Ceres
Sustainability is the bottom line.

Via Electronic Mail
to rule-comments@sec.gov

December 15, 2021

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

Re: Public Input on Climate Change Disclosures

Dear Ms. Countryman:

We are pleased to submit comments in response to the Request for Public Input on Climate Change Disclosure on behalf of Ceres and our Ceres Accelerator for Sustainable Capital Markets. These comments provide additional information on Scope 3 greenhouse gas emissions market developments and disclosure by issuers, supplementing our letter dated June 10, 2021.

In that letter, we recommend that the Commission include GHG Protocol Scope 3 emissions disclosure requirements in an SEC climate change disclosure rulemaking. We argue that the SEC should require tabular disclosure of a company's estimated Scope 1, 2 and 3 greenhouse gas (GHG) emissions, by category, assured at the reasonable assurance level, based on the GHG Protocol's well-accepted framework for measuring and reporting emissions, which covers direct and indirect emissions and the percentage of carbon, methane and other gases.[1]

I. Important market developments clearly indicate demand for Scope 3 GHG emissions disclosure

As the Commission considers potential disclosure requirements, we urge it to strongly consider market signals from investors, U.S. financial regulators via the Financial Stability Oversight Council, the IFRS Foundation and the Task Force on Climate-related Financial Disclosures (TCFD) which demonstrate that GHG Scope 3 emissions assessment and disclosure is rapidly emerging as a standard expectation for all market participants.

A. Investors strongly support mandatory Scope 3 disclosure. The Commission's March 15, 2021 request for information ("RFI") on climate change asked, "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)?"[2]

[1] Mindy S. Lubber, President and CEO, Ceres, Inc., Response to SEC climate change request for information (June 10, 2021) at 10.
[2] U.S. Securities and Exchange Commission, Statement of Acting Chair Allison Herren Lee, Public Input Welcomed on Climate Change Disclosures (March 15, 2021), question 2.

Investors' need for Scope 3 emissions disclosure is clear from their responses to the RFI. Ceres found that, of Ceres Investor Network members[3] who submitted responses, 71.4% call for mandatory SEC Scopes 1-3 emissions disclosure. Another examination of comment letters found strong support for using the GHG Protocol's metrics and discussed BlackRock's and Microsoft's support for mandatory Scope 3 disclosure.[4] As noted by investors, Scope 3 data is the highest source of emissions for critical industries to investors and the economy, such as banking (financed emissions) and oil and gas (used of sold products).[5] The Commission and the investors protected within its mandate cannot adequately evaluate issuers' climate-related financial risk exposure without accurate, comparable, consistent, complete and mandatory Scope 3 disclosure in these and other industries with significant Scope 3 emissions.

B. The October Climate Change Report of the Financial Stability Oversight Council ("FSOC"), which comprises all U.S. financial regulators, found that companies should conduct emissions inventories, including Scope 3, to assess transition risks. The FSOC report, for the first time, identified climate change as an emerging and increasing threat to U.S. financial stability.[6] The report explicitly acknowledges the importance and benefits of measuring GHG emissions Scopes 1-3 in the current market context, noting that to assess transition risk, regulated entities must consider their emissions footprint.[7] It also notes that a company must conduct a GHG inventory, analyzing GHG emissions sources through an organization and its value chain, to effectively report Scopes 1 through 3 emissions.[8] The report states, "Scope 3 emissions provide a more complete picture of the transition risks facing an organization, because it includes the risks of increased costs or restrictions throughout its value chain."[9]

C. FSOC recommends member agencies take action to ensure they have consistent and reliable data for assessing climate risks. Many of the report's recommendations are relevant to the SEC's consideration of whether Scope 3 emissions disclosure should be required.[10] Recommendation 2.1 recommends member agencies "promptly identify and take the appropriate next steps towards ensuring

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[3] The Ceres Investor Network comprises more than 200 institutional investors managing more than $47 trillion in assets.

[4] See Lee Reiners and Mario Olczykowski, Global Financial Markets Center, Duke University School of Law, Summary of comment letters for the SEC's climate risk disclosure RFI (July 9, 2021).

