more appropriate to rely on the collective board for this purpose, as with the oversight of other material risks. Investors do not expect companies to focus climate risk expertise within a designated director, as it could impact their ability to identify and appoint directors with other experience. Moreover, existing disclosures already provide investors with sufficient information regarding the collective expertise of a board of directors." — State Street, June 2022

"Although we support the requirement for enhanced transparency around climate risk governance, we recommend eliminating the requirement that registrants identify if a board member has climate-related expertise and the process and frequency of board-level discussions. Single-issue expertise is not a quality that we have traditionally sought in board members, preferring instead well-rounded candidates who are able to contribute in multiple ways to a company's governance."—T. Rowe Price, June 2022

International Alignment

TCFD

"We applaud the Commission for taking this important first step of proposing a framework that, generally speaking, incorporates the Commission's existing guidance on climate-related disclosures while aligning with the core tenets of the TCFD framework. We view the Commission's proposal as an important contribution to a multi-year, multi-jurisdiction effort for improving the availability, quality, comparability, timeliness, and interoperability of climate-related disclosures."—BlackRock, June 2022

"We are concerned that certain elements of the proposal, which go beyond or differ from the recommendations of the TCFD, will decrease the effectiveness of the Commission's overarching goal of providing reliable, comparable, and consistent climate-related information to investors."—BlackRock, June 2022

"We are pleased, in particular, that the Proposed Rule draws from the Task Force on Climate-related Financial Disclosures ("TCFD"), the leading global standard for material climate-related disclosures… We agree that TCFD provides the appropriate framework for what the Commission seeks to accomplish with respect to issuer climate-related disclosures."—Capital Group, June 2022

"As a global investor, we appreciate the SEC using the TCFD's recommendations as the foundation for the proposal, as these are similarly reflected in the International Financial Reporting Foundation's recently appointed International Sustainability Standards Board. Likewise, the TCFD's recommendations have been well vetted with significant numbers of both US and internationally listed companies currently reporting under this voluntary framework."—Franklin Templeton, June 2022

"We support the Commission's approach. Building on the long-standing aspects of the TCFD framework would better enable investors to analyze and compare any newly required disclosures. Taking this approach will also position the Commission to participate in discussions with foreign authorities and international standard-setting bodies to promote a global baseline of consistent and comparable sustainability-related disclosure to support the global character of asset managers, other types of companies, and the financial markets."—ICI, June 2022

"We strongly welcome the Commission taking initiative in this area and leveraging global frameworks such as the Taskforce on Climate-related Financial Disclosures ("TCFD"). Improved climate disclosure will benefit investors that are increasingly integrating climate-related financial risks and opportunities into their investment decisions. Increased standardization will also benefit U.S. companies that are currently

navigating a myriad of requirements and expectations from a broad range of stakeholders."—State Street, June 2022

"We are, however, concerned that multiple aspects of the Commission's proposal do not reflect the nascent state of climate data, methodologies and reporting capabilities. The TCFD framework, by focusing on key principles, has flexibility that allows for an evolution in climate-related disclosures… The detailed and prescriptive nature of the Commission's proposal at this juncture, coupled with increased costs and potential liability that companies will assume when providing such disclosures, would more than likely constrain, rather than encourage, effective climate disclosures by U.S. registrants now and in the future."—State Street, June 2022

"We support the Commission's efforts to promote the convergence of regulatory requirements. As we stated in our June 2021 letter, consistency across jurisdictions and within each regulatory regime is critical for global asset managers, who need comparable sustainability and climate-related disclosures in every country in which they invest. To that end, T. Rowe Price strongly supports the SEC's efforts to build off existing frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol)."—T. Rowe Price, June 2022

"The proposal to align these disclosures to well-established and widely respected frameworks, such as the Task Force on Climate-related Financial Disclosures, will improve the usability of the disclosures and reduce costs for investors and companies."—Vanguard, June 2022

ISSB

"We strongly support a global baseline of climate-related disclosure standards to enable investors to make more informed decisions. We urge regulators to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance."—BlackRock, June 2022

"We note that the IFRS Foundation's International Sustainability Standards Board (ISSB) also is basing its proposed international standards on the TCFD framework and its work has received strong support from several jurisdictions and the International Organization of Securities Commissions of which the SEC is a member. We believe that the SEC should look closely at the work of the ISSB and actively engage the ISSB to ensure comparability of the SEC framework with any final ISSB standards."—ICI, June 2022

"We applaud the SEC for recognizing the current efforts of global sustainability standards and strongly support the reliance on global standards, such as the ISSB, for reporting by foreign private issuers. This will achieve the SEC's goal of providing investors with useful information while mitigating the potential burden on issuers to disclose on regionally nuanced standards. We believe permitting reliance on global sustainability standards will enhance disclosure by promoting consistency and comparability for investors."—Fidelity, June 2022

"We also encourage the SEC to continue to actively lead and participate in dialogues around corporate disclosure, including the International Financial Reporting Standards Foundation's (IFRS) work to establish the International Sustainability Standards Board (ISSB) and develop internationally accepted standards. We recognize that achieving international harmonization is challenging, and we encourage the Commission to adopt domestic standards that are substantively aligned with the ISSB. For example, in the case of foreign private issuers (FPIs), our view is that investors' information needs will be better addressed if FPIs can comply with non-U.S. climate reporting regimes recognized by the Commission as equivalent. From an investor perspective, the ability to compare registrants in markets with substantially equivalent disclosure standards should be a priority."—T. Rowe Price, June 2022

Appendix 2: Further Information

Exhibit 6 Asset Managers' Comment Letters to the SEC on Climate Change Disclosures

		Response to 2022 proposed climate rule		Response to 2021 request for public input	
Scope	**Rank**	**Date**	**URL**	**Date**	**URL**
Vanguard	1	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20132302-302834.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8906800-244148.pdf
BlackRock	2	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20132288-302820.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8906794-244146.pdf
Fidelity Investments	3	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20132177-302674.pdf	n/a	
Capital Group	4	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20132645-303164.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8906913-244217.pdf
State Street	5	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20131965-302424.pdf	June 14, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8914407-244702.pdf
T. Rowe Price	6	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20131721-302138.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8906961-244220.pdf
Invesco	7	n/a		June 10, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8904285-243731.pdf
JPMorgan	8	n/a		n/a	
Dimensional	9	May 13, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20128689-293923.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8907499-244229.pdf
Franklin Templeton	10	June 17, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20132326-302888.pdf	n/a	
ICI	n/a	June 16, 2022	https://www.sec.gov/comments/s7-10-22/s71022-20131852-302300.pdf	June 11, 2021	https://www.sec.gov/comments/climate-disclosure/cll12-8883549-240438.pdf

Source: Fund data from Morningstar Direct as of May 31, 2022; comment letters from sec.gov as of June 24, 2022. Rank refers to total assets in U.S. open-ended funds and ETFs—see Exhibit 4.

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