Comment on SEC Climate Change Disclosure Rulemaking

SupplyShift, Inc.

Introduction:

The investor, business, and stakeholder communities face a historic opportunity to shape the responses of U.S. financial markets to climate risk, and businesses currently have an opportunity to meet the global climate change challenge we face. SupplyShift is a leading supply chain sustainability platform that works with over 50 customers that meet the reporting thresholds in the draft rule. At SupplyShift, we're committed to helping businesses create more transparent, responsible, and resilient supply chains. We believe that, when properly managed, a company's supplier network can deliver incredible value for the company, the greater economy, and can play an important role in changing our world for the better.

SupplyShift supports our customers in engaging suppliers for Scope 3 GHG emissions data, along with many areas of human rights, deforestation, materials origins, and other ESG topics. Therefore, we are in an excellent position to understand current practices in Scope 3 GHG data and reporting, especially as related to Category 1 Purchased Goods and Services, and specifically upstream (supply chain) emissions. We appreciate the SEC's proposed rule, called, *Enhancement and Standardization of Climate-Related Disclosures for Investors*, and we provide our comments here with the intent of identifying what is best in practice, achievable, actionable, and will lead to positive results (e.g., transparency of risk, and reductions in Scope 3 emissions).

Summary of Our Response:

We support the CERES statement in response to the proposed rule, and furthermore believe that the final SEC climate change disclosure rules should be based on the following recommendations. Our justification for these recommendations is provided after the summary and in response to specific questions below.

If these recommendations are included in the rule, we think this will result in:

- All companies starting the journey to tracking and reporting key metrics that pose a meaningful risk to their balance sheets
- A focus on disclosing Scope 3 emissions data for areas where companies have more direct control, which will result in improving companies' ability to take actions to reduce risk
- Better and more accurate disclosures, based on a clear understanding for all stakeholders of what reported data is estimated and what is actually measured.
- Supporting the current momentum and progress in the private sector on Scope 3 target setting, data reporting, and actions to reduce emissions.

Our recommendations are:

- Disclosure rules should include Scope 1, 2, and 3 greenhouse gas emissions for all registrants, because this is needed to assess the full range of climate change risks facing companies.

- The Scope 3 Categories should follow the existing GHG Protocol definitions.
- All companies should report Scope 3 emissions whether or not they have current targets and whether or not these include Scope 3 emissions targets to avoid perverse incentives that reduce future target setting.
- Require disclosure of the percentage of Scope 3 emissions that are estimated vs. measured (e.g., type i versus type iii as defined in question 106), as well as sources and types of data utilized, to support the momentum towards companies managing climate risk, not just reporting about it.
- Emissions from Category 1 Purchased Goods and Services should be reported separately, with different requirements for upstream and downstream emissions.
    - For upstream emissions:
        - All registrants should be required to report estimated Scope 3 emissions and to report the source of emissions factors.
        - Some registrants should be required to report actual measured emissions from some threshold of emissions over which they have greater influence.
        - The threshold/percent of measured emissions (type i data) should increase over time.
        - The breadth of registrants to which this applies should increase over time.
    - For downstream emissions: reporting of significance of categories, not quantitative reporting, should be required, due to the difficulty of accurately measuring or estimating downstream emissions.

Current Approach of Companies on Scope 3

As background to our recommendations, here we provide an overview of how companies currently manage Scope 3 emission data.

To date most or nearly all companies have modeled their Scope 3 GHG emissions data based on estimated/average emissions factors. Because of this methodology, this process is highly inaccurate to the specific supply chain, and is generally best used to identify areas of higher emissions (hotspots) within the upstream supply chain for further attention, rather than to provide an accurate inventory of emissions.