[5] See, for example, CDP, Finance sector's funded emissions over 700 times greater than its own (April 28, 2021), finding, "Portfolio emissions of global financial institutions on average over 700x larger than direct emissions, per organization reporting financed emissions" and "under half of disclosing financial institutions and only 27% of insurers report actions to align portfolios with a well below 2-degree Celsius world"; Carnegie Endowment for International Peace, Oil-Climate Index, Profiling Emissions in the Supply Chain (accessed December 11, 2021), providing sorting tools to compare the GHG emissions that come from specific parts of the oil supply chain (upstream, midstream and downstream) for different oil types globally.

[6] FSOC, Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability (October 21, 2021).

[7] FSOC, Report on Climate-Related Financial Risk ("FSOC Report") (2021) at 52.

[8] See FSOC Report at 54.

[9] *Id.*

[10] See, for example, FSOC, Report on Climate-Related Financial Risk (2021), Recommendations 2.5 (development of consistent data standards, definitions, and relevant metrics), 3.3 (evaluate standardizing data formats for public climate disclosures to promote comparability), 3.6 (FSOC supports the SEC's efforts to consider enhanced climate-related disclosures to provide investors with information that is consistent, comparable, and decision-useful) and 4.1 (FSOC recommends that its members collaborate with external experts to identify climate forecasts, scenarios, and other tools necessary to better understand the exposure of regulated entities to climate-related risks and how those risks translate into economic and financial impacts), pp. 121-124.

that they have consistent and reliable data to assist in assessing climate-related risks through: Identifying the data needed to evaluate the climate-related financial risk exposures of regulated entities and financial markets within the context of each FSOC member's mandate and authorities; . . .."[11]

D. FSOC recommends member agencies issuing climate disclosure requirements consider including GHG emissions. Recommendation 3.4 notes that "GHG emissions [information] promotes a better understanding of the exposures of companies and financial institutions to climate-related financial risks. The Council recommends that, consistent with their mandates and authorities, FSOC members issuing requirements for climate-related disclosures consider whether such disclosures should include disclosure of GHG emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks."[12] Recommendation 3.2 concerns "enhancing public reporting requirements for climate- related risks in a manner that builds on the four core elements of the TCFD."[13] This is relevant to the SEC because of the TCFD's recently strengthened recommendation that all organizations should consider disclosing Scope 3 (discussed below).

E. The IFRS' Sustainability Standards Board will impact all securities regulators because of its global reach and influence, due process requirements, and companies' needs for comparable standards worldwide. On November 3, 2021, the IFRS announced the formation of an International Sustainability Standards Board ("ISSB"), which will "sit alongside and work in close cooperation with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards—IFRS Sustainability Disclosure Standards."[14] The ISSB's formation is relevant to the SEC's work on climate disclosure because of the direct influence of IFRS accounting standards on securities regulations in over 140 countries, and their influence on other countries worldwide.

The ISSB's climate disclosure standards will be subject to the rigorous due process requirements of the IFRS, including a public comment period, and will likely be finalized in 2022. The climate disclosure standards are therefore expected to have a similar influence on regulations as IFRS accounting standards do. Companies operating in countries where IFRS standards are required and in the U.S. will have an incentive to ensure the SEC aligns its climate disclosure standards with those of the ISSB. This alignment will reduce costs for issuers and ensure investors receive comparable disclosures wherever they invest.

