

MEMO# 32901

November 6, 2020

SEC Commissioner Lee Speaks on the SEC's Regulatory Responsibilities Regarding Climate Change Risks

[32901]

November 6, 2020 TO: ICI Members

ESG Advisory Group

ESG Task Force (Global) SUBJECTS: Disclosure

ESG

Financial Stability

Fund Accounting & Financial Reporting

Valuation RE: SEC Commissioner Lee Speaks on the SEC's Regulatory Responsibilities Regarding Climate Change Risks

SEC Commissioner Lee recently gave a speech outlining her views on the SEC's role and obligations regarding risks posed by climate change, including how the SEC should regulate funds and their advisers, credit rating agencies, and financial accounting.[\[1\]](#) Her remarks are summarized below.

Commissioner Lee compared the risks presented by climate change to those we have experienced due to the COVID-19 pandemic. She stated that:

[a] lesson we can take from the humbling experience of this pandemic is not to wait in the face of a known threat. We should not wait for climate change to make its way from scientific journals, economic models, and news coverage of climate events directly into our daily lives, and those of our children and theirs. We can come together now to focus on solutions.

She also noted that climate risk presents systemic risks because it can cause an overall shock to the global economy with systemic implications. She continued that:

[t]his creates an imperative for the SEC to focus on climate risk as systemic risk, and coordinate with domestic regulators through the Financial Stability Oversight Council, and with international regulators through the Financial Stability Board's Standing Committee on Assessment of Vulnerabilities, to monitor and address this risk.

Commissioner Lee stated that first public companies need to provide uniform, consistent, and reliable data. She recognized “that is an effort that has progressed a fair amount through private ordering, but now needs some level of regulatory involvement to bring consensus, standardization, comparability, and reliability.”

With respect to funds and advisers, she stated that:

There has been considerable attention focused on what it means for a mutual fund or other investment company sponsor to market funds as “green,” sustainable, or ESG-focused. Disclosure in this area is key, and funds and their advisers must be clear about what they mean when they use these or similar terms to describe a fund’s principal strategies or risks. They should also be clear as to how they ensure that the fund’s strategy is consistent with that disclosure. Standardized disclosure from issuers on ESG matters would facilitate clearer and more consistent disclosure from funds. If issuers are uniform in the information they provide, funds and their advisers could more easily and directly disclose how they use that information to inform their investment choices.

Beyond this, however, the SEC might also consider rules that would require advisers to maintain and implement policies and procedures governing their approach to ESG investment. There is precedent for separately requiring policies and procedures around a specific topic of particular importance. Take, for example, the requirement for policies and procedures governing the protection of material non-public information. Should we consider policies and procedures related to climate or ESG investing? Such policies and procedures might include how an adviser will assess and implement a client’s ESG preferences, including with respect to asset selection and in the exercise of shareholder voting rights.

With respect to credit rating agencies, Commissioner Lee noted that many incorporate climate and other ESG factors into their ratings and asked whether the SEC should consider encouraging increased transparency regarding specifically how these factors are weighed; and whether the SEC’s annual examinations of credit rating agencies should assess both the transparency of these models and the consistency and accuracy with which they are applied.

Finally, she noted that the International Accounting Standards Board (IASB) recently issued guidance addressing how existing requirements under the International Financial Reporting Standards (IFRS) intersect with climate-related risks and discussing the ways in which climate-related risks may need to be reflected within financial statements. She asked whether FASB should undertake a similar analysis of how climate risks may translate when applying GAAP.

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endnotes

[1] See SEC Commissioner Allison Herren Lee, *Playing the Long Game: The Intersection of*

Climate Change Risk and Financial Regulation, Keynote Remarks at PLI's 52nd Annual Institute on Securities Regulation (Nov. 5, 2020), available at <https://www.sec.gov/news/speech/lee-playing-long-game-110520>

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