

Submitted via email

June 12, 2021

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Public Input on Climate Change Disclosures (“the Consultation Paper”)

Dear Ms. Countryman,

Climate change is the single greatest challenge humankind has faced and addressing its impacts will require the largest reconstruction of the global economy since the Industrial Revolution. A convergence of environmental, social and governance factors will impact the pricing of financial assets and precipitate a large-scale reallocation of capital. The climate crisis is foremost among those factors, creating economic and investment risks and opportunities on an unprecedented scale. MSCI¹ welcomes the initiative launched by the Commission as an important first step towards establishing the transparency needed by investors to manage the financial risks and opportunities presented by climate change and support the transition to sustainable growth.

Climate change disclosure in the United States continues to develop but largely still falls short of what is required by investors to effectively model the impact of climate risk on their portfolios. There are a range of actions needed to address this pressing issue and we have set out in Annex 1 our detailed responses to selected questions posed in the Consultation Paper. In addition, we have identified three underlying objectives in enhancing and broadening climate change disclosure:

1. **Climate change data should be consistent, comparable and timely.** Investors would benefit from consistent, comparable and timely mandatory disclosures in order to better assess the nature, size and timing of the investment risks they face related to climate change.
2. **The most critical core data disclosures include companies’ complete carbon emissions footprint, facility locations and supply chain,** and there are large inconsistencies in the reporting of this data today. A minimum standard of reporting would enable a base comparison across portfolios containing companies in different sectors. Investors invest in both public and private companies and the most beneficial disclosure to the market would cast the minimum core disclosure net wider than publicly listed companies.
3. **Disclosure standards for climate change and ESG should incorporate international standards.** Many investment managers based in the US have clients and investments located outside the US. Increasingly, those markets have established extensive

¹ MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.

reporting requirements for investment managers and funds, which ultimately necessitates that their portfolio companies, regardless of jurisdiction, make disclosures. To facilitate this reporting, our clients typically require a standardized set of climate and ESG metrics to report on their portfolios. As such, the availability of consistent and globally comparable climate and ESG data is of paramount importance to help managers and investors meet these reporting obligations. We would encourage the Commission to actively engage with initiatives such as the IFRS Foundation and the International Organization of Securities Commissions (“IOSCO”) to help facilitate a global ESG and climate change reporting standard. We further support climate-related disclosures that align with the guidance of the Taskforce for Climate-related Financial Disclosures (“TCFD”).

As a leading provider of climate risk data and analytics to the global investment community, MSCI has collected climate-related and ESG disclosures from thousands of companies globally for over two decades and developed tools to assist investors in their analysis of climate and ESG risk to their portfolios. For the purposes of this submission, and in the interests of brevity, we have focused on the fundamental initial steps required to address climate change disclosure but would welcome a discussion with the Commission to provide additional granular information on the data we use, and the information challenges we face, in modelling climate and ESG risk.

While the request for comment covers a range of issues, we comment only on those matters where we believe MSCI’s expertise and experience are most relevant.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s/ Remy Briand
Managing Director, Head of ESG
MSCI Inc.

MSCI responses to selected questions posed in the Consultation Paper

1. *How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?*

Response:

As noted in our cover letter, MSCI has been collecting voluntary climate-related and other ESG disclosures from thousands of companies globally for over two decades.² As such, we have experienced a wide variety of forms, frequency and locations in which climate-related disclosures have been made by corporate issuers. Investors would benefit from consistent, comparable and timely disclosures from registrants in order to better assess the nature, size and timing of the investment risks they face related to climate change. However, it is important that assessments of a company's ESG profile by a third party are not required to be conducted under a prescriptive methodology or assigned using a prescriptive rating scale. ESG rating providers need to be seen by the market as credible, and one of the key facets to that credibility, is their independence and objectivity. By encouraging a diversity of opinions, ESG rating providers are incentivized to continually strengthen their assessments and investors have a broader choice in selecting those ratings which best meet their needs.

Based on our experience, climate disclosures are most effective when provided by companies at least annually, and more frequently, should they experience a significant change in business. The climate disclosures for public companies should be consistent with the time period and filings that govern their financial disclosures. ESG and climate disclosures are important inputs to understanding the future financial prospects of a company. Synchronizing climate and financial disclosures in format and frequency would lower one major barrier for users of company data and assist investors who do not currently receive timely data and data that references the same time periods as financial disclosures.

We note the March 8, 2021 announcement by the IFRS Foundation to create a new Sustainability Standards Board ("SSB") to accelerate convergence on reporting standards and the supportive statements from IOSCO and the Financial Stability Board. We support the efforts of the IFRS Foundation to propose standardization of the ESG disclosures that aim to capture issues that could be material to companies' enterprise value, starting initially with climate-related disclosures that align with the guidance of the TCFD. The framework set forth by the TCFD has already significantly advanced the convergence of climate-related reporting to be more robust and consistent.

² Innovest Strategic Value Advisors, founded in 1995, served as the research provider of the Carbon Disclosure Project (CDP) in its initial years. KLD Research & Analytics, founded in 1988, was the among first ESG research providers. Both companies were subsequently acquired by MSCI.

