

June 17, 2022

Ms. Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

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

Submitted via rule\_comment@sec.gov

Dear Ms. Countryman:

The National Electrical Manufacturers Association (NEMA) welcomes the opportunity to provide comments to the Security and Exchange Commission's (Commission) proposed rule on *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.

NEMA represents nearly 325 electrical equipment and medical imaging manufacturers that make safe, reliable, and efficient products and systems. The electroindustry is responsible for developing a number of innovative products that make smart buildings, electric vehicles, and resilient power grids possible. These products are responsible for reducing global greenhouse gas emissions, including for other companies' Scope 1, 2, and 3 emissions.

Broadly speaking, NEMA and its members are supportive of the Commission's efforts to harmonize greenhouse gas reporting requirements and provide additional climate-related disclosures to investors. In fact, many NEMA members, both publicly traded and privately held, are already participating in market-based efforts cited by the Commission in the proposed rule. NEMA members continue to report emissions through the Greenhouse Gas Protocol ("GHG Protocol") and the Task Force on Climate-Related Disclosure ("TCFD).

Though NEMA is supportive of these efforts in principle, there are a number of areas it wishes to highlight in its comments. NEMA's comments will emphasize **maintaining safe harbor** for Scope 3 emissions reporting, **reducing company cost of compliance** with the rule, and the **potential pitfalls** of requiring additional reporting on climate targets.

**Reducing Company Cost of Compliance**

Many companies have been disclosing their emissions, their governance, their strategies and their climate-related risks for some time. Our members include the leading U.S. medical imaging and electrical equipment manufacturers who already provide some climate-related disclosure. As many of our members align their disclosures to the various reporting frameworks identified in the proposal, **NEMA supports the SEC's references to TCFD, the GHG Protocol and other established guidance for such disclosures.** One new area within the SEC's draft rule, however, is the line-by-line assignment of climate-related impacts on the financial statement. **We believe this will place an undue burden on the**

**accounting and reporting bodies within each reporting company.** This requirement will yield little additional information for shareholders, beyond what is already available in the risk assessment disclosures, while significantly increasing cost and resource requirements for each reporting company. Already, first-year compliance costs for companies are estimated to cost a minimum to of \$640,000 for large reporting companies and \$490,000 for smaller reporting companies.<sup>1</sup> The actual cost may be even higher. As it is the SEC's burden to demonstrate that the benefits of such expensive disclosure will outweigh its costs, we encourage the SEC to explicitly detail which benefits these requirements will materialize and why those benefits justify such high costs.

In any final climate rule, we hope the SEC will not overlook that there are likely to be unintended consequences on the behavior of public and private U.S. companies as a result of the new climate disclosure requirements. The SEC found in a 2009 analysis of the Sarbanes-Oxley Act that the additional disclosure mandated by that legislation may have promoted this trend, finding that "approximately 44 percent of respondents from U.S. companies indicated that [the Sarbanes-Oxley] Section 404 requirements prompted their companies to seriously, or at least somewhat, consider going private. This result is largely driven by respondents from smaller companies, 70 percent of whom report their companies considered going private as a result of Section 404 requirements."<sup>2</sup>

An understanding of cost is not complete without a recognition of which material risks a company elects to disclose. Like all public companies, our public members comply with the materiality standard by disclosing material business risks in their SEC filings. These risks may already include the risks posed by climate change. The SEC's 2010 Climate Guidance clarifies how companies should incorporate the potential impacts of climate change in existing filings -- such as in Regulation S-K and in the MD&A section -- and disclose the risks posed by changing legislative and legal actions on climate change. The proposed rule, however, mandates additional disclosure of risks that could be considered material *in the future* [Item 1502(a)] and of discussion of impacts from *currently immaterial risks* [Items 1502(b) and (d)]. We are concerned that such a serious expansion of materiality is likely to pose even greater collection and analysis costs on reporting companies and hope the SEC will expand on this new understanding of materiality in its final rule.

### **Safe Harbor for Scope 3 Emissions Reporting**

Scope 3 emissions span a broad range of activities, many of which are outside a reporting company's control. Scope 3 disclosures necessarily contain estimates and assumptions that compound across the calculations. NEMA applauds the SEC's efforts to standardize disclosures across companies, and we believe that more companies reporting emissions will lead, over time, to better data and enhanced reporting. However, given the multiple available methodologies within the GHG Protocol alone, the variety of data sources and the range of degrees of granularity of that data, it will be nearly impossible for any company to report a completely accurate accounting of its indirect emissions. Academic research has also documented the inherent challenges accompanied by estimating Scope 3 emissions and the threat that it poses to real emissions mitigation, such as one company benefiting from another's emissions reductions through technological improvements.<sup>3</sup> For these reasons, **NEMA supports the proposed rule's safe harbor provision for Scope 3 emissions and believes that a good faith effort, auditable for its process and transparent in its assumptions, is the standard to which companies should be held.**

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<sup>1</sup> <https://persefoni.com/newsroom/open-letter-to-business-leaders-on-the-cost-of-carbon-disclosure>

<sup>2</sup> [https://www.sec.gov/news/studies/2009/sox-404\\_study.pdf](https://www.sec.gov/news/studies/2009/sox-404_study.pdf)

<sup>3</sup> <https://hbr.org/2022/04/we-need-better-carbon-accounting-heres-how-to-get-there>

## Climate Targets and Goals Disclosure

NEMA members are supportive of companies publicly stating climate targets and believe that shareholders should be able to evaluate these targets across their potential investments. They further believe that companies should report regularly on progress against these targets, because otherwise any company could set an ambitious long-term climate target with no intention of meeting said targets.

From this perspective, **we support the proposal requiring companies to broadly discuss how they intend to meet climate-related targets or goals but encourage the SEC to clarify that specific details on achieving such a target need not be disclosed.** In particular, our members have expressed concern that disclosing their strategies to meet these targets, in anything other than the broadest of terms, would risk sharing confidential information that shareholders may not need or use, but that competitors could leverage. As a comparison, companies routinely set yearly targets for financial metrics such as EPS and free cash flow, but rarely disclose 5-, 10-, or 20-year financial targets. If they did, even fewer would choose to share whether they expected those results to stem from organic growth, cost containment, acquisitions, or other activities. To do so would undermine their competitive advantage.

To prevent such sharing of competitive advantages, NEMA recommends that the final rule advises that disclosure of climate targets be accompanied by broad categories of potential activities such as “renewable energy,” “sustainable inputs,” “process improvements,” or “product or service offerings,” as opposed to disclosure of specific target details. It would also be instructive for companies to disclose where their strategies include changes outside of their control, such as the greening of the electrical grid.

Companies should not be required to disclose more detail than these, nor publicize targets for each category. In each subsequent disclosure, progress to an overall goal should be shared, but not the amount of reduction in each component category. As a corollary, we offer that companies improving margins through cost containment share just that, rather than discussing in detail that they reduced their costs through energy efficiency, for example. We hope the Commission’s final rule remains mindful of these important nuances around disclosures of climate goals and targets.

NEMA recognizes and commends the Commission’s attempt to enhance the availability of climate related information. As mentioned in our opening, sustainability and efficiency are central to NEMA’s mission, and NEMA stands ready to be a willing partner on behalf of electroindustry manufacturers. We hope the Commission will reconsider the points of emphasis in these comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Spencer Pederson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Spencer Pederson  
Vice President, Public Affairs