



June 17, 2022

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

**Re: Comment of MEMA in response to The Enhancement and Standardization of Climate-Related Disclosures for Investors, File No. S7-10-22**

Dear Chairman Gensler:

The Motor & Equipment Manufacturers Association (“MEMA”) represents more than 900 companies in the automotive and commercial vehicle supplier industry—the nation’s largest sector of manufacturing jobs, employing more than 907,000 workers in all 50 states. As the voice of this essential industry, with substantial operations domestically and internationally, MEMA is critically concerned with access to efficient and transparent capital markets and ensuring that investors have the information they need to continue to invest in the industry and support a robust economy in the United States and globally.

Vehicle suppliers conceive, design, and manufacture the original equipment systems and technologies that make up two-thirds of the value in every vehicle. Our member companies also supply the aftermarket with the parts that keep millions of vehicles on the road, fueling international commerce and meeting society’s need for transportation. Across the entire range of new vehicle innovation—from autonomous to zero-emissions technologies—vehicle suppliers help increase vehicle safety and efficiency and reduce pollutant emissions, including greenhouse gas (“GHG”) emissions. MEMA member companies are committed to providing the innovative, accessible, and low carbon technologies that are needed to meet the electrification and decarbonization goals of the auto manufacturers, their customers, and, more broadly, the Biden Administration’s goal of economy-wide net-zero carbon emissions by 2050. Moreover, members of MEMA are actively engaging on a wide array of Environment, Social and Governance (“ESG”) issues, including engaging with investors.

The following is MEMA’s comment on the Security and Exchange Commission’s (“SEC’s” or “Commission’s”) proposed climate-related disclosures rules for investors entitled *Enhancement and Standardization of Climate-Related Disclosures for Investors*, 87 Fed. Reg. 21334 (April 11, 2022) (“Proposal”).

One of the premises of the SEC’s proposal is that investors want uniform data. However, investors ask different questions in different ways with different goals in mind and so do customers. While the SEC’s proposed rule seeks to increase the uniformity of the data, questions,



and information that companies must disclose, the engagement process with investors is still not uniform and, until investor engagement is more uniform, certain requirements of the Proposed Rule should be delayed. Particularly with respect to Scope 3 emissions reporting, the proposed rule would add to the burden our members are already shouldering with respect to climate change disclosures and may not yield the intended result.

Some MEMA members are already disclosing climate-related information in good faith through voluntary reporting of emissions and decarbonization plans and progress toward decarbonization. While the Scope 1 and 2 requirements as well as the business strategy elements are reasonably well understood today by registrants and are generally harmonized across different protocols, the Scope 3 portion of the SEC's proposed requirements are nascent and quickly-evolving. MEMA asks the SEC to understand that, as corporate America's experience with climate disclosures matures, the nature and breadth of rules may need to evolve. Therefore, MEMA requests additional time for industry to evaluate the frameworks and standards, gather data, and coalesce around a uniform, relevant, and informative method of disclosing Scope 3 emissions. This time should provide the SEC and the investor community with more consistent useful information.

MEMA's membership includes public companies subject to registration with the SEC and private companies not required to register with the SEC. Yet, this wide range of companies will be affected by this proposed rule. Comparable, consistent and reliable disclosures are valuable to reporting entities as well as investors and stakeholders in assessing a registrant's exposure to climate-related risks but Scope 3 disclosures simply are not meant to be used to compare registrants. At the same time, the magnitude of change in reporting required by the SEC is very significant for some MEMA members. Accordingly, and discussed in more detail below, MEMA asserts the proposed rules need meaningful change in certain key areas:

- i. **Longer phase-in period would allow harmonization of different protocols and development of an industry-specific climate disclosure template:** The regulations should have a longer phase-in period for the disclosure of Scope 3 emissions to allow industry groups to create sector-specific templates or other tools, particularly for Scope 3 emissions data reporting.
- ii. **In the alternative to or in conjunction with additional time for Scope 3 compliance, MEMA recommends a "furnish" not "filed" approach to Scope 3 data.**
- iii. **Rules should clearly tie Scope 3 disclosure to a business purpose:** With respect to Scope 3 emissions reporting, the proposed rules should clarify that disclosure of Scope 3 volumes is tied to climate risks and business strategy, and that the volumes themselves are not the end product.
- iv. **Scope 3 and attestation requirements are costly and burdensome for smaller private companies; should be streamlined and supported by cost-benefit analysis:** The proposal should lessen the financial burden on smaller and private companies by streamlining disclosure requirements for suppliers of public companies and attestation provisions that impose excessive costs on companies, particularly the smallest in the supply chain.

**I. The SEC should encourage the development of decision-useful templates for the motor vehicle sector by providing more time for compliance so that industry-specific reporting protocols can be assessed and harmonized.**

MEMA believes disclosures related to climate change should be sector-specific rather than agnostic to the significant differences among economic sectors. As the many voluntary protocols have demonstrated, sector-specific information is more transparent and decision-useful, and existing sector-specific protocols provide templates that level the playing field across the sector. For example, the Greenhouse Gas Protocol does not have an automotive sector protocol while SASB does. The SEC should also encourage harmonization with existing standards and development of decision-useful protocols rather than mandating a one-size-fits-all approach. To this end, MEMA asks for more time to allow industrial sectors to develop or adopt existing climate change reporting templates. MEMA believes that more attention needs to be given to the sector-based protocols that the voluntary standards have established. While the abbreviated timeline for providing public comments in response to the SEC's proposed rule does not allow sufficient time to develop and submit a sector-specific climate reporting template, SEC should provide additional time and assist existing voluntary programs in developing protocols for Scope 3 emissions standards.

The industry has a long, successful record in providing similar feedback to federal agencies. Specifically, MEMA can work with an automotive sector coalition to seek input from member companies, policymakers, investors and stakeholders and base a template on recognized frameworks like the Task-Force on Climate-Related Financial Disclosures ("TCFD") recommendations or the Value Reporting Foundation's SASB Standards. The TCFD provides a framework for considering scenario analysis in disclosing climate-related risks and opportunities<sup>1</sup> and the Value Reporting Foundation provides useful sector-specific standards, such as the SASB standard for auto parts.<sup>2</sup>

The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard ("Scope 3 Standard") encourages the development and use of sector-specific implementation guidance and tools, and, again, MEMA recommends that the SEC consider these important lessons. According to the Scope 3 Standard, sector specific tools "can drive more consistent corporate GHG measurement, reporting, and performance tracking practices for a particular sector. Helpful sector-level information could include guidance on interpreting the standard for a specific sector, guidance and tools for calculating emissions from sector-specific activities, recommended performance metrics, specific guidance for identifying the largest sector emissions sources, and suggested data sources and emissions factors."<sup>3</sup> Working together to generate guidance for the motor vehicle parts suppliers sector through the development of a sector-specific template will better identify GHG reduction opportunities associated with value chain emissions, set reduction targets, and track performance. Such a multi-stakeholder effort will also more likely meet the GHG Protocol principles for Scope 3 emissions accounting and reporting, which include relevance, completeness, consistency, transparency, and accuracy.<sup>4</sup>

By using available frameworks and seeking input from its stakeholders, a template for the vehicle parts and manufacturing sector would provide a level disclosure "playing field" for its members and comparable, consistent, and reliable emissions disclosures for investors. Gathering input from its stakeholders, policymakers, ESG rating providers, and non-governmental organizations such as

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<sup>1</sup> <https://www.tcfhub.org/scenario-analysis/>

<sup>2</sup> [https://www.sasb.org/wp-content/uploads/2018/11/Auto\\_Parts\\_Standard\\_2018.pdf](https://www.sasb.org/wp-content/uploads/2018/11/Auto_Parts_Standard_2018.pdf)

<sup>3</sup> Scope 3 Standard, p. 9.