2. *What information related to climate risks can be quantified and measured? How are markets currently using quantified information? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Should disclosures be tiered or scaled based on the size and/or type of registrant)? If so, how? Should disclosures be phased in over time? If so, how? How are markets evaluating and pricing externalities of contributions to climate change? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions? How does the absence or presence of robust carbon markets impact firms' analysis of the risks and costs associated with climate change?*

Response:

Quantifiable metrics and how markets use them

Investors require consistent and relevant data that can help address four key dimensions of their portfolio exposure to climate change: 1) minimize transition risk; 2) capture green opportunities; 3) minimize physical risks; and 4) ensure alignment with a world that constrains global temperature rise. See Exhibit A: MSCI analytical framework for a Net Zero journey.

MSCI offers over 800 datapoints as well as advanced analytical models and risk assessments that investors use to address these four dimensions (see Exhibit B for an illustration of select climate change metric datapoints). The core climate datasets include data for more than 10,400 companies on carbon emissions, carbon intensity, fossil fuel reserves by type, power generation by fuel type, revenues from a granular taxonomy of clean technology and alternative energy, and company policies and strategies to manage climate risk including their carbon reduction targets.

Investors look to the market for forward-looking metrics that assist them in identifying assets that may be at risk from the worst effects resulting from climate change. This is incorporated in:

- portfolio reporting to clients and stakeholders, with a preference to align with emerging regulatory requirements such as those set out in the recommendations of the TCFD;
- risk management, by identifying portfolio companies that may be most vulnerable to policy, technological, market and physical risks arising from climate change;
- portfolio construction, by informing strategies that favor companies that are potentially more resilient to climate change scenarios and/or more likely to gain from innovations in a transitioning economy.

There are a range of models currently available in the market to assist investors with their forward-looking assessments. Two examples of such models are:

- (i) **The MSCI Climate Value-At-Risk (Climate VaR) model**, which provides forward looking and return-based valuation assessments to measure the potential impact of climate change on company valuations.³ The tool provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate-related costs into potential valuation impacts. The MSCI Climate VaR model has three main underlying components which investors use separately or in aggregate:
 - **Policy transition VaR:** This component aggregates future policy costs based on an end of the century time horizon. By overlaying climate policy outlooks and future emission reduction price estimates onto company data, the model provides insights into how current and forthcoming climate policies could affect companies.
 - **Innovation transition opportunities:** This component is based on company specific data on the patents each company holds related to low-carbon technologies, providing insights into how companies' strategic investments could affect their future competitive positioning in a low carbon economy.
 - **Physical risks and opportunities:** This component estimates the impact and financial risk relating to several extreme weather hazards, such as extreme heat and cold and flood risk.
- (ii) **The MSCI Warming Potential model**, which computes the contribution of a company's activities towards climate change, delivering a temperature value (Warming Potential or Implied Temperature Rise) that signifies the future temperature with which a company's activities are currently aligned.

Investors have used these models to produce forward-looking metrics on individual portfolios companies as well as in aggregate to determine the Climate Value-at-Risk and Warming Potential or Implied Temperature Rise of an entire portfolio or fund.

Disclosure

There are three tiers of climate-related disclosures that MSCI views as decision-useful for investors:

- (i) **Core data**
The most critical core areas of disclosure are companies' complete carbon emissions footprint, their facility locations and supply chain. Today, there is tremendous inconsistency in disclosure related to these data points.

Additionally, investors must have access to this core set of climate data from both public and private companies in order to have a complete understanding of the climate-related risks and opportunities in their total portfolio. Allocations to private assets are increasing and without this data, investors are unable to evaluate their total portfolio. Therefore, we are of the view that mandatory disclosure of this core data set should be

³ MSCI. 2020. [Climate Value-at-Risk \(msci.com\)](https://www.msci.com/climate-value-at-risk)

required from a broad range of companies beyond publicly traded companies within an appropriate threshold for private companies set by policymakers.

- **Carbon emissions** - Disclosure of Scope 1 and 2 emissions across all operations globally, plus Scope 3 emissions across all categories according to the Greenhouse Gas Protocol, would significantly improve the market's ability to model and assess a portfolio's financial exposure to potential changes in climate policy, to technology displacement and to changes in market demand. Currently, as illustrated by Exhibit C: Disclosure of Carbon Emissions Data, by Scope⁴, many companies have not reported their carbon emissions, with the gap being particularly acute for value-chain emissions (Scope 3). Even the small set of companies that have disclosed Scope 3 emissions do so only for select categories of their own choosing, which prevents benchmarking within, and between, industry peer groups (see Exhibit D: Disclosure of Scope 3 Carbon Emissions Data, by Categories⁵). A minimum standard of reporting across a broad range of companies would enable a base comparison across portfolios containing companies in different sectors.
- **Facility locations** – Disclosure of the **precise location of the ten largest facilities** (by asset value or production volume) would assist the market in assessing the extent to which a company's operations are exposed to the range of potential weather and physical hazards. The market is increasingly aware of the risks from changes in weather and climate conditions that can impact future asset value. For example, within MSCI's aggregated Climate VaR model is a physical risk model that aims to estimate the asset value gain/loss from changes in extreme heat, extreme cold, precipitation, wind, cyclones, coastal flooding, fluvial flooding, low river flow (impacting utilities) and wildfire. While climate risk modelers and data providers can access a range of academic models as inputs to project these weather-related changes, the accuracy of the resulting risk assessments depends on having granular geographic information on companies' main business operations. The disclosure of facility locations would allow investors to gain a more consistent assessment of risks that their portfolio companies may face, compared to disclosure of companies' overall assessments of their physical risks, as each company could deploy different definitions of scope or model assumptions, which prevents comparability across companies absent facility location data.
- **Supply chains** - Disclosure of a company's **ten largest suppliers** would be helpful for the market in understanding the risks posed by climate change to a company's supply chain. The systemic nature of climate change means that companies may be vulnerable to risks far up and down the value chain where, for example, extreme weather could constrain the supply of critical inputs and significantly disrupt operations.⁶

