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July 28, 2022

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: The Enhancement and Standardization of Climate-Related Disclosures for Investors
(Release Nos. 33-11042; 34-94478; File No. S7-10-22)

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) proposed rules regarding the enhancement and standardization of climate-related disclosures for investors, published in the Federal Register on April 11, 2022 (Proposed Rules).[1]

LACERA is the largest county pension system in the United States, with approximately $73 billion in plan assets as of May 30, 2022, 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 strengthen our position to fulfill our fiduciary duties and serve our mission.

We welcome the Commission's Proposed Rules to require publicly-listed companies to disclose climate-related risks that may have a material impact on their financial performance and greenhouse gas emissions to enable investors to assess exposures to such risks. Our comments to the Commission are guided by the investment beliefs and principles outlined in LACERA's *Investment Policy Statement*[2] and *Corporate Governance and Stewardship Principles*[3] and further our letter to the Commission dated June 10, 2021, responding to the Commission's request for information related to climate risk disclosure practices and uses (June 2021 Letter).[4]

As articulated in our guiding investment policies, LACERA recognizes that climate change presents financial risks and opportunities for both individual portfolio companies in our portfolio as well as to the broader economy in which we invest.[5] 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 material risks such as climate-related

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[1] United States Federal Register. *The Enhancement and Standardization of Climate-Related Disclosures for Investors. File Number S7-10-22.* April 11, 2022. Available at: https://www.federalregister.gov/documents/2022/04/11/2022-06342/the-enhancement-and-standardizaton-of-climate-related-disclosures-for-investors.
[2] LACERA. *Investment Policy Statement*. December 11, 2019. Available at: https://www.lacera.com/BoardResourcesWebSite/BoardOrientationPDF/policies/invest_policy_stmt.pdf.
[3] LACERA. *Corporate Governance and Stewardship Principles.* March 2021. Available at: http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf.
[4] LACERA. *Comment Letter to the Securities and Exchange Commission*. June 10, 2022. Available at: https://www.sec.gov/comments/climate-disclosure/cll12-8968876-245946.pdf.
[5] LACERA's *Corporate Governance and Stewardship Principles,* page 24.

factors that may impact firm value and free cash flow. 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. As a diversified, global investor with exposures in over 65 global markets, it is integral to our ability to fulfill 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 in the long-term or mitigated through diversification, LACERA endeavors to minimize it.

Accordingly, we welcome the Proposed Rules to enhance the consistency, comparability, and reliability of market disclosures related to climate risks. As stated in our June 2021 Letter:[6]

> 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.

Our comments to the Commission's Proposed Rules are framed into five parts:

1. Alignment and Harmonization with Recognized Global Reporting Frameworks

LACERA is a global investor with investments spanning more than 65 global markets and over 8,000 companies, in line with our fiduciary duty to diversify risks. Our portfolio holdings have global reach and supply chains. We have endorsed the Task force on Climate-related Financial Disclosures (TCFD),[7] have been members of the Sustainability Accounting Standards Board Investor Advisory Group and are members of the newly formed International Sustainability Standards Board (ISSB) Investor Advisory Group,[8] and are a signatory to the Investor Statement to Global Governments on Climate Change,[9] all of which support cohesive measures to facilitate consistent, reliable, and comparable corporate disclosures of financially relevant, climate-related risks regardless of market or jurisdiction.

We welcome the Proposed Rules' reference and incorporation of the TCFD reporting framework, which we view as a globally recognized framework to enhance financially-material, decision-useful climate risks as informed by market participants, inclusive of firms' governance oversight of climate risks, key metrics, and relevance to business strategy. As referenced in our June 2021 Letter, the Proposed Rules' leveraging of globally recognized, market-informed frameworks further global harmonization of reporting guidance and support consistency, comparability, and reliability of needed climate disclosures. Alignment with the TCFD, as proposed, would also enable cost-effectiveness for firms and investors alike, by minimizing the need for firms to navigate distinct and possibly divergent reporting demands in different markets in which they operate. We encourage the proposed incorporation of the TCFD framework in any final Commission rules.

[6] June 2021 Letter, page 2.
[7] Task Force on Climate-Related Financial Disclosures. https://www.fsb-tcfd.org.
[8] International Financial Reporting Standards International Sustainability Standards Board. https://www.ifrs.org/groups/international-sustainability-standards-board/.
[9] 2021 Global Investor Statement to Governments on the Climate Crisis. https://www.lacera.com/investments/corporate_governance/global_investor_statement_climate_crisis.pdf.