Many companies are now switching to getting some portion of actual data on greenhouse gasses from supply chain actors. This is because (a) it is impossible to track any specific reductions just using industry average emissions factors - since they only change when the economy as a whole changes, and (b) without engaging the supply chain directly, it is impossible to manage the supply base towards reduced greenhouse gas emissions. If a company has only estimated emissions using global/average emissions factors for purchased goods and services, their reported greenhouse gas emissions will only reduce once average factors reduce, so they will have no mechanism or incentive to change business practices to create lower carbon intensity goods and services, since they wouldn't see it reflected in their reporting against goals.

There is important work being done by companies, industry groups, and service providers to reduce supplier GHG emissions based on a real understanding of the supplier emissions, so that appropriate measures can be taken to reduce Scope 3 emissions. This SEC rule should support that momentum, rather than stunt it, and this intent guides our responses to specific questions and our overall recommendations.

Answers to Specific Questions

98. Should we require a registrant to disclose its Scope 3 emissions for the fiscal year if material, as proposed? Should we instead require the disclosure of Scope 3 emissions for all registrants, regardless of materiality? Should we use a quantitative threshold, such as a percentage of total GHG emissions (e.g., 25%, 40%, 50%) to require the disclosure of Scope 3 emissions? If so, is there any data supporting the use of a particular percentage threshold? Should we require registrants in particular industries, for which Scope 3 emissions are a high percentage of total GHG emissions, to disclose Scope 3 emissions?

All registrants should report Scope 3 emissions, regardless of materiality. This is because Scope 3 is inevitably a very meaningful portion of the total GHGs, even for companies that don't create products. Estimating Scope 3 emissions using a spend-based approach (e.g. type iii data per definition in question 106) is becoming commonplace and it gives companies an understanding of their risk and impact. This process is becoming more straightforward, and Scope 3 estimation tools are now being built into many software platforms.

There should be no quantitative threshold to require type iii data reporting, since all registrants should report. However, there should be thresholds that require companies to report type i emissions data for some Categories of emissions, per our comments in subsequent questions. Because type iii data is inaccurate and not actionable (per our comments above), Scope 3 reporting cannot be based on solely type iii data.

Yes, thresholds should be more stringent in industries where Scope 3 emissions (particularly Category 1 Purchased Goods & Services) are a high percentage of total GHG emissions.

99. Should we require a registrant that has made a GHG emissions reduction commitment that includes Scope 3 emissions to disclose its Scope 3 emissions, as proposed? Should we instead require registrants that have made any GHG emissions reduction commitments, even if those commitments do not extend to Scope 3, to disclose their Scope 3 emissions? Should we only require Scope 3 emissions disclosure if a registrant has made a GHG emissions reduction commitment that includes Scope 3 emissions? 185 Y

No, all registrants should be required to disclose Scope 3 emissions, whether or not they have a target and whether or not their target includes a Scope 3 target. This is because companies who have not yet set a target or whose target doesn't yet include Scope 3 would be discouraged from ever setting a target, since once they create that target, they would be

bound to SEC reporting. Essentially, we would be penalizing the first movers who have set targets, and letting those who haven't yet taken action continue to avoid doing so. This would be counterproductive to the goals of the rule.

100. Should Scope 3 emissions disclosure be voluntary? Should we require Scope 3 emissions disclosure in stages, e.g., requiring qualitative disclosure of a registrant's significant categories of upstream and downstream activities that generate Scope 3 emissions upon effectiveness of the proposed rules, and requiring quantitative disclosure of a registrant's Scope 3 emissions at a later date? If so, when should we require quantitative disclosure of a registrant's Scope 3 emissions?

All registrants should be required to report spend-based estimates of Scope 3 for Category 1 Purchased Good and Service, per comments above. This is using average emissions factors, as this is no longer a difficult process and is or will be automated across the leading procurement software platforms.

