Sylvera’s comments on

Securities And Exchange Commission: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Headline:
Sylvera is fully supportive of the ambition and approach. We think it creates a disclosure regime that will drive consistency, comparability and reliability, whilst remaining proportionate for registrants. We view the proposals are proportionate, eminently implementable, and as setting a standard for high quality disclosures that other countries are likely to follow.

For investment funds, the consistency of reporting is critical to ensuring efficient comparability. Currently, this information is spread widely between company websites, marketing campaigns, mandatory reporting in certain countries and behind-paywall data services such as CDP. Equally, for registrants, a consistent environmental reporting framework such as this proposed by the SEC would reduce the time spent on disparate, individual investor-driven reporting requirements. SEC filings are an ideal venue within which to share this information with the market.

We also believe that a more precise nomenclature, with regards to carbon offsets, would be beneficial. Specifically, and as set out in our response to question 24, we think it would be helpful to distinguish between carbon credits - the units which are traded - and carbon offsets - which is what those credits may become, depending on how they are used.

As an example of the type of investor risk these proposals would help mitigate, we will share a short summary of a recent interaction we had with a major multinational corporation looking to buy tens of millions of dollars worth of credits. This corporation was on the verge of buying credits from a large, well-known project, without knowing that the underlying accounting underpinning the project was deeply flawed, and that the project had - contrary to its claims - achieved zero climate benefit. We were fortunate to be able to forewarn this corporation, and guide them towards purchasing highly impactful credits instead (without having any specific financial interest in the credits bought, thus avoiding any conflict of interest). However if the draft rule were in force then information regarding trades of this kind would be available to all stakeholders, facilitating greater scrutiny of credit purchases and hence ultimately enabling the market to self-correct, maximising efficiency.
Q23: Should we require the disclosures to include how the registrant is using resources to mitigate climate-related risks, as proposed? Should the required discussion also include how any of the metrics or targets referenced in the proposed climate-related disclosure subpart of Regulation S-K or Article 14 of Regulation S-X relate to the registrant's business model or business strategy, as proposed? Should we require additional disclosures if a registrant leverages climate-related financing instruments, such as green bonds or other forms of “sustainable finance” such as “sustainability-linked bonds,” “transition bonds,” or other financial instruments linked to climate change as part of its strategy to address climate-related risks and opportunities? For example, should we require disclosure of the climate-related projects that the registrant plans to use the green bond proceeds to fund? Should we require disclosure of key performance metrics tied to such financing instruments?

Sustainable finance has a critical role to play in many registrant’s transition strategies, yet the market has been criticised for lacking ambition and accountability. We think requiring disclosure of the existence and KPIs of any sustainable finance instruments will (a) allow investors to understand how any KPIs tie into the registrant’s wider climate strategy; and (b) allow for scrutiny of any KPIs to ensure high integrity in the use of such instruments. These sustainable finance instruments may also have WACC implications, and so transparent disclosure and reporting are necessary for third party evaluations of listed businesses.

Q24: If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the role that the offsets or RECs play in its overall strategy to reduce its net carbon emissions, as proposed? Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way? Are there specific considerations about the use of carbon offsets or RECs that we should require to be disclosed in a registrant’s discussion regarding how climate-related factors have impacted its strategy, business model, and outlook?

Yes, we strongly agree that registrants should be required to disclose the role of offsets or RECs in their overall climate strategy.

The SEC might consider using the term “carbon credit” instead of “carbon offset” in light of (a) the different uses that registrants can make of carbon credits beyond just offsetting, and (b) the drive towards the broader concept of “beyond value chain mitigation” and away from the narrower concept of “carbon offsetting” (as outlined by SBTI and VCMI).
Q101: Should we require a registrant to exclude any use of purchased or generated offsets when disclosing its Scope 1, Scope 2, and Scope 3 emissions, as proposed? Should we require a registrant to disclose both a total amount with, and a total amount without, the use of offsets for each scope of emissions?

We fully agree that the SEC should require the disclosure of all emissions (scopes 1, 2 and 3) and any offsets applied to each scope of emissions. As the SBTI notes, “carbon neutrality” can look very different for different registrants and it is imperative to achieve consistency and comparability so that an investor is able to understand a registrant’s absolute emissions, as well as (and separately) the impact of any offsets / BVCM. Registrants should therefore separately disclose their annual emissions across all three scopes, progress against emissions reduction targets across all three scopes (without the use of credits), and any use of credits in that calendar year. This will allow fair assessment of both net zero trajectory performance and future financial liabilities related to their net zero strategy. Lastly, it is increasingly expected that businesses are calculating each scope of emission, so this should not be difficult for most registrants to disclose.

