

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

June 2, 2021

Dear Chair Gensler:

Thank you for the opportunity to submit our thoughts in response to the March 15, 2021 request for public comments on climate change disclosure. We believe climate change presents a systemic risk that is already creating disruptions within company operations, influencing consumer preferences and helping drive asset allocation decisions. We applaud the Commission's efforts to examine the disclosure rules with an eye toward facilitating the disclosure of consistent, comparable and decision-useful information on climate change.

DSC Meridian is a corporate credit and fixed income asset manager focused on investment opportunities in the high yield universe. We are fundamental investors who integrate Environmental, Social and Governance (ESG) factors into our investment process as a strategic tool that guides our engagement with portfolio companies. As investors, we believe there is an urgent and compelling need for consistent, comparable and reliable ESG disclosures from companies that access the capital markets.

In particular, we believe there are three critical areas where the Commission's action will result in standardized, comparable, transparent, and auditable disclosure from public and private companies irrespective of size that will help investment decision making:

1. Companies can and should calculate and disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions.
2. To minimize the reporting burden on issuers, the SEC should draw from currently-utilized reporting frameworks to create a standard set of disclosures that are included in company SEC filings.
3. Companies should disclose more robust data around scenario planning, climate strategy, board oversight, risk management, and management responsibility for these issues.

First, we believe companies can and should disclose their scope 1, 2, and 3 greenhouse gas emissions, as these data offer vital information about climate risks. Greenhouse Gas Protocol¹ publishes a corporate, global standard making the process of calculating accurate emissions straightforward and feasible even for smaller companies. This accepted protocol helps public and private companies calculate how much fuel is consumed and how said fuel translates into carbon.

¹ GHGprotocol.org

Such disclosure would provide substantial important data to investors: we estimated that the MSCI USD High Yield Index represents approximately \$1.5 trillion of debt and roughly 2 billion metric tons of absolute, annual carbon emissions (scope 1 and scope 2).² For comparison's sake, annual emissions from the issuers in the high yield index are greater than the total emissions from the entire U.S. transportation industry.³

While different industries face unique climate change risks, quality climate disclosures begin with absolute scope 1 and scope 2 emissions data. Scope 3 emissions are more complex to calculate; therefore, we recognize a phased in approach to scope 3 disclosure may be necessary. According to data from MSCI⁴ only about 18% of the constituents of the MSCI ACWI IMI Index reported scope 3 emissions (as of March 2020). Since the lion's share of some companies' emissions are in the value chain (oil and gas, for example), we believe disclosure should be mandatory, standardized, and designed to minimize the risk of double counting in order to present a full carbon footprint picture.

Second, rather than starting from scratch, we believe the Commission should draw from existing reporting frameworks to create a standard set of disclosures that can be integrated into the appropriate SEC filings. Our analysts recently conducted a GHG disclosure assessment of the 963 issuers in the MSCI USD High Yield Corporate Bond Index and discovered that only 15% of issuers disclosed scope 1 and scope 2 emissions. Within that 15%, disclosure is not universal or of uniform quality; what currently exists is a patchwork of voluntary disclosures using multiple frameworks. Most companies already utilize the GRI framework or SASB framework. According to the Governance & Accountability Institute⁵, 47% of the Russell 1000 companies that provided sustainability disclosures in 2019 used the GRI framework; 23% referenced or aligned with SASB and 14% with the Task Force on Climate-related Financial Disclosures (TCFD). We recommend the Commission build upon these existing frameworks to design a universal reporting structure.

In addition, any rulemaking should seek to harmonize with disclosure requirements in other jurisdictions; this would offer the advantage of minimizing the reporting burden on companies and allow for the crucial investor objective of obtaining comparability across borders. We urge the Commission to take into consideration the EU Taxonomy and the EU Directive on Corporate Sustainability Reporting as well as efforts by the G20, the G7 and the Financial Stability Board, and others to develop a set of reporting standards that will build on the work of the TCFD, a framework endorsed by some 1,500 organizations⁶.

Third, we believe Companies should disclose more robust data around scenario planning, climate strategy, risk management, and management responsibility for these issues. Too often, we see climate-related and other ESG risks cited in 10-Ks and 20-Fs, but often cannot find clear evidence elsewhere in company disclosures of how those risks are managed from the Board level down through the

² MSCI Carbon Delta, ISS, DSC Meridian estimates as of 2/28/21

³ U.S. Environmental Protection Agency, *Fast Facts: U.S. Transportation Sector Greenhouse Gas Emissions 1990-2018*, June 2020 <https://nepis.epa.gov/Exe/ZyPDF.cgi?Dockey=P10QZK4P.pdf> (accessed May 2021).

⁴ Brendan Baker, "Scope 3 Carbon Emissions: Seeing the Full Picture," *MSCI*, September 17, 2020, <https://www.msci.com/www/blog-posts/scope-3-carbon-emissions-seeing/02092372761>.

⁵ "2020 Flash Report Russell 1000," Governance & Accountability Institute, October 2020, <https://www.ga-institute.com/research-reports/flash-reports/2020-russell-1000-flash-report.html>.

⁶ "TCFD Status Report 2020," *Task Force on Climate-related Financial Disclosures*, October 2020, https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

organization. If an issuer describes extreme weather and climate change as material risks, for example, they should be required to disclose how those risks are being addressed.

Data without context is often not as helpful to investment decision-making. As a result, we believe metrics must be accompanied by a sustainability disclosure and analysis section similar to the current Management's Discussion and Analysis of Financial Condition and Results of Operations, and ideally integrated into a company's 10-K or 20-F. Companies should disclose how they are identifying the material ESG factors disclosed and how they are measured.

We believe, above all, ESG considerations should be treated like other business risks and opportunities and managed as such. The endpoint of ESG-related disclosures should not be an annual sustainability report, but a more resilient enterprise. Disclosure should be both a communications and management tool informing strategy and leading to operational improvements. Additionally, we believe, like other financial disclosures, ESG disclosure should be third-party verified to ensure accuracy. Only about half of companies audit or third-party verify their sustainability disclosure.⁷ In addition to verification, the data should be certified by the CEO or another named executive officer. We believe that this level of rigor is essential to ensuring accurate data and climate risk are integrated with enterprise risk and operations.

The Commission's work will provide much needed clarity to companies and investors, easing the reporting burden for the former and filling in the data gaps for the latter, thereby improving underwriting and investment conviction. Thank you, again, for the opportunity to provide feedback. We look forward to following this important initiative.

Sincerely,

Sheru Chowdhry
Founder and CIO

⁷ "The time has come: The KPMG Survey of Sustainability Reporting 2020," December 2020, *KPMG*, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>