<sup>4</sup> Scope 3 Standard, pp. 24-25.

framework providers will take time. However, development of a sector-specific template can likely be completed if the SEC rule phase in period is lengthened.

Particularly with respect to Scope 3 emissions, sector-based reporting templates can identify duplicative reporting, assist small entities in reporting to larger ones, and focus on the information that has an investment-related impact.

The end user of MEMA member products are the motor vehicle manufacturing companies and customers and retailers of the motor vehicle aftermarket. In many cases they, through contract and collaboration, are already seeking GHG emission data and climate disclosures from their suppliers. However, each motor vehicle manufacturer has been asking for different data and asking for different presentation of that data. For example, General Motors recently announced a new pledge that asks global suppliers to commit to carbon neutrality.<sup>5</sup> Creating an industry-specific template can balance the burden of complying with varied reporting obligations that motor vehicle parts suppliers and manufacturers are facing.

Harmonization of standards will take time. Therefore, the SEC should extend the compliance times set forth in this Proposal by at least an additional two years for Scope 3 emissions reporting and auditing requirements.

**II. In the alternative to or in conjunction with additional time for Scope 3 compliance, MEMA recommends a “furnish” not “filed” approach to Scope 3 data.**

In the alternative to or in conjunction with additional time, MEMA suggests that the Proposal should allow all registrants to “furnish” rather than “file” the climate-change-related metrics while, at the same time, allowing registrants more time before enforcement of Scope 3 data is imminent. This approach will result in better disclosures and less risk to investors and registrants alike. Climate change data and disclosure are inherently uncertain—particularly scenario-based data and forward-looking models using long time horizons. Therefore, a safe harbor is necessary and would allow, as well as encourage, companies to provide more robust information without unnecessarily exposing them to liability as the models and scenarios change over time. The “filing” approach appears to penalize registrants that have taken early leadership roles in disclosing climate-related information to investors and attaching liability to those statements without a safe harbor is ill-advised. Furnishing climate-related information can be done with citations and links to stand-alone climate reports and will provide investors who wish to review the data with more detailed and company specific information than the one-size-fits-all approach taken in the proposed rule.

Moreover, mandating that climate reporting align with how a company sets its boundaries for financial reporting will create undue burden for many companies. The SEC proposal removes flexibilities that are built into the GHG Protocol and TCFD, the two protocols that the SEC references most often. In addition to the Scope 3 issues discussed below, existing protocols adopted by registrants over the past decade or more allow flexibility in the choice of boundaries for GHG evaluations.

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<sup>5</sup> <https://www.environmentalleader.com/2022/04/general-motors-asks-suppliers-to-sign-esg-pledge/>

### **III. For companies required to disclose Scope 3 emissions, the rules should clearly tie the disclosure to a business risk.**

The GHG Protocol standards specifically state that use of the Scope 3 Standard is not intended to provide a basis for comparing different companies based on their Scope 3 emissions.<sup>6</sup> Instead Scope 3 emission tracking is intended to enable the company to track its own progress over time, develop strategies and minimize risks.<sup>7</sup> While most companies have been tracking Scope 1 and 2 emissions, Scope 3 emissions require significant investments in time and strategic analysis to yield useful information.

The SEC's proposal requires Scope 3 emissions to be reported "if material", proposed 17 C.F.R. §299.1504(c), and "any climate-related risks reasonably likely to have a material impact", proposed 17 C.F.R. §299.1502(a), based on Scope 3 calculations, proposed 17 C.F.R. §299.1502(c). In essence, the phrasing of proposed Sections 1502 and 1504, when read together, *require* a registrant to calculate Scope 3 emissions in each category listed in order to evaluate whether they are material, and materiality is a long-standing company-specific determination. The phrasing of this rule is contrary to the GHG Protocol itself which requires the identification of activities that pose risks and *then* the calculation of Scope 3 emissions. Scope 3 emissions should be disclosed *for the activity that poses the material risk*, not *all* Scope 3 emissions. If this is what the SEC intended by its use of "material" in proposed Section 1504, the proposal language is not clear and should be modified to tie Scope 3 "materiality" to business risk and strategy disclosures.