The ISSB's work is intended to meet the sustainability and climate disclosure needs that investors have expressed in many forums worldwide. For example, the ISSB plans to provide a comprehensive global baseline for disclosing material climate and sustainability concerns relevant to financial markets, meeting global investor demands for this information, by consolidating and building on existing initiatives.[15] The ISSB was also designed to respond to explicit investor demands for consistent and comparable sustainability disclosures.[16]

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[11] *Id.* at 121.
[12] *Id.* at 122.
[13] *Id.* at 122.
[14] IFRS, IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements (Nov. 3, 2021).
[15] See IFRS press release announcing the ISSB; ISSB FAQ and other resources.
[16] See Summary of the Technical Readiness Working Group's Programme of Work ("Summary"), p. 3: "The Trustees' decision to create the ISSB is in response to the growing and urgent demand for companies to provide globally consistent and comparable sustainability disclosures that meet the needs of investors and other financial market participants. To give the new board a running start, the IFRS Foundation Trustees created the Technical Readiness Working Group (TRWG). . . . The TRWG was designed to integrate and build on the work of relevant

F. The ISSB climate disclosure prototype is aligned with investor requests of the SEC and has been developed with on-going input from IOSCO. As part of the ISSB's formation, the ISSB's Technical Readiness Working Group ("TRWG") released a Climate-related Disclosures Prototype ("Prototype") aimed at general purpose financial reporting.[17] The Prototype provides recommendations to the ISSB for its consideration, and, as discussed above, is likely to lead to an ISSB climate-related disclosure standard next year. This is directly relevant to the SEC's climate disclosure rulemaking. The Prototype's required disclosures are closely aligned with investor requests of the SEC, such as for TCFD-aligned reporting.[18] IOSCO has been closely involved in assessing what climate disclosure information will meet investors' needs and in suggesting enhancements to the Prototype.[19] TRWG participants and observers include organizations the SEC works closely with: the International Accounting Standards Board (IASB) and IOSCO.[20]

G. The ISSB prototype sends a clear market signal that Scope 3 emissions disclosure should be mandatory. Regarding Scope 3 emissions disclosure, the Prototype indicates that Scope 3 emissions disclosure should be mandatory, provided in accordance with the GHG Protocol, and include an explanation of the activities the Scope 3 disclosure refers to (i.e., the GHG Protocol's Scope 3 categories):

> 13 An entity shall disclose the following cross-industry metrics:
>
> (a) *greenhouse gas emissions*—in terms of absolute gross *Scope 1, Scope 2* and *Scope 3*, expressed as metric tonnes of *CO2 equivalent*, in accordance with the Greenhouse Gas Protocol, and emissions intensity;
>
> 14 For Scope 3 greenhouse gas emissions, the entity shall provide an explanation of the activities included within the disclosed metric. For example, an online retailer may be exposed to risks or opportunities related to the greenhouse gas emissions arising out of third- party transportation and distribution services purchased by the reporting entity for outbound logistics of products sold to customers. The retailer may determine that information about such emissions is material to the users of its general purpose financial reports in their assessment of its enterprise value. Therefore, the retailer will explain how the emissions information provided

initiatives focused on meeting investors' information needs, with the purpose of providing technical recommendations for consideration by the ISSB."

[17] IFRS Technical Readiness Working Group, Prototype Climate-related Disclosures Requirements (November 2021).

[18] See Prototype's discussion, for example, of each of the TCFD's four main categories: governance, risk management, strategy, and metrics and targets (pp. 7-12), plans for achieving climate related targets (p. 9), scenario analysis (pp. 10-11) and industry-based metrics (p. 11).

[19] The Summary states on page 7, "Following the publication of the prototype climate standard [by CDP, CDSB, GRI, IIRC and SASB] in December 2020, IOSCO's Sustainable Finance Taskforce (STF) assessed how well the prototype could meet investor needs and address the key gaps and shortcomings identified in the STF's fact-finding work. IOSCO's Technical Expert Group, as an observer of the TRWG, suggested ongoing enhancements, which have informed the TRWG's efforts to improve the document."

