Comment on File Number S7-10-22

WAP Sustainability is a leader in the global Greenhouse Gas (GHG) Emissions (Scopes 1, 2, and 3) accounting marketplace, having worked with both public and private companies of all sizes around the world. WAP has decades of combined experience in the tracking, public reporting, and reduction of GHG emissions. Whether it be helping organizations understand their Scope 1 & 2 emissions and reporting them through CDP, GRI, or their annual reports, or providing Scope 3 clarity to a global supply chain to allow true, fact-based plans to be implemented. WAP has helped organizations of all sizes and industries understand their environmental impacts so they may work towards reducing their footprint.

With our history of work in this area, we greatly appreciate the opportunity to comment on the SEC Proposed Rule 33-11042 File Number S7-10-22. Over the years, we have seen internal leadership of environmental initiatives shift from a companies' sustainability team to their operations and marketing teams and now to their financial departments and even C-Suites. The conversations that we have helped companies have with their customers and the marketplace have transitioned from data-based, nice-to-have marketing statements towards data-based, must-have answers for their investors, customers, and partners. With all of this in mind, we agree with the necessity of the SEC Proposed Rule at this point in time. We know that Scope 1, 2, and 3 GHG Emission information is becoming more and more material to every conversation our clients are having – with their own customers, partners, vendors, and most essentially, with the financial community and their investors.

As the financial community is used to living in mostly concrete financial data, this "new math" of GHG emissions can be wrought with misunderstanding, misuse, and misleading claims… all while trying to learn what is essentially a new language. Considering this learning curve, we believe there are some areas of the proposed rule that could use some clarification and specificity. Overall, we agree the SEC Proposed Rule is well positioned to help protect investors, maintain fair and orderly markets, and increase capital formation. Therefore, we are commenting to not only add our support, but to request certain modification and clarifications to ensure the Proposed Rule is successful in its rollout.

1) **II Discussion H Attestation of Scope 1 and Scope 2 Emissions Disclosure 2 GHG Emissions Attestation Provider Requirements Request for Comment 144**

WAP Sustainability agrees that the SEC Proposed Rule should require that a registrant obtain a GHG emissions attestation report by a provider who has proven expertise in GHG emissions accounting. While we understand that the PCAOB (Public Company Accounting Oversight Board), AICPA (American Institute of Certified Public Accountants), or IAASB (International Auditing and Assurance Standards Board) standards are currently used to prove an accountant has the appropriate capabilities to provide auditing and attestation services to organizations, they do not prove direct knowledge of Scope 1, 2, and 3 GHG emission accounting capability. Therefore, we do believe that other standards should be allowed to show this capability.

Organizations providing attestation and/or auditing to registrants looking to comply with the Scope 1 and 2 provisions of the SEC Proposed Rule could show capabilities in this area by having staff members compliant with the Greenhouse Gas Institute's Certification of Proficiency or Diploma program[1]. These organizations could also show compliance with the ANSI National Accreditation Board's Accreditation Program for Greenhouse Gas Validation and Verification Bodies program[2], again only for Scope 1 & 2. We do feel that the SEC should explore the concept of Attestation for Scope 3 as well. By adding these pathways, you are allowing the expertise in GHG emissions accounting that has currently built this market to continue to help protect investors due to their marketplace knowledge and capabilities.

2) Section 4 Phase-In Periods and Accommodations for the Proposed Disclosures

We agree that gathering accurate and reliable Scope 3 GHG emissions will be the most difficult part of the SEC Proposed Rule, however this data mining is happening with greater frequency by many different sized public and private companies around the world already. Allowing a safe harbor for Scope 3 emissions by not requiring attestation or accounting for them right away is a way to initially address potential issues. We do feel, however, that there are some issues with this practice, specifically around materiality. The caveat of 'materiality', while utilized frequently in finance, is somewhat redundant when it comes to Scope 3 GHG emissions. Research by The Carbon Trust shows us that for most businesses of all types, Scope 3 represents more than 65% of their total GHG emissions and can be as high as 85-90%[3]. Therefore, not deeming Scope 3 material for all registrants is not protecting investors or maintaining a fair market as it gives the illusion that in a good amount of cases, Scope 3 isn't material, when it almost always is.

We do not agree with the exemptions from Scope 3 for Smaller Reporting Companies either, as most of the global supply chain will respond to this rule in due course. Additionally, as the Accelerated Filers and Large Accelerated Filers start to demand more information from their supply chains, Scope 3 data will trickle down and ultimately become available for all registrants to utilize. Due to these two concerns, we are suggesting the following changes to the Scope 3 reporting requirements:

1 https://ghginstitute.org/how-does-it-work/
2 https://anab.ansi.org/greenhouse-gas-validation-verification/
3 https://www.carbontrust.com/zh/node/1602

"• Scope 3 GHG emissions and intensity (I'm not sure what this bullet means? Is this a suggested change?)~~, if material, or if the registrant has set a GHG emissions reduction target or goal that includes its Scope 3 emissions~~" and "~~An exemption from the Scope 3 emissions disclosure requirement for a registrant meeting the definition of a smaller reporting company ("SRC")~~"