⁴ TCFD. June 2021. p.52. [Measuring Portfolio Alignment: Technical Supplement](#)

⁵ TCFD. June 2021. p.54. [Measuring Portfolio Alignment: Technical Supplement](#)

⁶ As companies improve their carbon footprint data collection and calculation over time, it would be worth revisiting whether the ten largest facilities and ten largest suppliers could be reported by materiality in terms of emissions intensity.

(ii) **Industry-specific data**

Climate risk exposure, physical and/or transition, varies by sector and disclosure of this data by industry would be helpful in differentiating between companies within a sector whose businesses may vary in exposure to climate risks.

Existing work on industry-focused standards has been proposed by the TCFD which provides supplemental guidance for financial and non-financial sectors, accompanied by detailed “example metrics” for disclosure categorized by relevance to financial reporting aspects, i.e., revenues, expenditures, capital, and assets, if applicable. We note that the TCFD’s “example” metrics detail the **unit of measure** to be reported. This level of specificity is critical for furthering standardization in quantitative disclosure.

We further note that investors have increased needs for granular information to distinguish between the types of products/services of companies in select sectors. The granular data is important for assessing exposure to **high-intensity** operations that could become “stranded assets” (e.g., types of fossil fuel reserves, fuel-mix in power generation) and for gauging opportunities to provide ‘solutions’ to a transitioning economy (e.g., types of alternative energy, clean technologies). At present, the market must estimate companies’ exposure to these high-intensity and “green” activities based on an analysis of companies’ financial reporting on their revenues, assets and capital expenditures as there is no direct disclosure on the production or revenue segments of interest. This lack of direct disclosure makes it necessary to rely on revenue estimation which, depending on the level of available disclosure, could lead to over- or under-estimation. Standardized reporting requirements, including specification of the **unit of measure**, for certain types of high intensity and “green” products and services would significantly improve the availability and quality of information for investors seeking to manage their exposures to high-intensity and “green” products/services.

(ii) **Forward-looking metrics**

The TCFD has established that managing climate-related risks through a forward-looking approach requires: (i) the development of scenarios that illuminate the materiality of climate-related physical and/or transition risks; (ii) the translation of such scenarios into relevant corporate metrics for a financial institution (or supervisor); and (iii) the interpretation of such results in terms of immediate responses (e.g., changes in portfolio mix or need for new climate-related prudential regulation).

Significant developments in climate risk data analytics and modeling have enabled companies to report according to the TCFD guidelines.⁷ The TCFD has continued to advance the development of additional “forward-looking metrics” such as the use of an “Implied Temperature Rise” metric associated with companies’ future emissions

⁷ The TCFD taskforce has highlighted MSCI’s Climate Value-at-Risk model and its research in its 2019 status update as a viable solution that can provide informative metrics and allow institutions to report in a transparent and comparable manner to stakeholders.

MSCI’s Climate VaR model was selected as part of the 2018 UNEPFI investor initiative by 20 large institutional investors to help them pilot the disclosure requirements of the TCFD recommendations. (UNEPFI. 2019. [Changing Course: A comprehensive investor guide to scenario-based methods for climate risk assessment, in response to the TCFD – United Nations Environment – Finance Initiative \(unepfi.org\)](#))

pathways. MSCI contributed technical and analytical expertise to the Portfolio Alignment Team’s technical supplement (Measuring Portfolio Alignment: Technical Supplement) to the TCFD’s Consultation on Forward-Looking Financial Sector Metrics because we believe that only through greater transparency can market participants better use forward looking metrics that can help them anticipate potential long term risks from climate change.⁸

While companies and investors can choose from an increasingly sophisticated range of such “Forward-looking metrics” for reporting on their potential risks to climate change, transparency is only likely to improve when disclosures are accompanied by a clear explanation of the assumptions, inputs and analytical choices behind the models and pathways used. We fully agree with the TCFD that “Transparency around key parameters, assumptions, and analytical choices will help to support comparability of results between different scenarios used by an organization and across organizations. In turn, this will support the evaluation, by analysts and investors, of the robustness of organizations’ strategies across a range of plausible impacts, thereby supporting better risk and capital allocation decisions.”⁹

An important input into “forward-looking metrics” is the forward emissions trajectory of companies, which should include a consideration of **decarbonization commitments** that companies have made. As of January 2021, approximately 35% of the MSCI ACWI IMI Index constituents have set some type of carbon reduction target to be achieved between 2021 and 2100.¹⁰ However, it is difficult to compare the scope and ambition of these decarbonization targets, as companies report them in disparate ways (see Exhibit E: A Framework for Comparison Decarbonization Targets)¹¹. Standardized disclosure of companies’ decarbonization targets would greatly facilitate an assessment of their future emissions pathways and their alignment with climate scenarios. MSCI has developed a framework to facilitate a quantitative comparison across the decarbonization targets set by companies, which contains examples of the types of standardized metrics that the market requires to project the emissions trajectory of companies.