[20] See Summary, p. 4.

by entities in its supply chain has been included in the determination of Scope 3 greenhouse gas emissions.[21]

H. New TCFD guidance strongly encourages Scope 3 disclosure, calling it an "essential component" of climate risk analysis. In October 2021, the TCFD released *Guidance on Metrics, Targets, and Transition Plans*, which notes that Scope 3 GHG emissions disclosure "is an essential component of climate-related risk analysis in commercial and financial markets and is increasingly being requested by investors and other market participants."[22] The report notes that emissions disclosure is needed to inform lending, investing, and insurance underwriting decisions.[23] Therefore, the TCFD strongly encourages all organizations to disclose Scope 3 emissions.[24]

I. The TCFD found 34% of companies reviewed disclose Scope 3 emissions and financial firms have made significant progress in calculating their emissions. Supporting its decision to strongly encourage Scope 3 disclosure, the TCFD stated that a growing number of organizations are disclosing Scopes 1-3 emissions.[25] The TCFD analyzed organizations within the MSCI All Country World Index (ACWI Index), a global equity index "designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 25 emerging markets [, covering] constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market."[26] The TCFD analyzed 2,500 companies in the ACWI Index, finding that from 2017–2019, companies disclosing Scope 3 GHG emissions grew from 28% to 34%.[27] Finally, the TCFD found that financial firms have done significant work to improve their understanding and calculations of GHG emissions, allowing them "to disclose their own Scope 3 GHG emissions in a more comparable and complete manner."[28]

II. <u>Low levels of disclosure of the most relevant Scope 3 categories makes it difficult for investors to accurately assess risks to their portfolios</u>

A. Ceres' analysis of Scope 3 disclosure in key industries found some disclosure is common but key Scope 3 categories are under-disclosed. To understand the extent of current Scope 3 reporting among large public companies in key industries, Ceres commissioned Guidehouse, Inc. to analyze disclosures from S&P 500 companies and other high emitting companies earlier this year. Recently Ceres verified and updated the data for 129 companies in 12 industries. That assessment covered disclosure of (1) any Scope 3 GHG emissions, and (2) the most relevant Scope 3 categories: purchased goods and services, use of sold products, investment disclosure, and fuel and energy related activities. Please see Appendix A for a description of the methodology used in this analysis.

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[21] IFRS Technical Readiness Working Group, Prototype Climate-related Disclosures Requirements (November 2021) at 12.
[22] TCFD, Guidance on Metrics, Targets, and Transition Plans (October 2021) at 19.
[23] *Id.*
[24] *Id.*
[25] TCFD, Guidance on Metrics, Targets, and Transition Plans at 18.
[26] MSCI ACWI Index, accessed Dec. 4, 2021.
[27] TCFD, Guidance on Metrics, Targets, and Transition Plans at 19.
[28] *Id.*

The analysis included the following sectors and industry groups: financials (18 banks, 22 insurance companies), energy (4 energy equipment and services, 23 oil, gas and consumable fuels), utilities (22 electric utilities, 1 gas utility, 6 independent power and renewable electricity producers, 1 water utility, and 15 multi-utilities), consumer discretionary (3 automobiles and components companies), and materials (12 metals and mining companies, 2 chemicals).

Our findings reveal two important points:

- Reporting of some aspects of Scope 3 emissions is common among the industries we studied.
- Reporting of Scope 3 emissions often excludes the Scope 3 categories that are most relevant to an industry because the emissions represent a large portion of a company's overall emissions.

B. 61% of companies reviewed disclosed some Scope 3 emissions. For the sectors analyzed - financial institutions, oil and gas and energy services, utilities, automobiles and components, metals & mining, and chemicals - our review of Scope 3 disclosure found that 61% of the companies reviewed have disclosed some Scope 3 emissions, meaning they have disclosed at least 1 of the 15 Scope 3 categories defined by the GHG Protocol's Scope 3 Value Chain Accounting & Reporting Standard. These results indicate that companies in these sectors are aware of Scope 3 emissions and the methodology behind accounting for these emissions.

C. Companies disclosed four of the most relevant categories of Scope 3 emissions at much lower rates. We then analyzed Scope 3 disclosure at the category level, looking specifically at disclosure for four commonly relevant categories: purchased goods and services, energy and fuel-related activities, use of sold products, and investments for the financial sector companies. Relevant is used here to describe categories where the Scope 3 emissions associated with that category are larger than other Scope 3 categories and often larger than a company's Scope 1 and 2 emissions. Our results show that disclosure decreases for these relevant categories, suggesting that companies may not be disclosing their largest emission sources. Twenty-two percent of companies we reviewed disclosed purchased goods and services, 28% disclosed energy and fuel-related activities, 27% disclosed use of sold products, and none of the financial sector companies disclosed investments.

