INTERNATIONAL LIVING FUTURE INSTITUTE (ILFI) RESPONSE TO SECURITIES AND EXCHANGE COMMISSION

FILE S7-10-22

Proposed Rule for the Enhancement and Standardization of Climate-Related Disclosures for Investors

MAY 13, 2022

On behalf of the International Living Future Institute (ILFI), we submit the following comments in response to File S7-10-22, the Securities and Exchange Commission's proposed rule for the Enhancement and Standardization of Climate-Related Disclosures for Investors, 17 CFR 210, 229, 232, 239, and 249. As an organization that is deeply committed to the regeneration of our planet through industry transformation, we commend the SEC for engaging in this critical market transparency mechanism. Our Institute is dedicated to bringing accountability and standardization around climate-related activities in the building and real estate sector, and so we offer our comments in recognition of the complexity and importance of this new proposed rule. We have seen directly how poorly formulated standards can create the illusion of progress, unfair competition, 'greenwashing' and other activities that are counter to the goals of the SEC and the larger international community in addressing climate change effectively and rapidly. We are here as resources for you, as many non-profit organizations are, in helping ensure this Proposed Rule achieves its desired intentions.

About The International Living Future Institute

The International Living Future Institute (ILFI) has been transforming the building industry through fully regenerative buildings for 15 years. We call this a Living Future - a future where buildings are Zero Carbon, made with healthy materials, socially just, and sustaining for all. ILFI is most known for its pioneering work with the Living Building Challenge (LBC), the building industry's most ambitious environmental and social performance standard, and a suite of complementary programs including Living Product Challenge, Zero Carbon Certification, Declare, and the social justice transparency label for organizations - Just.

Our vanguard approach has inspired the industry and led to more than 45 million square feet of projects in 32 countries, ranging from affordable housing complexes to corporate office spaces; in all climates—from arid deserts to rainy coastal cities; and all sizes —from tiny homes to 3 million square foot campuses. Our visionary work has started many critical shifts and focus areas for the industry, including embodied carbon accounting, healthy materials specification, electrification of buildings, social and human rights impact, onsite water reuse, and more. Successful projects with public companies like Google (GOOGL), Etsy (ETSY), PNC (PNC), Mohawk (MHK) and more have demonstrated that a Living Future is not only possible in practice and policy, but is also scalable, and is material to the business of these companies.

The Importance of Holistic Sustainability Disclosures

At ILFI, we know that transparency and disclosure of sustainability performance drives innovation. Our certifications and labels are built around this concept, and we applaud the efforts of the SEC to increase the level of transparency and disclosure related to carbon and climate-related factors.

While this proposed rule effectively addresses the material risks to a company from GHG emissions and climate-related factors, corporate ESG strategies, and sustainability as a whole, are much more holistic. The full range of material impacts and strategies related to sustainability include human health, equity and social justice, water, waste, and community relations, in addition to carbon, energy, and climate change. We encourage the SEC to consider future rule-making for disclosure of financially material sustainability factors that are more holistic, and capture the true nature of the climate, health, and equity crisis we face.

Value of Third Party Standards and Verification [§ 210.14-02, § 229.1500, § 229.1505]

The success we have had in moving entire sectors of the built environment toward healthier and lower carbon approaches stems from the value of third-party verification. Third-party verification allows organizations to communicate their achievements through a common framework, so that shareholders and stakeholders are able to evaluate their performance relative to others using the same protocols. Requiring these statements to have third-party attestation also adds credibility, and ensures that the reporting is completed consistently across companies.

ILFI applauds the efforts of the SEC to send a clear signal to investors and companies that carbon and climate-related accounting are material to their success. Aligning the SEC requirements with the TCFD and other third-party reporting standards is the best way to ensure companies and investors are able to comply with the proposed rule, and that their reporting will be most useful to investors. The field of sustainability and ESG reporting is rife with attempts to define customized unique definitions and approaches, however we have seen that this type of fragmentation only causes confusion and is not a useful mechanism to drive change or guide action. To further drive accountability and transparency, ILFI recommends extending scope 1, 2, and 3 reporting requirements to apply to all filers, including SRCs.