Market evaluation/pricing of climate change

Research on how markets have been pricing externalities related to climate change is nascent, due in part to a short history of consistent data. In our research paper, *The Foundations of Climate Investing: How Equity Markets Have Priced Climate Transition Risks*, we analyzed data over a seven-year study period and found that in developed markets outside the US, more carbon-efficient companies experienced stronger stock price performance.¹² In contrast, in emerging markets, less carbon-efficient companies fared better across the study period, although more carbon-efficient companies performed better in recent years, which was also true for the US.

⁸ TCFD. 2021. [Publications | Task Force on Climate-Related Financial Disclosures \(fsb-tcfd.org\)](https://www.fsb-tcfd.org/Publications/Task-Force-on-Climate-Related-Financial-Disclosures)

⁹ TCFD. 2017. [FINAL-TCFD-Technical-Supplement-062917.pdf \(bbhub.io\)](https://www.bbhuh.io/FINAL-TCFD-Technical-Supplement-062917.pdf)

¹⁰ MSCI. 2021. [Breaking Down Corporate Net-Zero Climate Target \(msci.com\)](https://www.msci.com/Breaking-Down-Corporate-Net-Zero-Climate-Target). This ACWI IMI index includes approximately 9,000 public companies across 50 developed and emerging markets and has a market value of over USD 70 trillion.

¹¹ TCFD. June 2021. p.56. [Measuring Portfolio Alignment: Technical Supplement](https://www.fsb-tcfd.org/Publications/Task-Force-on-Climate-Related-Financial-Disclosures)

¹² MSCI. 2021. [Foundations of Climate Investing - MSCI](https://www.msci.com/Foundations-of-Climate-Investing)

We also found the share of companies' revenues from "green" products and solutions was clearly associated with higher earnings growth and relatively better stock performance within a given sector. When we compared companies' climate transition risk profiles to their valuation levels, we found that carbon-intensive companies experienced greater declining valuations in terms of price-to-book ratios than did their less-carbon-intensive sector peers – suggesting that markets have discounted the book value of carbon-intensive companies during the study period. In contrast, companies with significant "green" revenue saw their price-to-earnings ratios increase relative to their sector peers.

Companies' earnings growth and stock performance were directly related to their greenhouse gas (GHG) emissions, with the effects most clearly observed in the "extreme" categories on both ends (intensive companies with potential to become "stranded assets" on the one hand, and companies providing "green" solutions on the other). For most companies, which we classified as having a "neutral" exposure, the observed stock-price and earnings impact was small.

- 3. What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?*

Response:

MSCI supports collaboration and consultation between regulatory bodies such as the Commission and industry participants including investors, companies and data providers in developing disclosure standards. Given the rapidly evolving developments in climate disclosure, drawing on experience from a broad range of contributors will help ensure that the standards are both current and effective. We would encourage the Commission to consider the work of the TCFD and the IFRS, both having global representation, as it considers its approach to climate-related disclosure.

We support defining industries with significant granularity using existing classification frameworks (e.g., four-digit SIC codes), as climate-related exposure can differ substantially between business segments.

4. *What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?*

Response:

As mentioned in our response to Question 2, MSCI sees value in industry-specific disclosures, such as those suggested by the TCFD, to further the decision-usefulness of reporting. Industry-specific disclosures allow for intra-sector comparison through a standardized material lens. We reiterate the need for granular and standardized units of measure for reporting high-intensity and “green” activities that are tailored and relevant for specific sectors.

5. *What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)?*

There is a proliferation of standards and frameworks being developed globally, all with the goal of harmonizing, to various levels, the information necessary for the market to better analyze the impact of climate-related risks and opportunities. There are advantages and disadvantages to most of these initiatives, but the overriding principle should be to provide the market with a standardized set of metrics that allows for global, regional and local comparability across sectors. MSCI does not have a view on a preferred international standard but notes that the TCFD framework has been adopted by many market participants. Furthermore, the TCFD has established a process of research and consultation that has helped to educate market participants on advancements in “forward-looking climate metrics”.

6. *How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?*

Response:

Disclosure standards should be subject to regular updates. Climate-related and ESG data and analytics are improving rapidly, enabling companies and investors to develop improved methodologies and metrics to better capture and analyze material developments. Disclosure standards that remain static could lose relevance by failing to capture emerging climate-related risks and opportunities.

MSCI does not have a view on whether the Commission should designate a climate or ESG disclosure standard-setter or which standard-setter should be responsible for monitoring

and updating disclosure standards. MSCI has supported the TCFD framework for climate risk reporting and has welcomed the process that the IFRS is currently undertaking to standardize climate and other ESG disclosures. We would encourage the Commission to draw on these, and other, international efforts to ensure that the US remains comparable and competitive in attracting investors.