Due to this change, we would also suggest a longer phase-in period for Scope 3 reporting for all filers due to the nature of similar suppliers being utilized throughout similar businesses and therefore similar data being available to all size public registrants. The proposal would be structured as such:

	GHG Emissions Metrics: Scope 3 and Associated Intensity
Large Accelerate Filer	Fiscal Year 2025 (filed in 2026)
Accelerated Filer and Non-Accelerated Filer	Fiscal year 2026 (filed in 2027
SRC	Fiscal year 2027 (filed in 2028)

3) Uncertainties

The document references the uncertainty associated with climate-related factors and suggests that the attestation provider might include a statement on "uncertainty resulting from accuracy and precision of GHG emission conversion factors" (pg. 257). However, it should be up to the discloser to include information on the uncertainty of company data collected and calculation methodology utilized, as well as a statement on the inherent uncertainty of characterization factors.

Note that the ISO 14040/44 standards for Life Cycle Assessment require a statement in all reports: "…..results are relative expressions and do not predict impacts on category endpoints, the exceeding of thresholds, safety margins or risks." Additionally, LCA studies require a qualitative or quantitative assessment of uncertainty with their results. We suggest that the GHG company disclosure follow suit and have a mandatory section acknowledging and discussing a qualitative or quantitative assessment of uncertainty around the reported values. The attestation provider should also be required to reiterate the uncertainty of reported values.

4) Data Quality and Consistency

Within the SEC's proposed rule, great steps have been taken to ensure consistency in the reporting of a company's Scope 3 GHG emissions inventory, including reporting emissions by category (bottom of page 170) and describing the data sources used to calculate those emissions (bottom of page 172). However, there is little to no guidance surrounding what to include within

Scope 3 (which includes 15 categories per the WRI's GHG Protocol). It is recommended to set minimum boundaries for each emissions category to ensure consistency across different reporting bodies. Were the committee to agree to setting minimum boundaries, it is recommended to adopt the minimum boundary guidance set forth in the GHG Protocol, *Corporate Value Chain (Scope 3) Accounting and Reporting Standard,* Table 5.4.

Furthermore, many requests for comment touch on the concept of Data Quality and Consistency and responses are given below.

94. Reporting GHG emissions by gas provides investors with more information than just a single CO_2e number, so it is recommended to provide this information.

95. The current alignment to the GHG Protocol is appropriate and will ensure consistency in the market as it is the most widely used accounting methodology.

96. Reporting emissions in CO_2e is appropriate and will ensure consistency in the market.

97. At a minimum Scope 1 and Scope 2 should be disaggregated in reporting, but it is recommended to require the reporting of emissions by emission source/category within the scopes as it provides a better understanding of where the impacts are coming from. For example, a company's Scope 1 emissions could be 80% from stationary combustion (ex. facility natural gas) and 20% from mobile combustion (ex. fleet), or it could be vice versa. A single aggregated Scope 1 value will not provide investors with the level of detail needed to make informed investing decisions if, for example, a carbon tax is implemented on mobile combustion only.

98. Due to the current definition of materiality set forth in this document, it is recommended to require that all registrants consider all Scope 3 categories per the GHG Protocol *Value Chain (Scope 3) Accounting and Reporting Standard*.

99. Yes. It is recommended to require Scope 3 reporting for all registrants, but if the ruling backs off the Scope 3 requirement, disclosure of Scope 3 emissions should absolutely be required if included in a public GHG reduction target.

100. Scope 3 emissions reporting should be mandatory. As noted in the document, there are many reasons why it is inappropriate for investors to make decisions solely based on Scope 1 and 2 emissions without considering the typically larger Scope 3 emissions.

101. The GHG Protocol, among many other methodologies, allows for the reporting of offsets purchased, but they cannot be combined with any emissions sources and need to be reported as a separate line item. This additional detail provides investors the knowledge needed to understand the "true" impacts of the company along with any payments being made for offset purchases.

102. The Scope 3 emissions shall be reported by category, which aligns with the GHG Protocol *Value Chain (Scope 3) Accounting and Reporting Standard.* Additionally, all 15 categories from the WRI methodology shall be included in the inventory which aligns with target-setting organizations like the Science-Based Target Initiative.

103. All 15 Scope 3 categories per GHG Protocol *Value Chain (Scope 3) Accounting and Reporting Standard* should be included in the inventory. When data is not readily available, appropriate estimations shall be made for inclusion in the inventory, along with information on the data source and documentation of any assumptions made.

5) Timeframe for information release

Currently, the ruling is recommending this information be provided within the annual filing which is due one month after year-end. In our experience, the relevant information needed to perform a full and accurate GHG inventory is not always available in this timeframe. For example, between billing terms and billing dates, there are many cases where utility bills get finalized and delivered 1-2 months after the consumption period is finished. It is recommended to still require annual reporting of GHG emissions but have it be once a year either in a standalone document, an amendment to the annual report, or as part of a different filing document. This would allow reporters the time needed to collect the required information, calculate the emissions, quality check the results, and externally verify the information for accuracy. If the proposed timeline is required, the marketplace will be getting a good deal of assumptions in certain data, which is counter to the Proposed Rules purpose.

