

## Xpansiv Comments on Climate Change Disclosures

June 12, 2021

Xpansiv Ltd. (“Xpansiv”) respectfully submits the following comments to the Securities and Exchange Commission (“SEC” or “Commission”) in response to the Commission’s ongoing evaluation of its climate change disclosure rules.<sup>1</sup>

### Introduction

Xpansiv is a global marketplace for registering, managing, and transacting an array of environmental market commodities and data-driven ESG products, including carbon offsets, greenhouse gas permits and allowances, renewable energy certificates, water allocation credits, and digital fuels.<sup>2</sup> We maintain partnerships with public companies, Fortune 500s, all major environmental registries, non-governmental organizations, third-party certification bodies, and trade organizations across multiple industrial sectors.

Our network platform connects parties to track and monetize environmental attributes across supply chains, using advanced digital technologies to collect, process, and contextualize the lifecycle impacts of physical commodities (e.g., natural gas, steel, concrete, plastics, agricultural products) as digitized environmental claims. These claims are packaged as registered, auditable, and tradable digital assets that enable industry, governments and markets, at scale, to differentiate physical commodities on the basis of their ESG performance, including carbon intensity.

Xpansiv’s vision is that markets will use digital solutions to address the growing demand for more – and more harmonized- ESG data. We see that demand being met by companies treating their ESG data as data-driven intangible assets, the same way environmental commodities exist for companies to claim and retire clean energy or emission offsets. The real-time monitoring, reporting, and verification of ESG performance data – recorded and transacted as assets - will accelerate corporate investments in low-carbon innovations across multiple sectors, empower companies to price embodied carbon and financially manage their climate-related risks, and improve how markets operate, allocate capital, and define the monetary value of minimizing climate risk.

### Recommendations

The foregoing vision, however, relies on normative trust in both the data itself, its provenance, and its market governance. It is on these bases that Xpansiv offers the following comments for the Commission’s consideration (responsive to the Commission Questions Nos. 1, 2, and 4):

- 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?*

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<sup>1</sup> On March 15, 2021, the SEC issued a notice seeking public comment on topics and issues that will assist staff in evaluating and understanding how the Commission can best regulate disclosures to facilitate the disclosure of consistent, comparable, and reliable information on climate change (see, SEC Public Statement (2021), <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>).

<sup>2</sup> Xpansiv Ltd., formerly Xpansiv CBL Holding Group, represents a family of entities including CBL Markets (USA), LLC, CBL Markets Australia Pty Ltd., and Xpansiv Data Systems, Inc.

Data-driven insights and intelligence are the core of every decarbonization pathway going-forward. Markets can trace and quantify risks based on atomized and aggregated environmental performance data. The Commission should address the need for a full spectrum brown-to-green taxonomy of asset- and commodity-specific environmental attributes and performance-based impacts that can be correlated to standardized, policy-based or market-based standards. The Commission is uniquely situated, in cooperation with IFRS and other global accounting standards, to embark on sector-based mapping and classification of commodity market benchmarks, metrics and standards architecture. The data and its disclosure are necessary elements to address and price climate risks. But a prerequisite to disclosure is enabling the private sector to rally and organize around climate-related risk accounting methodologies devised and harmonized around common definitions, data standards and derived measurements.

Digital environmental commodities should be considered intangible assets. Broadly, energy, environmental, ESG, or climate-related data and any associated claims of corporate performance — if certified as traceable to source and processed using MRV best practices — should be distinguished as a new digital asset class with unique identification. Digitized environmental attributes or ESG claims should be publicly registered. Trusted registry platforms, ledgers, or meta-registries should be established to identify and track the existence, type, quality, and legal ownership rights associated with any certified digital environmental commodities that measure climate-related or other environmental performance based on real world data. In the context of environmental-commodities markets, registries are also fundamental to prevent manipulation, fraud, and unintentional double counting.

Further, registries can provide essential market and compliance functions. Digital environmental commodities should be capable of being listed, encumbered, sold, collateralized, transferred, or otherwise disposed of on a registry in an immutable format by asset owners. Once an environmental commodity or claim is retired, the impacts/attributes (e.g., reduced GHG emissions, quantified protections for worker welfare, Indigenous Peoples, biodiversity, etc.) and the source of the commodity or claim (e.g., natural gas well, manufacturing plant, farm, mine, etc.) should be reported to a reporting system with open-source data portals and data sets that can be accessed by the public.

This enhanced ecosystem of data and information disclosure will create better risk management opportunities across the economy and provide investors, companies, consumers and regulators greater insights into comparative climate risks. Digital environmental commodities should adhere to a common taxonomy to increase the likelihood of interoperability between accounting systems and across regulatory regimes. Furthering the need for a uniform technical nomenclature, assets will need to be reported in aggregate across asset classes and registry systems, and risk-managed/hedged at a portfolio level. Industry efforts, including the Interwork Alliance (IWA) and TSVCN, have already begun to define these standard taxonomies.