7. *What is the best approach for requiring climate-related disclosures? For example, should any such disclosures be incorporated into existing rules such as Regulation S-K or Regulation S-X, or should a new regulation devoted entirely to climate risks, opportunities, and impacts be promulgated? Should any such disclosures be filed with or furnished to the Commission?*

Response:

It is important to users of climate data that the data can be relied upon in assessing the climate risk and opportunities of a particular company. To facilitate the quality, usefulness and comparability of the data, climate disclosures should be consistent with the time period and filings that govern companies' financial disclosures, as climate disclosures should be seen as important inputs to understanding the future financial prospects of a company. This would aid ease of use and appropriately escalate the status of the disclosure to that of financial reporting.

8. *How, if at all, should registrants disclose their internal governance and oversight of climate-related issues? For example, what are the advantages and disadvantages of requiring disclosure concerning the connection between executive or employee compensation and climate change risks and impacts?*

Response:

MSCI supports disclosure of companies' assessment of climate risk (which draws on the TCFD's guidance on climate scenario analysis), and their quantitative and qualitative goals to align with a minimal-warming climate scenario and annual progress against these goals. In our analysis of companies' disclosure on climate risk management, we have found that companies take a variety of approaches in their internal governance and oversight of climate-related issues. There is, at present, insufficient data to support the link between specific governance practices with companies' track records in reducing their climate risk or impact. The market's analysis of companies' financial risks and opportunities from climate change would benefit more from requiring disclosure of a company's quantitative risk-reduction goals and ongoing progress against those specific goals than the governance processes and incentives structures they institute to achieve those goals.

9. *What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission’s rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?*

Response:

Please see our response to Question 6 above.

12. *What are the advantages and disadvantages of a “comply or explain” framework for climate change that would permit registrants to either comply with, or if they do not comply, explain why they have not complied with the disclosure rules? How should this work? Should “comply or explain” apply to all climate change disclosures or just select ones, and why?*

Response:

“Comply or explain” frameworks were developed to support policies or structures in corporate governance and other areas that were equally susceptible to successful compliance in a variety of different ways. “Comply or explain” was intended to address concerns that such standards were not overly prescriptive, stifled creative expression, or imposed unnecessarily strict limitations on practices where “one size does not fit all”. In the appropriate context, such frameworks can, and often do, work well in the spirit of letting the market decide.

Given the increasing importance of the need to compare and contrast companies’ progress in responding to climate issues, a “comply or explain” framework for climate disclosures may frustrate this objective, where comparability and quantitative reporting are of paramount importance. This is especially relevant for the core and industry-specific disclosures that focus on carbon emissions, and on location-based or fuel-mix allocations.

13. *How should the Commission craft rules that elicit meaningful discussion of the registrant’s views on its climate-related risks and opportunities? What are the advantages and disadvantages of requiring disclosed metrics to be accompanied with a sustainability disclosure and analysis section similar to the current Management’s Discussion and Analysis of Financial Condition and Results of Operations?*

Response:

The most important, and useful, information for MSCI as a user of the published information is quantitative metrics which should be prioritized in any mandatory disclosure requirement. We would not object to a framework that supplements the quantitative disclosures with a qualitative overlay of the registrant’s views on its climate risks and

opportunities but “boilerplate statements” should be discouraged in favor of meaningful disclosure that explains how these risks and opportunities are being managed and how they might be expected to impact the company in the foreseeable future. The rote recitation of risks that are so broadly well-known and established as to be equally applicable to virtually all registrants add content but are of limited value to investors’ understanding of the risks and opportunities facing the company. Any such disclosures should be focused on each registrant’s individual climate strategies, their impact on shareholder value and on a registrant’s ability to achieve its climate goals while remaining a viable enterprise.

14. *What climate-related information is available with respect to private companies, and how should the Commission’s rules address private companies’ climate disclosures, such as through exempt offerings, or its oversight of certain investment advisers and funds?*

Response:

We appreciate the significant complexities associated with mandating disclosure from private companies. However, as indicated in our response to Question 2, investment allocations to private companies are growing and, therefore, limiting disclosure only to public companies will result in incomplete data. Private companies’ climate disclosures are currently very sparse. This presents an issue for assessing climate-related risks for bondholders of private companies and for investors in private equity. If policymakers want to ensure that the market has access to this information, disclosure standards incorporating the core set of metrics set out in our response to Question 2 above would need to be applicable to a qualifying group of private companies within an applicable threshold set by policymakers.

15. *In addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters. Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?*

Response:

Climate change presents clear and pressing risks and opportunities to financial markets. Identifying business models with resilience to the regulatory, market and physical risks associated with climate change has emerged as a pressing investor need, and the provision of robust climate change data and metrics that help distinguish climate change-resilient assets from climate change-vulnerable assets will be critical to overcoming the challenges faced by investors in supporting the transition to a low carbon economy. At the same time, we view climate risks and disclosures as one critical part in addition to a broader range of ESG risks and opportunities.

Efforts to standardize disclosure of climate-related topics alone would leave large gaps in the information set that investors require to navigate a growing set of ESG issues that are potentially financially material.

We support the development of climate disclosure standards that are well coordinated with, and informed by, standards that will be equally appropriate and effective when applied to ESG. Our categorization of climate disclosures into tiers as set out in our response to Question 2 above can equally apply to ESG more broadly.