2. Clear Disclosure of Baseline Data Points Across the Value Chain

We also welcome the Proposed Rules' aim to facilitate reporting of greenhouse gas emissions across the full scope of the value chain, inclusive of Scope 3 emissions. As we noted in our June 2021 Letter, "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." At present, only about half (48 percent) of LACERA's public market holdings disclose carbon emissions. We engage multiple vendors to aggregate reported emissions and model the remainder, including Scope 3 emissions when not disclosed.

Scope 3 emissions are an important baseline point of information for analysis. We recognize that methodologies to estimate Scope 3 emissions are complex and evolving. It is important to note, however, that Scope 3 emissions are estimated to account for the vast majority of our diversified portfolio emissions exposures (estimated to be over 80%). Moreover, Scope 3 emissions implicate sectors and industries where Scope 1 and 2 emissions may be minimal. In other words, business sectors with seemingly low emissions may in fact be impacted by transition risk across their full value chain. Accordingly, any individual security analysis or full portfolio assessment of aggregate value-at-risk to climate-related factors may be incomplete without considering Scope 3 emissions.

We therefore welcome the Proposed Rules' incorporation of guidance to facilitate availability of baseline data used by providers of capital to analyze security and portfolio investment risks, including meaningful disclosure of emissions across the full scope of the value chain.

3. Pragmatic Transition and Safe Harbor Provisions to Facilitate Meaningful Adoption

We consider it appropriate for the Proposed Rules to provide a phase-in period for reporting requirements and safe harbor protections. We appreciate the Commission's consideration of our comments in our June 2021 Letter and continue to believe it is important to strike an appropriate balance between the market demand and urgency for consistent, comparable, and reliable climate risk disclosures and appropriate timeframes and reasonable safe harbors from legal liabilities that support meaningful disclosures as climate reporting methodologies improve and evolve.

4. Assurance and Verification

We also reiterate our support, as referenced in our June 2021 Letter, for effective measures that enhance reliability, such as assurance. We welcome the Proposed Rules' considerations for assurance and attestation and we incorporate, by reference, comments provided by the Council of Institutional Investors on these points, encouraging a "requirement that the attestation report must be prepared pursuant to standards that are established by a body or group that has followed due process procedures, including the broad distribution of the framework for public comment."[10]

[10] Council of Institutional Investors. *Comment Letter to the Securities and Exchange Commission*. May 19, 2022. Page 8. Available at: https://www.sec.gov/comments/s7-10-22/s71022-20191121-294979.pdf.

5. Identifying and Mitigating Unintended Consequences

We encourage the Commission to identify and mitigate any unintended consequences in the Proposed Rules' provisions that may undermine the stated objective of enhancing availability of consistent, reliable, and comparable data to market participants on climate risks.

By way of example, we reference the Proposed Rules' provisions by which certain registrants would be required to disclose Scope 3 emissions only if they have adopted related reduction targets and certain registrants to report scenario analyses only if they have conducted such analysis.[11] We welcome prudent forward-looking planning by portfolio holdings (including analysis and performance targets). We welcome regulatory guidance for meaningful disclosure of material risks, in line with the TCFD, while not creating a disincentive for an entity that has yet to develop related reduction targets or conduct scenario analysis to avoid or limit such analysis in scope or rigor.

Similarly, the economic and financial impacts of climate-related risks and opportunities span our full portfolio, including across both public and private markets. In the effort to enhance consistency, comparability, and reliability of climate-related financial risks, market participants such as diversified public pensions would not be well-served if such assets are simply transferred from public to private markets. We encourage the Commission to give consideration to effective measures by which enhanced public company climate disclosures support the Commission's broader mission to facilitate capital formation and market integrity across all financial markets, enhanced by greater clarity of investment risks such as those related to climate, without concentrating opacity of climate risks within any segment of financial markets.

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We commend the Commission for soliciting market input on the Proposed Rules to enhance the availability of consistent, comparable, and reliable disclosures to market participants on climate-related financial risks and opportunities. We believe the aim of the Proposed Rules to be timely and wholly in line with the SEC's mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. We welcome the Commission's consideration of our comments to avail meaningful information to enhance our investment decisions and strengthen our position to fulfill our fiduciary duties to produce and protect financial returns.

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 Jaime Lizárraga, Commissioner
The Honorable Hester Peirce, Commissioner
The Honorable Mark T. Uyeda, Commissioner

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[11] Proposed 17 CFR229.1502(f) and proposed 17 CFR 229.1504(c)(1).