June 17, 2022

The Honorable Gary Gensler  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC  20549  

RE: File Number S7-10-22 -- Proposed Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors*

Via email: rule-comments@sec.gov

Dear Chairman Gensler:

BAFT (The Bankers Association for Finance and Trade)\(^1\) appreciates this opportunity to respond to the Proposed Rule: *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (Proposal). As the voice of the transaction banking industry worldwide, in 2021, we launched a global working group on sustainability to address five priorities for the industry; support the development of standards for sustainable transaction banking, define principles on how to apply ‘Net Zero’ to transaction banking, to provide the industry with guidance on sustainability reporting, provide market education on sustainable transaction banking, and lastly, to define the role that transaction banking facilitates for the full spectrum of ESG – beyond the “E”.

The Proposal recommends significant changes to how companies disclose and report Scope 1, 2, and 3 emissions. BAFT is committed to the development of global standards for sustainable trade finance and cash management.\(^2\) As such, we are supportive of material principles-based climate disclosures that deliver a balance of tailored disclosures and comparable quantitative information across registrants. The priority must also include minimizing compliance costs and ensuring that the disclosure regime can evolve to meet changing circumstances.

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1. BAFT is the leading global forum for bringing the financial community, its solution providers and stakeholders together to collaborate on defining best market practices that facilitate efficient delivery of trade and cash management products and service offerings for their clients.
2. See Appendix 1 for a definition of Transaction Banking and products offered under trade finance and cash management.
Representing the interests of institutions that provide the delivery of trade and cash management products and service offerings that facilitate commerce for their clients, we want to highlight core priorities that future implementation of climate disclosure requirements should take into account.

**Need for common practices to estimate financed scope 3 emissions for transaction banking**

There is currently no widely adopted definition for sustainable transaction banking products. While there are definitions and standards available for other forms of financing, transaction banking and specifically trade finance poses a unique challenge due to its short-term nature, involvement of a large number of different parties in the transaction, type of goods/services, transportation, jurisdictions, etc. The industry recognizes that having a common definition is a pre-requisite for any further guidelines and framework to be created in this field and is actively work on such a definition. The industry is currently looking to answer questions such as should sustainability be determined at the transaction or supply chain level or should the holistic sustainability effort be considered. There is not yet market consensus in this regard.

Calculating financed emissions is complex and prone to variances in data availability and methodology, more so when a common defining criteria is missing or a third-party certification is not required. This lack of clear standards presents a challenge for the comparability of reported estimates across registrants. Significant work is needed to ensure that disclosed Scope 3 emissions attributed to bank activities are comprehensive and can be accounted for efficiently and effectively.

The SEC proposal states that banks will be required to report Scope 3 greenhouse gases (GHGs) if material³, or if the company has publicly made an emissions target related to Scope 3 GHGs. Financial institutions subject to Scope 3 reporting are required to measure and accumulate Scope 3 financed emissions for their lending portfolios. For trade finance given its short-term nature and involvement of a myriad of parties obtaining detailed measurements from small and privately held businesses that are parties to the transaction is complex and prone to duplication and inconsistencies. A common standard to measure financed emissions is not only useful but necessary as well as a certification. Such a process would require political will and additional time beyond the transition

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³ An exemption from the Scope 3 emissions disclosure requirement exists for a registrant meeting the definition of a smaller reporting company (“SRC”) if (1) had a public float of less than $250 million; or (2) had annual revenues of less than $100 million and either: (i) no public float; or (ii) a public float of less than $700 million. See 17 CFR 229.10(f)(1), 230.405, and 17 CFR 240.12b-2.
periods provided in the Proposal. In the interim, if the SEC were to limit Scope 3 financed emissions disclosures to metrics that the registrant has set as a target, the public would be better equipped to evaluate a company’s progress toward that stated goal. Defining the reporting parameters will help to mitigate the high costs of compliance and increase the benefit that the disclosure will provide.

The SEC has proposed a phase-in period for the compliance date for the Scope 3 emissions disclosure, which would extend the deadline for one year beyond the registrant’s compliance date for disclosing Scope 1 and Scope 2 GHG emissions. This is a positive step that recognize the complexity of reporting scope 3 emissions, but an additional year may not be sufficient to overcome the lack of current guidance and standards if all scope 3 emissions are deemed material.

**Recommendations:**
- We recommend that Scope 3 emissions not be included in the scope until such time as standardised and practical measurement methodology is introduced and adopted by the industry.

- Ample work remains to develop a common standard that measures financed emissions including those for transaction banking transactions, thus we recommend additional transition time to allow for the development of industry specific reporting guidance.

**Promote consistent global climate disclosure regime**

Global consistency in the way material climate risk is reported, measured, and mitigated will simplify implementation. We urge collaboration with international counterparts to align climate risk disclosures to fit into existing voluntary frameworks. For a business such as transaction banking, global standards lessen the compliance burden and are more useful than disparate regulations that are hard to compare. Further, to promote comparability, climate risk disclosures should align with well-established investor-oriented frameworks so that they may be compared over time and across peers.

**Recommendation:**
- Given the global nature of transaction banking, we support the development of a compatible and consistent global climate disclosure regime.
Conclusion

BAFT supports the efforts of the Commission to provide investors with pertinent information related to climate risk. However, its detailed requirements for scope 3 emissions disclosure extend beyond the transaction banking industry’s current capacity to measure and report given the short-term nature of various transactions and the diversity of size and geographic distribution of its client base. Further this level of reporting will add significant costs to registrants and even many private companies within a supply chain, often without a commensurate improvement in the value of disclosed information for investors. We recommend that Scope 3 emissions not be included in the scope and that efforts be made to encourage the development of a practical and consistent common measurement and reporting standards. We further encourage the SEC to continue to collaborate with global stakeholders as it moves forward with the development of the reporting framework so that it can effectively fulfil its stated goal.

We appreciate you taking into account our industry’s perspective. Should further discussion of any of these matters be desired, please do not hesitate to contact me at

Sincerely,

Diana Rodriguez
Vice President, International Policy
BAFT
Appendix 1: What is Transaction Banking?

Transaction Banking is typically thought of as a subset of corporate / commercial banking and encompasses Trade Finance (to help clients finance and manage risks of cross-border transactions) including Supply Chain Finance (to help clients manage their transactional liquidity), and Payments and Cash Management (to help clients manage their money).

Trade Finance can be defined as a suite of products to assist clients manage risks in their cross-border transactions (export/import activity). Many import and export transactions are governed by the Uniform Customs and Practice (UCP), a set of guiding rules that allows the counterparties to perform under globally agreed-upon (but not legislative) practices and processes.

Trade Finance products include the following:
- Commercial Letters of Credit
- Performance and Financial Standby Letters of Credit
- Documentary Collections
- Sight and Time Drafts
- Promissory Notes
- Guarantees
- Supply Chain Finance (A/R, A/P and inventory-related)

Cash Management consists of a suite of products to help clients make payments, collect funds, and manage cash. This also may sometimes be referred to as Treasury Management. CM can be used by all sizes of institutions, individuals and governments, as well as for activities both domestically and cross-border.

CM products include the following:
- Accounts
- Wire payments
- Paper payments
- Cash handling and armored car services
- Clearing payments through exchanges
- Liquidity-related services
  - Balance reporting
  - Cash pooling
  - Account sweeps
  - Controlled disbursement