More specifically, there is only a small set of core metrics that qualifying companies should disclose to set a baseline for comparisons across companies. In addition to the location of companies' Top 10 largest facilities and Top 10 suppliers, which are equally useful information for identifying a range of ESG risks as for identifying climate risk, the set of core ESG metrics beyond emissions data would be most useful if it includes governance-related matters (many of which are already mandated for disclosure in proxy filings) as well as human capital matters. Unlike many other ESG topics, the characteristics of a company's human capital represent an information gap which is difficult for investors to fill with alternative sources of data or through modeling techniques.

Much of the disclosure required to help the market assess companies' financially material risks and opportunities should be industry-specific. MSCI has published research analyzing the data history of MSCI's ESG Ratings, which constitutes the longest-running ESG dataset in the investment industry that takes an industry-specific approach to capturing financially material ESG issues. Our research has demonstrated historical linkages between industry-specific material ESG issues and their ability to capture financial value, including profitability, idiosyncratic and systematic risks.¹³ It is important to note that, based on our experience and the empirical evidence, the set of material ESG issues that are relevant for each industry would be relatively small. However, the set of relevant ESG issues by industry should be updated regularly as companies operate in a dynamic world in which new or different ESG risks become financially material.

¹³ See for example:

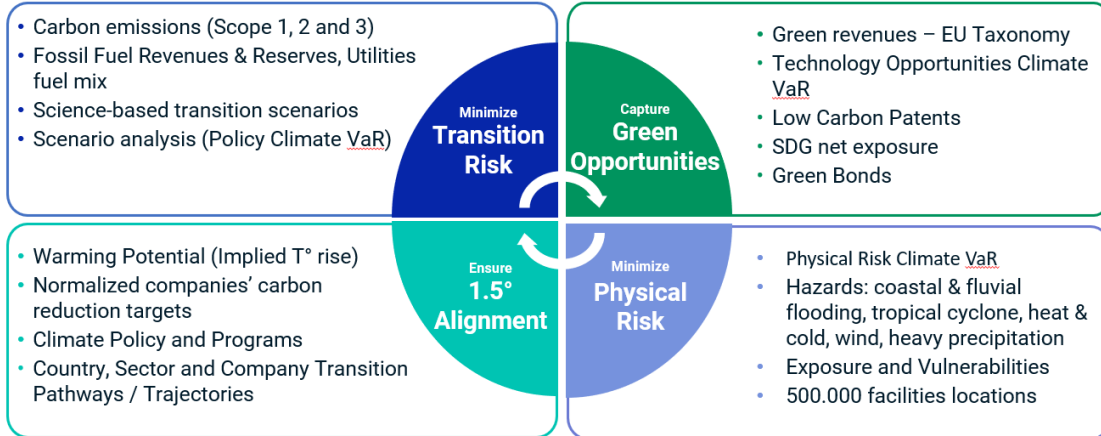
Giese, G., Nagy, Z., and Lee, L.E. 2021. "Deconstructing ESG Ratings Performance: Risk and Return for E, S, and G by Time Horizon, Sector, and Weighting." *Journal of Portfolio Management*, 47:3.

Lee, L.-E., Giese, G., and Nagy, Z. 2020. "Combining E, S, and G Scores: An Exploration of Alternative Weighting Schemes." *Journal of Impact & ESG Investing*, 1:1. <https://www.msci.com/documents/10199/cdcc4b96-2967-1401-09a1-c06bad140c42>

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EXHIBIT A

MSCI analytical framework for a net-zero journey



- **Coverage:** More than 10,400 companies including large, mid and small cap developed and emerging market equities, as well as Investment Grade, high yield and emerging market fixed income issuers; 198 countries for select / relevant metrics.