Value of short-, medium-, and long-term assessment [§ 210.14-02(j), § 229.1502(a)]

Maintaining a view of both short and long-term time horizons is critical for measuring the full impact of decisions, including an assessment of costs and savings over time. Requiring companies to report their risks and opportunities across those time horizons allows the full costs and benefits of carbon reduction efforts to be accounted for. As both transition risks and physical risks increase through time, efforts made now to reduce future risk can be understood as long-term cost saving and risk mitigation strategies through a long-term time horizon. ILFI fully supports the efforts of the SEC to require short-, medium-, and long-term assessment.

Resilience and Climate Related Physical Risk Management [§ 210.14-02(i), § 229.1500(c)(1), § 229.1502]

As the latest IPCC report in April of 2022 states, the time remaining to stave off the worst effects of climate change is quickly vanishing, meaning some level of climate adaptation and resilience will be necessary. Strategies to eliminate carbon emissions should continue to be prioritized, but we cannot ignore the need to build resilience strategies as physical risks from climate change continue to increase.

We have seen through our work that the ability for projects to maintain resilience in the face of climate related physical risks is entirely possible. The tactics and strategies for creating climate resilience reinforce and are often the same ones necessary for eliminating and minimizing carbon emissions in the first place. Requiring companies to report on the climate related physical risks that their portfolios are vulnerable to is key, and ILFI supports the proposed rules requiring reporting of this vulnerability by square footage. This level of reporting will help both investors and companies alike develop strategies to prioritize their investments.

Permitting proxy data and estimated emissions [§ 229.1504(e)(4)(i)]

ILFI supports the proposed approach to require disclosure of any data that is proxy or estimated - actual emissions are what matter, which is determined by actual performance, rather than estimates or predictions. ILFI also supports the proposal to allow estimated or proxy data to be submitted where actual performance is unavailable due to reporting schedules, with the added requirement of disclosure that the data is estimated, and an obligation to publish updated actuals when available.

All of ILFI's certifications are based on measured performance data, rather than predicted performance because the green building industry has seen too many instances where actual performance did not measure up to predicted performance. When companies are required to report measured and actual performance, it allows investors and companies to make sound decisions about what should be invested in for the future.

RECs vs Carbon Offsets [§ 210.14-02(f), § 229.1502(c), § 229.1506(d)]

The proposed rules co-mingle discussion of RECs and carbon offsets as if they are interchangeable. While some companies might use them interchangeably, the climate benefits of each are dramatically different, and they relate to different emissions scopes. ILFI does not accept the use of REC's to demonstrate reductions of energy use or associated scope 2 emissions. ILFI further restricts use of carbon offsets as only permissible to offset scope 3 carbon emissions, and not as an offset for scope 1 or scope 2 emissions.

ILFI recommends that the SEC strengthen the requirement that companies disclose the purchase of REC's and carbon offsets separately if both are included in their strategy. This can be done by requiring separate reporting of bundled versus unbundled RECs. Even among carbon offsets, the quality and reliability can vary dramatically, with some being more reliable than others. For this reason, we support the SEC's proposed reporting requirements that all companies report total quantity of REC and carbon offset purchases, as well as whether those offsets meet third-party certifications, and international standards as certified or verified emissions reductions.

Closing

In conclusion, ILFI supports the Securities and Exchange Commission's proposed rule for the Enhancement and Standardization of Climate-Related Disclosures for Investors, 17 CFR 210, 229, 232, 239, and 249.

Driving transparency and disclosure, aligning with third-party standards and protocols, requiring short-, medium, and long-term assessments, identification of climate vulnerable fixed assets, and requiring actual data rather than estimated reporting are all critical aspects to ensure the SEC rules are effective for companies, investors, and climate impacts.

Signed,

Lindsay Baker, CEO
International Living Future Institute