June 17, 2022

Vanessa A. Countryman

Secretary

U.S. Securities and Exchange Commission

100 F Street NE Washington, DC 20549-1090

Re: Comment on the proposed rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors" (File No. S7-10-22; Release Nos. 33-11042, 34-94478)

Dear Ms. Countryman:

Thank you for the opportunity to provide comments on the U.S. Securities and Exchange Commission's proposed rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

For background, I am a senior adviser in the Energy Security and Climate Change Program at the Center for Strategic and International Studies (CSIS). Prior to joining CSIS, I served as administrator of the U.S. Energy Information Administration (EIA) from July 2002 to September 2008.

One of the main topics of concern I have with this proposal is the Commission's mandate that companies disclosure their Scope 3 emissions. Scope 3 emissions are the indirect greenhouse gas (GHG) emissions from the company's upstream and downstream activity. While I support transparency from companies to the public with respect to their GHG emissions data, the Commission goes too far with respect to codifying a prescriptive rule mandating GHG emissions reporting by public companies.

First, the Commission acknowledges in its proposed rule the unprecedented nature of disclosing indirect emissions that result from activity within a company's value chain and the challenges they will face to reasonably collect and report the information.

The Commission argues that the proposed rule will provide investors with consistent and comparable data. However, tracking emissions from value chain partners will not always be available and hardly comparable. By their very definition, these emissions are outside of a company's control and can come from a variety of places, especially for complex multinational businesses. Inherently, this data is difficult to not only track, but also verify for official reporting purposes and could open a company's disclosure up to methodological uncertainties, not to mention substantial internal and external resources to compile the data.

Disclosed Scope 3 emissions could also be double counted and reported on by multiple companies. An prime example of this point was outlined in another comment made by the Electric Power Research Institute (EPRI):

> *For example, an electric utility that uses natural gas to generate electricity will be in the same value chain as the natural gas producer that produced and supplied the natural gas and the pipeline that transported that natural gas to the utility's power plant. In this example, each of these three entities (i.e., electric company, natural gas supplier and natural gas pipeline), and with each reporting the emissions of the other within its Scope 3 metrics.*[1]

It is also hard to rationalize that third party emissions data is material to reporting a company's financial value and is truly needed for making sound investment decisions. Now, companies are already required to disclose materially relevant climate data. However, in addition to not offering a quantitative threshold for determining materiality, the proposed rule includes, as Commissioner Hester Peirce put it, "a hazy qualitative test" as well. It states these emissions are material when "Scope 3 represents a significant risk, is subject to significant regulatory focus, or 'if there is a substantial likelihood that a reasonable [investor] would consider it important.'"[2] This overly broad statement only serves to create more confusion on what company's need to include in a disclosure to comply with this mandate. If anything, companies will inject more information than needed to try to meet this broad parameter, resulting in immaterial information drowning out useful information.

Interestingly, as a way to address some of these challenges, the Commission's rule also wades into questionable territory by using disclosure rules to try and direct company activity. In the proposed rule, the Commission suggests that a company can "mitigate the challenges of collecting the data" changing their behaviors, including "choosing to purchase from more GHG efficient producers," and "producing products that are more energy efficient."

Finally, the Commission itself acknowledges that proposed rule will increase the overall cost of disclosure and compliance for companies by up to $10.2 billion per year. This undoubtedly includes costs

[1] https://www.sec.gov/comments/s7-10-22/s71022-20130548-299406.pdf
[2] https://www.sec.gov/news/statement/peirce-climate-disclosure-20220321

related to Scope 3 emissions collection in the form incurred audit costs to ensure the data is dependable, such as attestation and assurance reports. Moreover, the Commission then fails to evaluate broader economic effects of the rule change or demonstrate that these costs would generate equivalent benefits for investors.

There are fundamental issues around Scope 3 emissions that make it impractical for companies to uniformly record and include them in disclosures. Therefore, I believe it prudent that the Commission strike its propose Scope 3 disclosure requirement and reconsider the proposed rule altogether. Doing so will avoid almost-certain costs and investor confusion that would ensue under this new mandate.

I appreciate your consideration of the concerns I have laid out above.

Sincerely,

Guy Caruso

Former Administrator, Energy Information Administration (EIA), 2002-2008