EXHIBIT B

ILLUSTRATION OF SELECT CLIMATE CHANGE METRIC DATAPOINTS

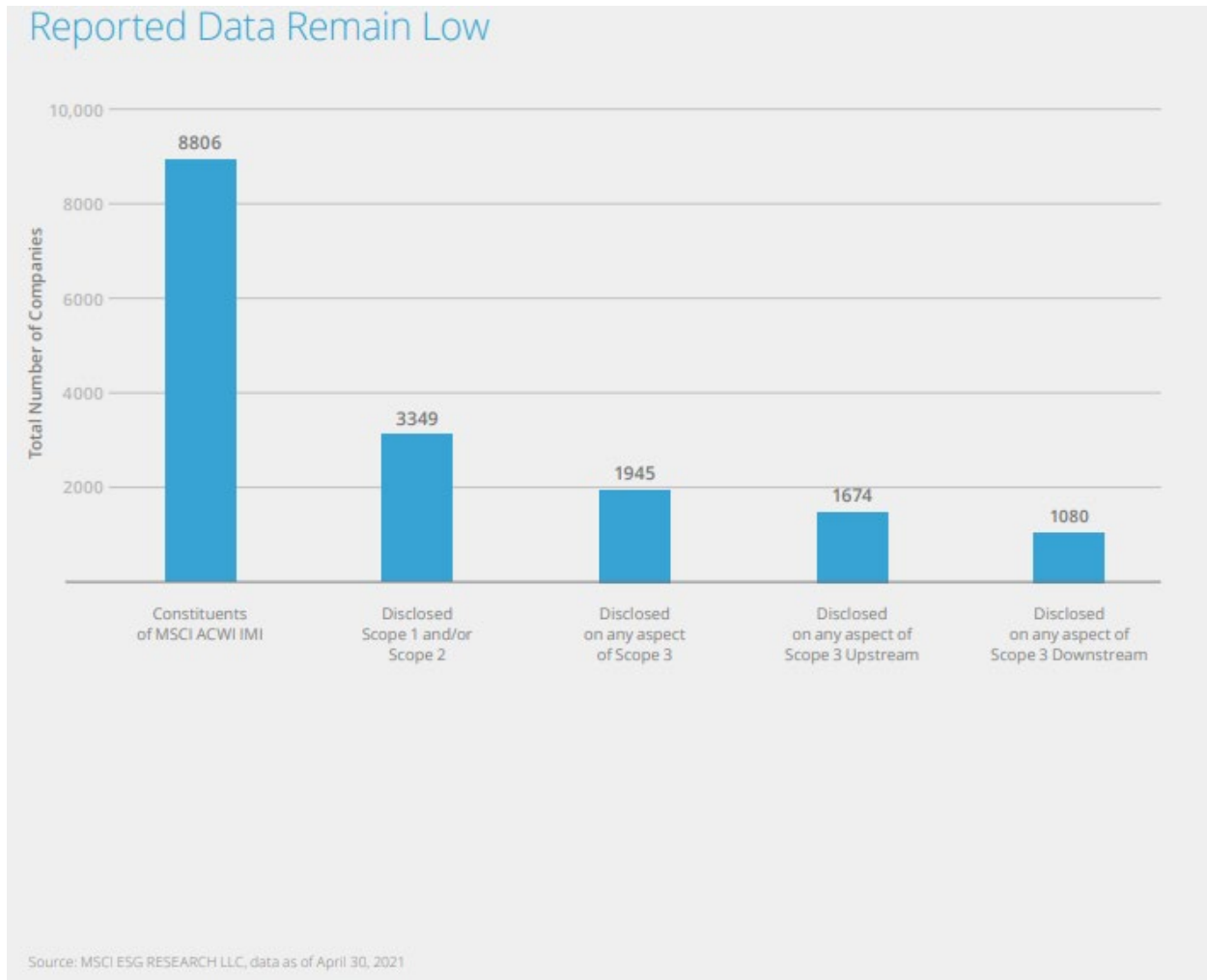
(Definitions and additional datapoints available on request)

Factor Name
Alternative Energy Products and Services (Yes, No)
Alternative Energy Products and Services (1, 0)
Reliance on Carbon-Intensive Supply Chain (Yes, No)
Reliance on Carbon-Intensive Supply Chain (-1, 0)
Business Exposure to Carbon-Intensive Operations (Yes, No)
Business Exposure to Carbon-Intensive Operations (-1,0)
Business Segment Exposure to Carbon-Intensive Operations (high, medium, low)
Business Segment Reliant on Carbon-Intensive Supply Chain (high, medium, low)
CDP disclosure
Use of Cleaner Sources of Energy
Energy Consumption Management & Operational Efficiency
Carbon Emissions - Scope 1 Intensity (t/USD million EVIC)
Carbon Emissions - Scope 1+2 Intensity (t/USD million EVIC)
Carbon Emissions - Scope 2 Intensity (t/USD million EVIC)
Carbon Emissions Exposure Score
Greenhouse Gas Mitigation Strategy Score
Estimated percentage of operations in business segments with high carbon intensity (%)
Estimated percentage of operations in geographies facing high carbon regulatory risk (%)
Carbon Emissions - Scope 1+2 Intensity Year
Percentage of Operations in Low Risk Business Segment
Percentage of Operations in Low Risk Geographies
Estimated percentage of operations in business segments with moderate carbon intensity (%)
Estimated percentage of operations in geographies facing moderate carbon regulatory risk (%)
Carbon Emissions Management Score
Carbon Emissions Performance Relative to Peers
Carbon Emissions Score Quartile
Carbon Emissions Reduction Target
Carbon Emissions - Scope 1 (metric tons)
Carbon Emissions Timeseries - Scope 1 (metric tons) FY2008-FY2020
Carbon Emissions - Scope 1 KEY
Carbon Emissions Timeseries - Scope 1 FY2008 – FY2020 KEY
Carbon Emissions - Scope 1+2 (metric tons)
Carbon Emissions Timeseries - Scope 1+2 (metric tons) FY2008 – FY2020
Carbon Emissions - Scope 1+2 Intensity (t/USD million sales)
Carbon Emissions - Scope 1+2 Average Intensity (t/USD million sales) 2016-2018
Carbon Emissions Timeseries - Scope 1+2 Intensity (t/USD million sales) FY2008 – FY2020

