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June 11, 2021

Vanessa A. Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Public Input Welcomed on Climate Change Disclosures

Dear Ms. Countryman:

Vanguard, on behalf of the Vanguard Funds,[1] appreciates the opportunity to respond to the Securities and Exchange Commission's ("SEC") request for input on climate disclosures.[2] As a steward of lifetime savings for more than 30 million people around the world, Vanguard recognizes the importance of key information to investors ability to evaluate risk and make informed investing decisions. Toward that end, we support a well-designed disclosure framework to help investors and companies understand and manage climate-related risks and protect long-term shareholder value. At a minimum, such a framework would provide investors with uniform reporting of Scope 1 and Scope 2 greenhouse gas emissions supplemented by additional information for industries and public issuers with more acute climate risk. The broad adoption of meaningful climate disclosures would also preserve and create shareholder value by providing investors with the consistent climate data they need to (1) evaluate whether issuers are aware of, and adapting to, these rapidly evolving business and regulatory risks and (2) gain a more informed understanding of the climate risk management process at portfolio companies. To maximize their effectiveness, climate disclosures should be clear, comparable, and concise, including both quantitative and qualitative elements.

At Vanguard, corporate disclosures inform our efforts on behalf of our funds' investors in three ways.

- ***Actively managed equity and fixed income funds.*** The portfolio managers of our actively managed equity and fixed income funds use disclosures to inform sound investment decisions. Given the evolving business and regulatory environment associated with

[1] The Vanguard Funds or "our funds" are the investment companies registered under the Investment Company Act of 1940 that are sponsored, managed, or advised by The Vanguard Group, Inc. ("Vanguard"), its subsidiaries or affiliates.

Vanguard is a leading global investment management organization that offers a large selection of low-cost mutual funds, exchange-traded funds, investment advice, and related services to individual investors, financial professionals, and institutional investors. As of March 31, 2021, we acted as investment adviser to more than 200 U.S. mutual funds registered under the Investment Company Act of 1940.

[2] Public Input Welcomed on Climate Change Disclosures (March 15, 2021), *available at* https://www.sec.gov/news/public-statement/lee-climate-change-disclosures ("Request for Comment").

climate risk, investors require baseline information to assess—and compare—company risk and response in this area. Moreover, because climate risk also cuts across almost every sector and presents itself differently from one industry to the next, tailored disclosure is required for those industries and entities for which this risk is particularly acute. For corporate disclosures to be used effectively to complement the investment processes, they should quantify the extent of a public company's direct and certain indirect greenhouse gas emissions and make clear the implications for financial performance and enterprise value, supplemented by additional industry-specific qualitative disclosure requirements that relate to a public company's balance sheet, income statement, and/or market valuation.

- ***ESG funds.*** Clear, comparable disclosures also support the design and management of products with explicit mandates regarding environmental, social, and governance (ESG) considerations. Vanguard's equity and fixed income ESG index products use transparent screening criteria to remove certain companies from the investment universe. These screening strategies enable investors to avoid exposure to certain ESG risks, such as the risks associated with fossil fuel production. Standardized climate disclosures would produce more comparable, reliable data to inform ESG reporting (such as comparing funds' carbon footprints) and index construction based on company- or sector-level climate data.

  Clear, comparable disclosures are valuable for active managers as well. Vanguard believes there is an opportunity for active managers to deliver strong investment outcomes through ESG strategies. A shared foundation of transparent, reliable climate information would enable managers to redirect some of the resources now needed to gather essential climate data toward honing and applying their analytical edge, in turn improving their ability to create value for investors.

- ***Investment stewardship.*** Our Investment Stewardship team uses disclosures to inform proxy voting decisions and engagement priorities aimed at addressing material risk and maximizing long-term shareholder value. Clear, concise, meaningful, and comparable climate risk disclosures will complement our stewardship activities by contributing to more informed decision-making and improved risk mitigation by public companies.

  Specifically, these disclosures would: (1) permit evaluation of whether management and boards are appropriately considering material risks; (2) facilitate the emergence of best practices across industries; and (3) provide information to more appropriately tailor our engagement strategy with a focus on those companies that are at risk of undermining long-term performance due to a less developed climate-related risk framework.

Vanguard views climate-related disclosures through the lens of materiality, and we focus on the risks most relevant to a particular industry and business model. We believe when the market has relevant information through effective disclosure, security prices will more accurately reflect climate risk and opportunity. These improvements benefit all investors.