6) Proposed Time Horizons and the Materiality Determination

We agree that defining the time horizons and materiality boundaries of climate-related issues is imperative. Disclosing whether any climate-related risk is reasonably likely to have a material impact on a registrant, including its business or consolidated financial statements, which may manifest over the short, medium, and long term is in the best interest of protecting the investor, maintaining fair, orderly, and efficient markets, and facilitating sustainable capital formation. Without this climate-related disclose rule, there could be a looming systemic risk that could deal a fatal blow to the global financial markets as we know it.

Understandably, there is some confusion on how to determine what is material and how to disclose it. Currently, materiality lies in the eyes of the beholder and can be difficult to prove otherwise. However, once a registrant's information is disclosed its assumed to be all relevant and material to the company's financial performance. This assumption follows along the lines of the fiduciary duties of care, loyalty, and obedience. Following these guidelines in disclosing should reveal where material climate-related information is lacking and could be improved to present all relevant and material information.

The question remains, how does one disclose or decide what is material when one is not sure where to begin? Fortunately, there are established global frameworks, standards, and institutions leading the way that the SEC has already recognized (such as the Task Force on Climate-Related Financial Disclosures) and others) that can help identify what is material for a business to disclose and how to disclose it. Utilizing an established framework, in addition to supplements in the financial statements (ex. MD&A), will allow the SEC to move at speed with clarity and harmonization with other global regulations and frameworks that its registrants and investors may face. There are benefits to both the registrant and investor in the process of disclosing climate-related risks by analyzing additional actionable data and leveraging those insights to minimize climate risk and generate additional information for all stakeholders involved.

Requiring registrants to disclose material climate-related risks will bring efficiency and additional due-diligence to the investment process. Accurately calculating the risk determines the return. Therefore, climate risk is financial risk. In its most recent report[4], the *World Economic Forum 2022* had Climate Action Failure, Extreme Weather and Biodiversity Loss as the likeliest critical threat to the world in the next 10 years with the threats becoming more likely as each year passes. Climate risk is a transverse risk and investors must be able to assess the exposure of those risks reasonably with all relevant material information in relation to their investment.

Additionally, requests for comments on the concept of materiality and disclosures – please see responses below.

> **8**. Although climate risk will affect all firms, it is affecting them differently and at different times. Given the complexity and timing of a firm's climate risk and the disclosure that follows, it would be in the best interest of the market if the SEC defined and standardized the particular time periods ((ex. short (0 - 2yr.), medium (2 - 5yr.), and long-term (5-10yr.)) that correlated with the identified potential climate-related risks as detailed in the *World Economic Forum 2022*[4]. This would allow the market to accurately and efficiently compare what risks are on the horizon, alongside a company's intended mitigation strategies and their implementation timelines. Allowing registrants to define their own timelines could slow the low-carbon transition and bring forth additional burdens and confusion to investors and registrants.
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> **9**. Using the TCFD-based approach in identifying climate-related risks via physical and transitional risks would bring a clear view of these risks. Due to its already widely used framework, it would be in the best interest of the investor (and therefore, SEC) to increase harmonization around its climate-related disclosures and the framework of TCFD. Research from FSB in 2021[5] showcased that currently more than 2,600 organizations and 1,069 financial institutions, responsible for assets of $194 trillion, have expressed their support for the TCFD recommendations.

4 https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf
5 https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/

10. The SEC should require more specific disclosures about how a registrant assesses and manages material legal liability, litigation, or reputational risks due to the nature of how climate-related disclosures have been introduced to the market. Most disclosures have been voluntary, but voluntary, while material, creates a desire for more transparency and scrutiny. All the mentioned risks have been some of the main forces in pushing this legal discussion to the forefront and it is those risks that will need to be addressed first in order to begin making real progress on climate-related issues. Monitoring of these issues is paramount.

11. Once registrants open the door to exploring chronic and acute risks, the correlation between the two becomes apparent rather quickly. However, the correlation between how the two affect the business and overall investor's decision may not be so clear – even if the acute and chronic risks are listed. Therefore, requiring a registrant to discuss how the acute and chronic risks affect one another pertaining to their business would be highly beneficial for investors.

15. There are many different metrics that would provide investors with a deeper understanding of physical and transitional risks registrants are facing, however it's imperative that these are deployed in a consistent and comparable manner. For example, using established science-based reduction tools such as the SBTi, provides investors additional insight into how proactive registrants are tracking their risk mitigation. It's important to note though, if these additional metrics were required at this time, this would create an additional burden for registrants as many have not initiated a full evaluation of their Scopes 1-3 emissions and therefore wouldn't have the available data to complete the requirement. Additional metrics should be considered in the near future as a supplement to the Proposed Rules as registrants will have data to support these climate risk metrics.