Q168: Should we require a registrant to disclose whether it has set any targets related to the reduction of GHG emissions, as proposed? Should we also require a registrant to disclose whether it has set any other climate-related target or goal, e.g., regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products, in line with anticipated regulatory requirements, market constraints, or other goals, as proposed? Are there any other climate-related targets or goals that we should specify and, if so, which targets or goals? Is it clear when disclosure under this proposed item would be triggered, or do we need to provide additional guidance? Would our proposal discourage registrants from setting such targets or goals?

Investors increasingly expect their portfolio companies to have some form of science based targets for the reduction of GHG emissions (as well as, increasingly, other environmental targets). Where a registrant discloses that it has not yet set any targets, it should additionally be required to explain why it has not yet set a target and when (if at all) it expects to set a target. This would allow investors to, with a level of comparability, understand the horizon for registrants moving towards target-based approaches to their climate strategy. Increasingly, we expect this to be a criterion for investment, so it is imperative for investors to understand.

Registrants should be required to disclose the exact conditions of their climate related targets or goals. For example, registrants with net zero or carbon neutral claims should
define this claim and disclose information including target date, interim targets across all three scopes, use of credits etc. (The recent guidance from the Voluntary Carbon Markets Integrity Initiative (VCMI) might provide a useful guide in this regard.) Again, this is imperative for investors to be able to assess the achievability of any targets, as well as any potential liabilities associated with not achieving the targets.

We emphatically do not believe that the proposal would discourage registrants from setting such targets of goals - on the contrary, we believe that the proposal would hasten what is an inevitable (and necessary) trend within global markets to address climate and other environmental externalities through the setting of science-based targets.

Q170: Should we require a registrant to discuss how it intends to meet its climate-related targets or goals, as proposed? Should we provide examples of potential items of discussion about a target or goal regarding GHG emissions reduction, such as a strategy to increase energy efficiency, a transition to lower carbon products, purchasing carbon offsets or RECs, or engaging in carbon removal and carbon storage, as proposed? Should we provide additional examples of items of discussion about climate-related targets or goals and, if so, what items should we add? Should we remove any of the proposed examples of items of discussion?

Yes, registrants should be required to detail their strategy to meet their climate-related targets or goals. The SEC’s requirements should develop towards requiring disclosure of the strategy to meet emissions reduction targets and projected use of credits over the next 10 years. Again, this will ensure efficient registrant comparability by investors and facilitate the assessment of risks, such as future increases in credit price.

The SEC should encourage registrants to discuss all material aspects of their strategy. Examples may be useful, but with the understanding that they are not a comprehensive list of requirements, and that these may change over time as strategies and technologies evolve.
Q173: If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, the nature and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs, as proposed? Are there other items of information about carbon offsets or RECs that we should specifically require to be disclosed when a registrant describes its targets or goals and the related use of offsets or RECs? Are there proposed items of information that we should exclude from the required disclosure about offsets and RECs?

With respect to "carbon offsets", we’re fully supportive of the proposed approach. Requiring disclosure of details of the quantity and identity of the credits used allows a much more accurate assessment of the reputational and financial risk of the registrant. To support this, credit buyers should also be required to disclose:

- Number of credits retired
- Credit ID and certification standard
- Vintage
- Host country
- Whether a corresponding adjustment has been applied
- Price paid
- Date of credit(s) purchase

All of the above details should be provided comprehensively, meaning that in any given year reporting entities should provide this information for every credit they have bought, every credit they hold, every credit they have retired, and any claims made in association with any credits bought or retired.

To further aid this assessment of risk, credits buyers should also disclose the due diligence they have performed on the credits purchased. This could include both internal processes or verification, authentication, or subsequent monitoring / assessment by a reliable third party, for example carbon credit ratings agencies. This could also include information from independent initiatives such as IC-VCM, including whether a credit meets their Core Carbon Principles. However, this should be with the understanding that this is a binary judgement, and more nuanced quality assessments help further mitigate risk.

From experience supporting the carbon credit purchasing processes of corporations, banks, traders and others, we are acutely aware of the financial and reputational liability that purchasing low quality carbon credits poses. Increasingly, businesses are unwilling
to retire low quality carbon credits and make related claims, meaning any amounts spent on those credits will have been wasted. Businesses are also subject to increasing amounts of NGO / media scrutiny, and even litigation, for investing in low quality, controversial carbon credit issuing projects. Understanding a registrant’s exposure to perceived low quality carbon credits is therefore critical for an investor to understand its portfolio companies’ liabilities.