The role of climate risk disclosures in enhancing long-term shareholder value

Based on our extensive experience engaging with public companies on climate-related matters, we believe that an SEC mandate to disclose baseline climate information in a clear, concise, and comparable manner would efficiently standardize disclosure practices. That disclosure should be supplemented for public issuers with more acute climate risks. Currently investors and companies alike navigate climate risk disclosures using a variety of reporting frameworks. This ad hoc and cumbersome process does not provide consistent comparable data for investors to effectively assess this risk, nor evaluate the board's assessment of its materiality and, in the aggregate, creates unnecessary burden for companies. We believe market forces alone likely will not produce a more efficient disclosure framework in the near-term, even though the absence of such information is a present challenge for investors.

Consistent with our stewardship principles and the SEC's longstanding focus on materiality,[3] an effective disclosure regime would, at a minimum, provide baseline quantitative disclosure of Scope 1 and Scope 2 emissions, supplemented by qualitative disclosures that facilitate more informed investment and stewardship decisions for firms or industries with more acute climate risks. These disclosures should provide enough information so that an investor can assess the climate competency of a company's board, how the company manages climate risks, and how the board supervises the climate risk management process. This type of disclosure regime would help ensure companies provide meaningful disclosures to enable investors to evaluate the issuer's approach to this risk and encourage disclosure based on factors that are material to their business, rather than relying on legalese or extensive boilerplate language. In addition, disclosure requirements should anticipate that the ability to evaluate climate risk will evolve as science and technology evolves, and therefore, such requirements should be flexible to account for disclosures that may become relevant in the future.

For public companies that have more acute climate risk, qualitative disclosure of performance metrics and progress against goals should be provided along with disclosures of governance, strategy analysis, and risk management processes. In addition, it would be important for companies to provide key assumptions for forward looking or scenario-based disclosures. Such disclosures will provide a level of transparency that enables meaningful analysis, facilitates productive engagements, and empowers stewardship programs to more effectively preserve and create value for fund shareholders.

To promote comparability, climate risk disclosures should be aligned to well-established and widely respected investor-oriented frameworks such as those set forth by the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), so that they may be compared over time and across peers. In addition, we encourage the SEC to work with international counterparts to harmonize climate risk disclosures to fit into existing voluntary frameworks, as we believe global standards are more useful than disparate regulations. Investors, companies, and regulatory bodies around the world are working through similar questions about climate risk disclosures. We believe investors would benefit

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[3] For a more detailed discussion of the importance of these disclosures and their role in the U.S. materiality framework *see* Letter from Investment Company Institute to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission, dated June 4, 2021.

most from global consistency in the way material climate risk is reported, measured, and mitigated, and we urge the SEC to promote such consistency in any rulemaking it undertakes on this topic.

Vanguard recognizes that frameworks for climate risk disclosures have evolved at a rapid pace. We welcome this evolution and urge the SEC to propose rules that will provide clear, concise, and meaningful climate-related disclosure that enables investors to make informed decisions based on consistent and comparable disclosures. We also recognize that companies may have concerns that formalizing sustainability reporting could raise cost or liability concerns. We suggest that the SEC take steps to mitigate these concerns, such as by phasing in implementation based on market capitalization.[4]

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Vanguard appreciates the opportunity to comment on the SEC's Request for Comment and encourages the SEC to look to enhance the climate risk disclosures of public companies. If you have any questions or would like to discuss our views further, please contact Tara R. Buckley, Principal, at [redacted] or [redacted]; or George Gilbert, Senior Policy Advisor and Counsel, at [redacted] or [redacted].

Sincerely,

/s/ John Galloway

John Galloway
Principal and Investment Stewardship Officer
The Vanguard Group, Inc.

cc: The Honorable Gary Gensler, Chairman
The Honorable Hester M. Pierce
The Honorable Elad L. Roisman
The Honorable Allison Herren Lee
The Honorable Caroline A. Crenshaw

John Coates, Acting Director, Division of Corporation Finance

[4] We further agree with the suggestion by the Investment Company Institute that the SEC provide flexibility to issuers to disclose through the 10-K or website, or other voluntary means, to address companies' liability concerns associated with providing climate change information via Form 10-K. *Id.*