These results indicate that mandatory disclosure is needed to ensure the most relevant Scope 3 categories are being reported, which are the categories where companies in these sectors have the most climate risk in their value chain.

D. Investors cannot analyze climate-related risks without a complete accounting of emissions in the most relevant key Scope 3 categories. The lack of reporting of key Scope 3 categories makes it difficult for investors to assess risks to their portfolios. For example, the Climate Action 100+ initiative consists of 615 institutional investors with $60 trillion in assets, engaging with 167 companies representing over 80% of global industrial emissions.[29] These investors seek commitments from these companies' boards and senior management to take action "to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees."[30] Companies are assessed on short-term (to 2025), medium-term (2026-2035), and long-term (2036-2050) GHG reduction targets that

[29] Climate Action 100+, Initiative Snapshot (accessed December 11, 2021).
[30] Climate Action 100+, The Three Asks (accessed December 11, 2021).

include the most relevant Scope 3 emissions, where applicable.[31] Investors cannot analyze whether companies have met those reduction targets without a clear, complete accounting and disclosure of emissions in the most relevant key Scope 3 categories.

Thank you very much for your consideration of and extensive investments in these issues. Your work and attention are deeply valued. We stand ready to provide additional background and further resources for the Commission. If you would like further information, please contact Isabel Munilla at [redacted] and Jim Coburn at [redacted].

Best wishes for success in your important deliberations.

Sincerely,

Isabel Munilla, Director, US Financial Regulation, Ceres Accelerator for Sustainable Capital Markets
Laura Draucker Ph.D., Director, Corporate Greenhouse Gas Emissions
Jim Coburn, Senior Manager, Disclosure, Ceres Accelerator for Sustainable Capital Markets

cc: Chair Gary Gensler
Commissioner Hester M. Peirce
Commissioner Elad L. Roisman
Commissioner Allison Herren Lee
Commissioner Caroline A. Crenshaw

[31] Climate Action 100+, Net Zero Company Benchmark (March 2021) at 1-2; see also Benchmark at 5, presenting sector classification and Scope 3 emissions application in 16 sectors.

Appendix A: Methodology

Ceres commissioned Guidehouse, Inc. to conduct baseline sustainability research to be used in assessing companies' climate change-related disclosure and performance.[32] Data collection was completed in June 2021. Guidehouse used public sources of information including the Science-Based Targets Initiative website, CDP reports, company sustainability reports, the Climate Action 100+ Net Zero benchmark, and other disclosure as needed like 10-K filings and proxy statements.

The dataset comprised the S&P 500 index and the 20 largest emitting (Scope 1 + Scope 2) companies from the 14 largest emitting industries. According to data obtained from the Institutional Shareholder Services (ISS), the 14 largest emitting industries in no particular order are Electric Utilities, Oil, Gas & Consumable Fuels, Chemicals, Multi-Utilities, Airlines, Metal & Mining, Independent Power & Renewable Electricity Producers, Diversified Financial Services, Commercial Services & Supplies, Food Products, Containers & Packaging, Food & Staples Retailing, Road & Rail, and Hotels, Restaurants & Leisure.

For a group of companies in this dataset, Ceres updated and verified the elements of the research pertaining to Scope 3 emissions disclosure, using publicly available sources including company websites and CDP reports, in November 2021.

The following industries and industry groups were updated, and include the number of companies in each industry group: financials (18 banks, 22 insurance companies), energy (4 energy equipment and services, 23 oil, gas and consumable fuels), utilities (22 electric utilities, 1 gas utility, 6 independent power and renewable electricity producers, 1 water utility, and 15 multi-utilities), consumer discretionary (3 automobiles and components), and materials (12 metals and mining, 2 chemical companies). This totals 129 companies in 12 industries.

[32] Ceres, Investor Guide to Corporate Greenhouse Gas Commitments (October 2021) at 23.