*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?*

There are already multiple, established metrics, standards and methodologies for every industrial sector that have been established and used to classify, measure, report and verify the environmental attributes, sustainability, climate-related or environmental profile, characteristics and/or impacts associated with each stage in the lifecycle of raw materials, commodities, commercial products, processes and services (collectively “MRV”).<sup>3</sup> There are numerous automated systems to securely collect, store, and certify static and dynamic data on GHG emission intensity, embedded or avoided carbon, water use and many other environmental attributes that can help give consumers, investors, and governments a more complete, timely, credible, and trustworthy assessment of the climate-related or other environmental impact of a particular commodity, product, facility, or company.

Because these data related to environmental attributes are highly industry, sector and entity specific, related market-accounting and disclosure standards should be based on established industry standards and informed by technical insights from industry, as applicable. Industry and international standards should be harmonized to help classify, measure and quantify data related to the value of climate-related and other environmental performance. Efforts to establish common sector-by-sector taxonomies for benchmarking and MRV should also be encouraged to enable the automation, transparent collection, harmonized processing, and third-party certification of material resource, ESG, and/or climate-related data, including through the following.

- **A universal “common language” is needed.** Market alignment must sit atop harmonized brown-to-green taxonomy that informs both companies and investors on how to identify, digest, and harness climate-related financial risk factors to drive investment decision-making in a carbon-constrained world.
- **Develop Climate-Related Product Classification and Climate Risk Accounting Systems.** For markets to price climate-related risks, products and services must be correlated to endogenous and exogenous environmental impacts. Ultimately, a full mapping of the environmental attributes and derived impacts of goods and services traded in interstate commerce would help facilitate greater transparency and market engagement. Those sectors with the greatest exposure to climate transition and physical risks should be prioritized.

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<sup>3</sup> Generally, there are two components of MRV: 1) the technical component, i.e., inputs and outputs being measured; and 2) the contextual component, i.e., the derived measurement or meaning of those technical findings based on some normative context (i.e., sustainability, “clean” energy, or superlative environmental performance relative to a base case).

- **Tie Policy Interventions & Risk Quantification Metrics to Net Zero Desired Outcomes.** To allow the market to pull climate-related risks forward, policy must also define the desired net zero outcome to be encoded into financial valuation methodologies. Markets can then reverse engineer an algorithmic, net present value and set of risk factors attributable to all commodities, products and commercial activities.

Further, collecting and processing data in climate-related or other environmental contexts should be predictable, auditable, and replicable. As companies make claims with respect to climate-related and other environmental performance metrics, such claims should be auditable to (i) identify the standard(s) being employed, (ii) certify the data in the context of all applicable primary and secondary datasets deemed best practice, and (iii) verify the highest standards of data fidelity and accuracy.

*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?*

Sector specific reporting can be an important tool for the markets to better understand material risks. The data for different sectors are different, which suggests a virtue in differentiation. At the same time, the underlying basis for reporting and overarching reportable considerations should be standardized across the economy. Accordingly, data integrity and performance standards should be sector- and commodity-specific. Digitizing MRV methodologies and economic valuation of climate-related and other environmental data can ensure that the underlying data are immutable as representing a tangible or intangible asset or liability. Assurance of data integrity (e.g., via audit and proven provenance) is essential for establishing the legitimacy and value of such commodities. Likewise, transparent reporting of such data is essential for establishing the legitimacy and value of the commodities. These sector specific data can then be understood within a common framework for risk reporting.

Each specific standard should include digital capabilities to MRV requirements as well as quantification models or algorithms to generate environmental performance metrics. Specifically, standards should conform to foundational frameworks such as ISO Quantification and reporting of greenhouse gas emissions and removals (ISO 14064), Greenhouse Life Cycle Assessment standards (ISO 14040, 14044), The Greenhouse Gas Protocol,<sup>4</sup> IFC Performance Standards on Environmental and Social Sustainability,<sup>5</sup> and the World Bank Group Environmental, Health, and Safety Guidelines.<sup>6</sup> MRV standards should also include an auditability function to (i) trace and identify the standard being employed, (ii) certify that the data-application process was executed accurately in the context of applicable data-acquisition standards and the full dataset profile, and (iii) verify that the MRV certification meets the highest standards of fidelity and accuracy.

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<sup>4</sup> See, [www.ghgprotocol.org](http://www.ghgprotocol.org).

<sup>5</sup> See, [www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards).

<sup>6</sup> See, [www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/ehs-guidelines](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines).