L/A/CERA Los Angeles County Employees Retirement Association
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June 10, 2021

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609
via email at rule-comments@sec.gov

RE: Request for Comment on Climate Change Disclosures

Dear Ms. Countryman:

The Los Angeles County Employees Retirement Association (LACERA) appreciates the opportunity to submit comments in response to the Securities and Exchange Commission's (SEC or Commission) March 15, 2021, request for market input regarding corporate disclosures of financial risks and opportunities related to climate change and prospective further regulatory guidance.[1] We welcome the Commission's solicitation of feedback on "whether climate change disclosures adequately inform investors about known material risks, uncertainties, impacts, and opportunities," and whether climate-related disclosure requirements should be "one component of a broader ESG disclosure framework."[2] The Commission's attention to the reliability, consistency, and investment-usefulness of climate and environmental, social, and governance (ESG) disclosures is timely given market developments over the decade since the SEC's 2010 guidance on climate change reporting.[3]

LACERA is the largest county pension system in the United States, with approximately $70 billion in plan assets, as of May 31, 2021, including equity holdings in about 2,400 U.S. companies. LACERA's mission is "to produce, protect, and provide the promised benefits" for over 170,000 beneficiaries who serve the most populous county in the nation. We encourage public policies governing financial markets that promote sustainable value to enhance our ability to fulfill our mission.

Our comments to the Commission are guided by the investment beliefs and principles outlined in LACERA's *Investment Policy Statement*[4] and *Corporate Governance and Stewardship Principles*.[5] First, LACERA recognizes that ESG factors may shape the risk-return profile and financial performance of our investments and that material ESG factors may vary by the nature of a company's business strategy, industry, and geography, as well as investment time horizons.[6] Second, we

[1] U.S. Securities and Exchange Commission. "Public Input Welcomed on Climate Change Disclosures." March 15, 2021. Available at: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.
[2] ibid.
[3] U.S. Securities and Exchange Commission. "Commission Guidance Regarding Disclosures Related to Climate Change." February 2, 2010. Available at: https://www.sec.gov/rules.interp/2010/33-9106.pdf.
[4] LACERA. Investment Policy Statement. December 11, 2019. Available at: https://www.lacera.com/BoardResourcesWebSite/BoardOrientationPDF/policies/invest_policy_stmt.pdf.
[5] LACERA. *Corporate Governance and Stewardship Principles.* March 2021. Available at: http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf.
[6] LACERA. Investment Policy Statement. Revised December 11, 2019. Available at: https://www.lacera.com/BoardResourcesWebSite/BoardOrientationPDF/policies/invest_policy_stmt.pdf.

recognize that climate change in particular presents financial risks and opportunities for both individual portfolio companies as well as to the broader economy in which we invest.[7] Third, we consider that financial markets work most efficiently when investors have timely, reliable, and comparable information about material aspects of a firm's performance, including how they manage climate-related and broader ESG factors. Transparency of a firm's key financial and operating performance is critical for investors to assess a firm's financial viability and prospects for creating and sustaining financial value. And lastly, as a diversified, global investor with exposures in over 65 global markets, it is an integral component of our fiduciary duty to identify, diversify, and mitigate known investment risks in our portfolio. To the extent that a risk is not expected to be rewarded over the long-term or mitigated through diversification, LACERA endeavors to minimize it. Adequate information to identify and assess risks is of paramount importance to fulfill our fiduciary duty.

Consistent with the above, reliable disclosures on all material performance and risk indicators are critical to LACERA's investment process. We rely on companies to assess and disclose material risks so that they may pursue suitable, resilient business strategies and so that we as investors may adequately price risks and inform investment decisions. In recent years, we have incorporated climate and ESG data – to the extent it is available and reliable – into strategic asset allocation models, total fund portfolio analytics, and asset manager selection and monitoring, to highlight financial risks and opportunities and pursue deliberate strategies in line with our investment objectives.