The SEC Proposal also directs companies to "be granular" concerning climate risks and how the company will analyze and mitigate climate risks.<sup>8</sup> At the same time, the SEC Proposal recognizes that inherent uncertainties exist in these data and conclusions.<sup>9</sup> Our recommended change ties disclosure to the business purpose, provides investors with truly actionable information, and meshes with the GHG Protocol.

### **IV. The SEC's Scope 3 and attestation requirements are costly and burdensome for all companies, but especially smaller companies; the SEC should ensure they are streamlined and supported with adequate cost-benefit analysis.**

A requirement that public companies disclose Scope 3 emissions data imposes a financial and efficiency burden on the registrant and imposes obligations on private companies in their value chains. Scope 3 emissions are costly and administratively burdensome to prepare, particularly for smaller companies. Adding third party attestation requirements, even given the two to four year timeframe for achieving compliance, is an added financial burden. This burden will be particularly significant for smaller manufacturers with limited financial or personnel resources and all affected

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<sup>6</sup> Scope 3 Standard, p. 9.

<sup>7</sup> *Id.*

<sup>8</sup> <https://www.federalregister.gov/d/2022-06342/p-44>

<sup>9</sup> 87 Fed. Reg. at 21390 ("It may also be necessary to rely heavily on estimates and assumptions to generate Scope 3 emissions data."); *see also Recommendations of The Task Force on Climate-related Financial Disclosures*, Final Report, p. 25 ("for many organizations, the most significant effects of climate change are likely to emerge over the medium to longer term and their timing and magnitude are uncertain. This uncertainty presents challenges for individual organizations in understanding the potential effects of climate change on their businesses, strategies, and financial performance."). Estimating the upstream and downstream emissions the rule requests—especially for companies with long, complex, and multi-jurisdictional value chains—introduces high measurement error, opening the door to bias and manipulation.

parties throughout the supply chain will be forced to pass along their increased costs, which will ultimately be borne consumers.

The SEC's proposed GHG data collection requirements are administratively and financially burdensome and the SEC has not performed an adequate cost-benefit analysis, required of every rulemaking proposal. The high cost to companies is illustrated by the SEC's estimated costs of compliance, which are approximately \$490,000 in the first year and \$420,000 in subsequent years for smaller reporting companies.<sup>10</sup> However, the analysis is incomplete and insufficient to justify the burdensome requirements of the SEC's Proposal. On page 349 of the Proposal, the SEC states:

*In many cases, however, we are unable to reliably quantify these potential benefits and costs. For example, existing empirical evidence does not allow us to reliably estimate how enhancements in climate-related disclosure affect information processing by investors or firm monitoring.*

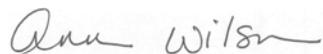
The next 70 pages of the Proposal reference various studies and surveys for the possible benefits and costs. What is missing is any report presenting an estimate of what economy-wide, mandatory climate disclosures may likely or reasonably cost in practice, including whether companies will simply avoid Scope 3 emissions analysis to avoid the SEC disclosure standards. Without more, the Proposal lacks the necessary justification. The Proposal should reduce the data collection burden and associated costs for smaller companies. Many companies simply cannot absorb the costs of compliance, including costs to comply with the attestation requirements.

## Conclusion

MEMA appreciates the SEC's consideration of these comments and understands that the SEC's goal is to seek consistent, comparable, and reliable climate-related disclosures so investors may make informed decisions about the impact of climate-related risks on current and potential investments. To address to this objective, MEMA proposes development of a climate-related disclosure template for the motor vehicle parts supplier and manufacturer sector.

For more information, do not hesitate to contact me at [REDACTED] or [REDACTED] or Catherine Boland, vice president, legislative affairs at [REDACTED] or [REDACTED].

Sincerely,



Senior Vice President, Government Affairs

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<sup>10</sup> 87 Fed. Reg. at 21439.