Message

From: Streett, Mary [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[redacted]
Sent: 23/03/2021 14:22:58
To: Keller, Heidi [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[redacted]Mogstad, Isabel [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[redacted]
Subject: Fwd: SEC ESG developments

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From: Nash, Mike A (Legal) <[redacted]@uk.bp.com>
Sent: Tuesday, March 23, 2021 7:16:19 AM
To: Chierchia, Giulia [redacted]@bp.com>; Haywood, Alan H [redacted]@bp.com>; Goddard, Kelly <[redacted]@bp.com>; Streett, Mary <[redacted]@bp.com>; Magallanes, Downey [redacted]@bp.com>; Bickerton, David [redacted]@uk.bp.com>; Mamic, Ivanka [redacted]@bp.com>; Marshall, Craig [redacted]@bp.com>; Andrews, Antony [redacted]@uk.bp.com>; Ovion, Sarah <[redacted]@bp.com>; Thomson, Kate <[redacted]@uk.bp.com>; Marshall, John <[redacted]@uk.bp.com>; Mathews, Ben <[redacted]@bp.com>
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Subject: FW: SEC ESG developments

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From: Horsfield-Bradbury, John [redacted]@sullcrom.com>
Sent: 23 March 2021 10:36
To: Commins, Riona [redacted]@uk.bp.com>; Milsom, Benjamin [redacted]@se1.bp.com>; Nash, Mike A (Legal) <[redacted]n@uk.bp.com>
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Subject: SEC ESG developments
Importance: Low

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Subject: Press summary of Friday's SEC AMAC ESG subcommittee meeting

SEC Panelists Trade Blows On ESG Disclosure Plan

By Al Barbarino

Law360 (March 19, 2021, 9:13 PM EDT) -- A panel of U.S. Securities and Exchange Commission members and industry executives convened virtually Friday to discuss the development of a new environmental, social and governance, or ESG, disclosure framework, casting a cacophony of contrasting views that foreshadow the arduous task that may lie ahead for the agency.

The speakers, including representatives from BlackRock and Wellington Management, largely on a one-by-one basis addressed a December recommendation from the SEC's ESG subcommittee that called for the adoption of new standards for public companies that issue securities — or issuers — to disclose "material ESG risks."

Among those representing issuers was Yafit Cohn, chief sustainability officer and general counsel with insurer The Travelers Companies, who offered some of the most forceful views opposing the ever-increasing calls for the agency to adopt the new standards.

"Stay focused on value rather than values," Cohn urged the ESG subcommittee, lamenting the "the politicization" of the issue.

"The term ESG … has been usurped by a broad variety of special interest groups to advance interests unrelated to shareholder value," Cohn said. "Those groups are increasingly calling upon corporations to solve complex societal issues that have historically been within the purview of a democratically elected government."

Cohn argued that the so-called materiality disclosure standard, as defined by the Supreme Court and adopted by the SEC — that a matter is "material" if there is a "substantial likelihood that a reasonable" investor would consider it important — is already effective.

"There is nothing unique about ESG information that requires deviation from the objective materiality standard that defines the parameters of mandated issuer disclosure," she said.

The SEC's acting chair Allison Herren Lee, a Democrat, has put her full weight behind the effort to expand the disclosure regime, having in recent weeks asked for the public's feedback in crafting new rules, mandated a review of existing climate risk-related guidance, and announced the creation of a so-called ESG-task force to crack down on potential disclosure violations.

"Ultimately, consistent, comparable and reliable issuer disclosure is going to be critical for asset managers … as they implement their investment strategies and provide disclosures to their own clients," Lee said Friday in a brief, pre-recorded video.

Lee has called the undertaking one of "staggering complexity," noting that a new framework would have to take into account risk modeling "over a span of different potential outcomes," and industry experts recently told Law360 that the SEC may be headed down a long, litigious path.

Pushback is also sure to come by way of Lee's Republican colleagues. Among those is Commissioner Hester M. Peirce, who noted Friday that the December ESG recommendations had "unearthed an important tension between the fact that issuers already have to disclose material risks" and the calls for "special ESG disclosure requirements."

"Materiality has served us well and undermining it to accommodate ESG will harm investors," Peirce said. "I urge the committee to rethink the wisdom of recommending that we embark on a program to write standards for a set of issues nobody can define."

But executives from two investment industry heavy hitters, BlackRock and Wellington, both made the case that a new framework is needed as climate change is inextricably linked with the demands of investors and their investment returns.

Earlier this year, in a letter posted to the firm's website, BlackRock CEO Larry Fink urged fellow chief executives to increase ESG disclosures, noting the importance of investor access to "consistent, high-quality, and material public information."

Sandy Boss, global head of investment stewardship with investment management giant BlackRock, added Friday that the firm has estimated that transitioning to a "low-carbon economy" will equate to roughly 25 cumulative percentage points in gains for investors over the course of the next 20 years.

"This is very fundamental to value in terms of how we're managing money for our clients," Boss said. "This is very much about a pivotal opportunity for the SEC to be a leader in this area, working toward global, consistent — and we think it would be beneficial for them to be mandatory — disclosure standards."

The ESG subcommittee's December recommendations advised that the SEC should require that material ESG risks "be disclosed in a manner consistent with the presentation of other financial disclosures" while also allowing for the "uniform comparison of material ESG risks across industries and specific comparison within industries."

Supporters, like critics, have folded in the materiality premise to support their own arguments, suggesting that it would remain part of any new framework.

Carolina San Martin, director of ESG research at Wellington, put forth her clear support for the December recommendations: "We agree with the ESG subcommittee's potential recommendations that the SEC should require the adoption of standards by which corporate issuers disclose material ESG risks."

"The first tenet of our ESG integration philosophy is a belief that material [ESG] issues are strategic business issues that can impact financial performance," she said.

Boss also acknowledged that materiality would continue to guide any new framework, pointing to the existing standards from the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures as potential blueprints for the SEC to lean on.

"I should emphasize we are interested in the risks that are material to investors, which is why we do like SASB, as well as TFCD," Boss said. "But we do recognize that what is material can change and it can move very quickly. And hence, we like the idea of something that is flexible."

Cohn, of the The Travelers Companies, pushed back at the notion of the SEC incorporating the existing standards.

"I would also be concerned that putting the commission's imprimatur on the standards crafted by unregulated entities would allow those entities to make modifications to their standards outside of a regulatory process, essentially anointing them as de facto regulators," Cohn said.

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