However, current market disclosures of climate and ESG factors lack consistency, comparability, reliability, and often availability. By way of example, only 40% of LACERA's public market holdings disclose carbon emissions. Emissions are a critical baseline data point for further investment analysis, such as stress testing and scenario analyses of forward-looking investment risks, including prospective impacts related to a transition to a low-carbon economy and climate-related public policies. Emissions disclosures are more scant in private markets, where despite numerous efforts—such as investor demand, mandatory disclosures in some markets, and select industry-led initiatives (such as the Global Real Estate Sustainability Benchmark, or GRESB[8])—reporting remains incomplete and inconsistent.

Given piecemeal industry reporting, LACERA procures emissions and other climate-related data from multiple third party vendors in order to assess climate-related investment risks. These vendors model and estimate climate-related exposures for publicly-listed companies, such as scope 1, 2, and 3 carbon emissions. LACERA uses several data providers to mitigate the margin of error inherent in estimations, versus directly reported and assured corporate disclosures.

Third party data modelling is a suboptimal market solution for disclosure of material risks. It imposes expenses on capital providers and may privilege institutional investors with adequate resources over retail investors who may lack resources to access similar data points. Democratizing access to meaningful climate and ESG data could benefit all investors by equitably availing market information for investment analysis and decisions. Furthermore, facilitating comparable,

[7] LACERA's *Corporate Governance and Stewardship Principles,* page 24.
[8] Global Real Estate Sustainability Benchmark at https://gresb.com.

consistent, and timely data on material performance indicators, such as climate, can strengthen market efficiency and facilitate capital formation, in line with the SEC's mission and to investors' benefit, including diversified asset owners such as public pension plans.

LACERA has actively advocated policy and industry efforts to improve availability of material disclosures. LACERA formally endorsed the Task force on Climate-related Financial Disclosures (TCFD)[9] in 2018 and is a formal signatory to the Global Investor Statement to Governments on Climate Change,[10] which urges governments to facilitate climate-related corporate reporting. LACERA is a member of the Investor Advisory Group of the Sustainability Accounting Standards Board (SASB),[11] which has promulgated material, industry-led ESG reporting standards for 77 industries, among which climate factors are among the most prominent across industries. LACERA is active in the Climate Action 100+ to urge climate risk reporting and emissions reductions at 160 of the most carbon-intensive global companies, which collectively account for an estimated 80% of global industrial emissions and about half of LACERA's public market Scope 1 and 2 carbon footprint.[12]

The SEC can play a constructive role in facilitating better corporate disclosures of climate and ESG data. In the SEC's stated effort to "evaluate our disclosure rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information," LACERA suggests the Commission give consideration to the following suggestions:

1. Mandatory Disclosures of Baseline Climate, Human Capital, and Corporate Political Spending Information

The SEC should facilitate reporting of a select number of key, broadly applicable climate and ESG metrics that enable investors to assess individual registrant performance and exposures, as well as to evaluate systemic market risks:

- *Climate Change*: Core metrics like greenhouse gas emissions are a foundational building block to identify concentrated risks and conduct portfolio analysis. Voluntary reporting to date has been too slow to yield consistent, comparable data for investor use.

- *Human Capital*: LACERA reiterates the positions articulated in our October 22, 2019, letter to the SEC encouraging the Commission to require both principles-based and rules-based disclosures of core human capital metrics.[13] Certain consistent, universally applicable metrics would facilitate a base level of disclosures and comparability on matters such as workforce composition and

[9] Task Force on Climate-Related Financial Disclosures. https://www.fsb-tcfd.org.
[10] 2021 Global Investor Statement to Governments on the Climate Crisis. https://www.lacera.com/investments/corporate_governance/global_investor_statement_climate_crisis.pdf.
[11] Sustainability Accounting Standards Board. https://www.sasb.org.
[12] Climate Action 100+. https://www/climateaction100.org.
[13] LACERA. Letter to the U.S. Securities and Exchange Commission regarding Regulation S-K and enhanced human capital disclosures. October 19, 2019. https://www.lacera.com/investments/corporate_governance/lacera_letter_to_sec.pdf

structure (such as the number of full-time, part-time, and contingent workers, as well as diversity data consistent with the Equal Employment Opportunity Commission's EEO-1 reporting, where permissible), indicators of workforce stability (such as turnover), and data points enabling investors to assess a registrant's return on human capital investments.