Factor Name
Carbon Emissions - Scope 1+2 KEY
Carbon Emissions Timeseries - Scope 1+2/Intensity FY2008 – FY2020 KEY
Carbon Emissions - Scope 2 (metric tons)
Carbon Emissions Timeseries - Scope 2 (metric tons) FY2008 – FY2020
Carbon Emissions - Scope 2 KEY
Carbon Emissions Timeseries - Scope 2 FY2008 – FY2020 KEY
Carbon Emissions - Scope 3 Reported (metric tons)
Carbon Emissions Timeseries - Scope 3 (metric tons) FY2008 – FY2020
Carbon Emissions Score
Carbon Emissions Target Baseline Year
Carbon Emissions Target Description
Carbon Emissions Target Reduction Percentage
Carbon Emissions Target Year
Carbon Emissions Weight
Carbon Emissions - Year
Three year average carbon emissions intensity (Scope 1+2 - tCO ₂ e/ USD million sales)
Three-year average carbon emissions intensity (tCO ₂ e / USD million sales) relative to GICS Industry peer median (Higher, In Range, Lower, Not Determinable)
Three-year average carbon emissions intensity (tCO ₂ e / USD million sales) relative to GICS Industry peer median (-1, 0, 1)
Three-year trend (CAGR) of average carbon emissions intensity (Scope 1+2 - tCO ₂ e/ USD million sales)
Three-year average carbon emissions intensity (Scope 1+2 - tCO ₂ e/ USD million sales) to GICS Industry peer median ratio
Three-year trend of average carbon emissions intensity (Improving, Stable, Worsening, Not Determinable)
Three-year trend of average carbon emissions intensity (-1, 0, 1)
Energy consumption intensity (MWh/ USD million sales)
Three year average energy consumption intensity (MWh/ USD million sales)
Three-year average energy consumption intensity (MWh/ USD million sales) GICS Industry median
Three-year average energy consumption intensity (MWh/ USD million sales)
Three-year average energy consumption intensity (MWh/ USD million sales) relative to the GICS Industry median
Three-year average energy consumption intensity (Company reported intensity metric)
Three-year average energy consumption intensity (Company reported intensity metric)
Three-year trend (CAGR) of average energy consumption intensity (MWh/ USD million sales)
Three-year trend (CAGR) of energy consumption intensity (MWh/ USD million sales) (Improving, Stable, Worsening)
Three-year trend (CAGR) of energy consumption intensity (MWh/ USD million sales) (1,0,-1)

EXHIBIT C

Disclosure of Carbon Emissions Data, by Scope (MSCI ACWI IMI)



TCFD. June 2021. p.52. [Measuring Portfolio Alignment: Technical Supplement](#).

EXHIBIT D

Disclosure of Scope 3 Carbon Emissions Data, by Categories (MSCI ACWI IMI)



TCFD. June 2021. p.54. [Measuring Portfolio Alignment: Technical Supplement.](#)

EXHIBIT E

MSCI Carbon Targets Scorecard: A Framework for Comparing Decarbonization Targets

Companies' Emissions Reduction Targets Cannot Be Easily Compared Without Normalization and Assessment

From APPLE INC's 2021 Environmental Progress Report: "We've set a goal to become carbon neutral across our entire footprint by 2030. We will get there by reducing our emissions by 75 percent compared to 2015, and then investing in carbon removal solutions for the remaining emissions."

From AGL's 2020 Annual Report: Net-zero by FY50 of "operated Scope 1 and 2" emissions; 34% "controlled renewable and battery capacity" by FY24 (currently 22.5%); 20% "revenue from green energy and carbon neutral products" by FY24 (currently 11.5%); Other targets for FY21 "consistent with the objectives of the Long Term Incentive plan" for controlled generation intensity, which sees it at 0.845 by FY24 (currently 0.93).

	Company Targets Case Example A: APPLE INC	Company Targets Case Example B: AGL Energy Ltd.
Comprehensiveness		
Type	Absolute	Absolute + Intensity
Unit	tCO ₂ e	tCO ₂ e, tCO ₂ e / MWh
Targeted Scopes	Scope 1, 2 and 3	Scopes 1 and 2
Targeted Scope 3 Categories	All	None
Percentage of Company Footprint Covered by Target	100%	63%
Ambition		
Target Year	2030	2049
Remaining Emissions Reduction	100%*	62.7%
Projected Reduction per year, Normalized	9.1%	2.1%
Projected Emissions @ 2030 versus 2050-net-zero Trajectory	-64.9%	12.2%**
Projected Emissions @ 2050 versus 2050-net-zero Trajectory	0.0%	37.3%
Feasibility		
Track Record of Meeting Historical Targets	Met all previous targets	No previous targets
Progress Towards Ongoing Targets	On track with ongoing targets	On track with some ongoing targets
Revenues from Climate Change Solutions (% of total)	0.0%	13.0%
Intention to Use Carbon Offsets	Yes	Yes
Strategy	Engage suppliers, product design, carbon removal	Exit coal, more renewables, link executive compensation

Source: MSCI ESG RESEARCH, Data as of April 30, 2021.
 *Note: 100% includes 25% offsets and 75% reduction
 **Note: Assumes constant declining emission levels between 2023, 2036 and 2049 when coal plants are planned for decommission; under the alternative assumption that emissions stay constant until each coal plant is decommissioned, deviation from 2030 trajectory would be estimated at 23.1%.

TCFD. June 2021. p.56. [Measuring Portfolio Alignment: Technical Supplement](#).