In addition, quantitative disclosure of measured (e.g. type i, not estimated/type iii) emissions should be required of some companies. Here we provide two potential approaches, based on thresholds or Scope 3 emissions categories. These requirements could be applied in a more stringent way in industries where Scope 3 emissions are a high percentage of total emissions:

- **For suggested thresholds, the largest companies could be required to report at least 30% of Scope 3 emissions as measured (rather than estimated) when the rule takes effect, and in a subsequent phase of the rule, the largest companies could be required to report over 50% measured emissions, and medium sized companies over 30% of measured emissions.**
- **For an emissions category-based approach: Quantitative disclosure of measured Scope 3 emissions could be confined to areas of Scope 3 where the registrant has some level of influence. This would be important for making the reporting manageable and realistic. For example, a good approach here could be to require reporting by companies about emissions from their suppliers where the reporting company directly purchases goods and services, and not require upstream measured emissions emissions reporting beyond that. This is because too many uncertainties would be added given the current state of supply chain maturity on GHGs. Going to further upstream reporting could be encouraged but not required.**

102. Should we require a registrant to disclose its Scope 3 emissions for each separate significant category of upstream and downstream emissions as well as a total amount of Scope 3 emissions for the fiscal year, as proposed? Should we only require the disclosure of the total amount of Scope 3 emissions for the fiscal year? Should we require the separate disclosure of Scope 3 emissions only for certain categories of emissions and, if so, for which categories?

Emissions from Category 1 Purchased Goods and Services should be reported separately from other sources of emissions because they are generally the most significant ones and also where companies have more leverage to mitigate risk and climate impact by reducing emissions in that Category.

Requiring separate reporting of Scope 3 Categories 6 and 7 (Business Travel and Employee

Commuting) emissions could be useful since companies can act effectively to reduce these emissions in more direct ways than other Categories of Scope 3. Other categories can be reported separately or grouped together, and quantitative reporting should not be required where the company can show they have assessed that these categories aren't material.

103. Should the proposed rules include a different standard for requiring identification of the categories of upstream and downstream emissions, such as if those categories of emissions are significant to total GHG emissions or total Scope 3 emissions? Are there any other categories of, or ways to categorize, upstream or downstream emissions that a registrant should consider as a source of Scope 3 emissions? For example, should we require a registrant to disclose Scope 3 emissions only for categories of upstream or downstream activities over which it has influence or indirect control, or for which it can quantify emissions with reasonable reliability? Are there any proposed categories of upstream or downstream emissions that we should exclude as sources of Scope 3 emissions?

The Scope 3 Categories should follow the existing GHG protocols definitions, as they work well to help companies organize and understand in a common way, and have been accepted for some time.

Within Category 1 Purchased Goods and Services, we suggest a different approach for downstream emissions, since, unlike upstream emissions, estimating or measuring downstream includes too many assumptions about downstream usage patterns. Making quantitative reporting required for downstream emissions would provide unrealistic and inaccurate information. Here only qualitative reporting on the significance of a category for downstream emissions is realistically achievable. For upstream Category 1 emissions, see our responses to other questions.

106. Should we require a registrant that is required to disclose its Scope 3 emissions to describe the data sources used to calculate the Scope 3 emissions, as proposed? Should we require the proposed description to include the use of: (i) emissions reported by parties in the registrant's value chain, and whether such reports were verified or unverified; (ii) data concerning specific activities, as reported by parties in the registrant's value chain; and (iii) data derived from economic studies, published databases, government statistics, industry associations, or other third-party sources outside of a registrant's value chain, including industry averages of emissions, activities, or economic data, as proposed? Are there other sources of data for Scope 3 emissions the use of which we should specifically require to be disclosed? For purposes of our disclosure requirement, should we exclude or prohibit the use of any of the proposed specified data sources when calculating Scope 3 emissions and, if so, which ones?

Yes, registrants should be required to disclose the data sources used to calculate Scope 3 emissions. As discussed above, a clear distinction should be made about what percent of the Scope 3 data was estimated versus measured, which could be according to the 3 data types defined in the question. Registrants should be prohibited from using only type iii data for reporting Category 1 emissions, rather there should be some threshold that requires companies to report some percentage of type i data, per our response to question 100. Overall, registrants would need to report quantitative Scope 3 emissions that cover all of the significant categories, and that some percent of that data has to be type i data.