- *Corporate Political Spending*: Corporate expenditures on elections and lobbying should be consistent with the interests of a firm and its investors. While engagement with policymakers may benefit investors by shaping effective policies, using corporate treasury monies in the political arena also creates certain compliance, legal, reputational, and operational risks for companies. LACERA has long called on portfolio companies to ensure board oversight and full transparency of all political and lobbying expenditures. Transparency promotes accountability that any expenditures are in line with investors' interests. However, market disclosures remain piecemeal and incomplete. While companies may disclose some categories of spending – such as direct candidate expenditures and political spending through trade associations – they often omit any spending via organizations which are not legally required to be disclosed. Pocketed reporting risks creating an incentive for significant expenditures to be funneled through undisclosed channels, such as organizations registered under IRS Code 501(c)(4). LACERA supports complete and thorough reporting and believes the SEC should require comprehensive reporting for all corporate assets spent on political activities.

2. Leverage and Facilitate Market Adoption of ESG Reporting Consistent with Standards Promulgated by an Independent Standards-Setting Organization (or Organizations)

LACERA recognizes that financially-relevant ESG factors may vary by a company's business strategy, industry, geography, and investment time horizon. Moreover, materiality may be dynamic, in that new financially-impactful factors may emerge, such as cybersecurity and ransomware, as well as global health threats like the COVID-19 pandemic.

In addition to the core climate and ESG metrics outlined above, the SEC should leverage significant industry-led initiatives and provide guidance to facilitate market reporting consistent with recognized, independent, industry-led standard-setting bodies, such as SASB and the TCFD. Suitable independent standard setters are positioned to maintain regular market input on dynamic ESG metrics and consider industry variations in materiality, where appropriate.

3. Global Harmonization

LACERA is a global investor with investment exposures in over 65 markets. About a quarter of our assets are invested with entities domiciled outside of the U.S. Among the U.S. domiciled firms, many portfolio companies have operations in various non-U.S. markets.

As global investors, we encourage the Commission to consider effective measures to harmonize any forthcoming regulatory guidance with significant international efforts to establish ESG reporting standards, such as the current effort by the International Financial Reporting Standards (IFRS) Foundation.[14]

4. Assurance and Verification

The SEC should give consideration to effective measures to promote the credibility and reliability of climate and ESG disclosures, and mitigate the risks of "window dressing" or "green washing." We find helpful narrative descriptions of methodologies employed, references to any standards used to guide calculations, and "comply or explain" approaches of whether disclosures have been assured and verified.

5. Safe Harbors

Methodologies for calculating some climate and ESG metrics are nascent and evolving. We recognize market participants may seek safe harbors from legal liabilities for ESG reporting. In considering any prospective safe harbors, we encourage the SEC to carefully study and assess the prospective impact of safe harbors to avoid unintended consequences which may undermine the reliability and investment-usefulness of disclosures.

…

We commend the Commission for soliciting market input. We reiterate our belief that the Commission's review of the current effectiveness and availability of disclosures related to climate change and broader ESG factors is timely and wholly in line with the SEC's mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

Please contact the undersigned at 1 (626) 564-6000 or jgrabel@lacera.com if you would like to further discuss any of the above remarks.

Sincerely,

Jonathan Grabel
Chief Investment Officer

CC: The Honorable Gary Gensler, Chair
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner

[14] IFRS Foundation. https://www.ifrs.org.