SWEEP

Via Electronic Mail to rule-comments@sec.gov

June 17, 2022

Secretary Vanessa Countryman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Public Comment on Proposed Rule: Enhancement and Standardization of Climate-Related Disclosures for Investors - Release Nos. 33-11042; 34-94478; File No. S7-10-22

Dear Secretary Countryman,

On behalf of Sweep, I welcome the opportunity to respond to the Security and Exchange Commission's (SEC) request for public comment on its Enhancement and Standardization of Climate-Related Disclosures for Investors proposed rule (the "Proposed Rule").

As the Environmental, Social, and Governance (ESG) conversation gets louder, investors are looking for transparent and reliable datasets to make investment decisions. But without common standards, everyone does it their own way – which makes it difficult to assess and compare sustainability reports.

Both the SEC and commissioners highlighted the importance of consistency and reliability for climate-related data. Voluntary disclosures leave big emitting companies out of the net and let companies pick whatever data they want to measure and report.

Mandatory climate disclosures will help spot discrepancies between a company's marketing language and the real impact of its business operations. And they will help investors and financial institutions make better informed decisions, such as identifying risky investments in

carbon-intense companies and driving funding in industries that'll thrive in a low-carbon economy.

1. A few words about Sweep

Sweep is the European leading carbon tool to tackle corporate emissions at scale: from mapping to measuring, reducing to reporting. It's the enterprise-ready solution to help companies scale climate action across teams and supply chains quickly and cost-effectively.

The all-in-one platform has a unique network approach to carbon management that helps corporates and financial organizations decarbonize across global supply chains and portfolio investments. The scale of corporate emissions means businesses need to leverage technology to climate-proof their supply chains and prepare for the low-carbon economy.

2. Scope 3 is key

a. The proposed rules

We welcome the fact the proposed rules are based on common reporting frameworks – the Task Force on Climate-Related Financial Disclosures (TCFD) and the GHG Protocol, a greenhouse gas accounting standard, to facilitate the rule adoption for companies that already calculate and report their carbon emissions on these frameworks.

Similar to the GHG Protocol, the proposed rules would define:

- Scope 1 emissions as direct GHG emissions from operations that are owned or controlled by a registrant;
- Scope 2 emissions as indirect GHG emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by operations owned or controlled by a registrant;
- Scope 3 emissions as all indirect GHG emissions not otherwise included in a registrant's Scope 2 emissions, which occur in the upstream and downstream activities of a registrant's value chain. Upstream emissions include emissions related to goods and services the registrant acquires, the transportation of goods (e.g. transporting them to the registrant), and employee business travel and commuting. Downstream emissions include the use of the registrant's products, transportation of products (e.g. transporting goods to the registrant's customers), end of life treatment of sold products, and investments made by the registrant.

b. Why measure scope 3

Scope 3 is likely to be where most emissions come from. Today, thousands of companies already disclose carbon data voluntarily through NGOs - like the Carbon Disclosure Project (CDP) - or in their standard annual report, but very few disclose their entire Scope 3. Some companies only report the business travel of their employees as a Scope 3 and not the emissions arising from the products they sell. Taking the Automotive sector or the Oil and Gas industry as examples: Scope 3 Downstream emissions account for 80% to 90% of the total induced emissions.

Although a company isn't directly responsible for these indirect emissions per se, it relies on the activities that trigger these emissions. If some emissions belonging to the value chain become constrained, it will definitely hinder the operations of the company. Equally, through engaging with suppliers and clients, a company can leverage a positive influence towards the reduction of their own emissions, that in turn will lower the transition risk for the global society. In addition to being the largest component in the GHG emissions bill, Scope 3 emissions reflect how closely intertwined the actors are together.

The Covid crisis was a first rehearsal on how your operating business can be impacted when your value chain is disturbed (i.e. no access to your suppliers, additional delays of transportation of your products, no access to raw materials). The interdependencies of sectors within your business need to be identified and assessed. This is why measuring Scope 3 emissions is critical.

By measuring Scope 3 emissions, organizations can:

- ➔ Assess where the emission hotspots are in their supply chain
- ➔ Identify resource and energy risks in their supply chain
- ➔ Identify which suppliers are leaders and which are laggards in terms of their sustainability performance
- ➔ Identify energy efficiency and cost reduction opportunities in their supply chain
- ➔ Engage suppliers and assist them to implement sustainability initiatives
- ➔ Improve the energy efficiency of their products
- ➔ Positively engage with employees to reduce emissions from business travel and employee commuting

c. Taking a pragmatic approach

In the last few weeks, the debate around making Scope 3 mandatory has intensified. A key talking point is how the SEC's draft climate disclosure rules would affect the smaller businesses embedded in public companies' supply chains — but who aren't actually regulated by the SEC.

For this, we should adopt a pragmatic and top-down approach. A company should first conduct a Scope 3 screening to determine where the emissions in its value chain lie and if they are material. This process can reveal hotspots that a company was previously unaware of. To do this, there are existing methodologies that help companies calculate their Scope 3 emissions based on industry averages to map the main sources of emissions and the key suppliers. For example, at Sweep we use the industry benchmarks based on the CDP datasets.

The proposed SEC rules include this approach (which is also validated by the GHG Protocol): *"when calculating Scope 3 emissions from purchased goods or services, a registrant could determine the economic value of the goods or services purchased and multiply it by an industry average emission factor (expressed as average emissions per monetary value of goods or services)."*

To ensure transparency and auditability, all calculations and methodologies should be transparent and the data quality scored (e.g. disclose whether calculations are based on sectoral estimates or physical activity - based emissions).

Once we have identified the biggest sources of emissions and your key suppliers, you can engage in a dialogue with them to work on sharing carbon emissions and reducing them together. That's why we developed a "connect" feature in Sweep - to foster collaboration across the value chain.

d. Collaboration is key

Most small and medium-sized enterprises do not have the human or financial resources to tackle their emissions head-on. But their corporate partners depend on them to deal with their indirect emissions (Scope 3).

With a collaborative approach and the right tool, large corporations can engage and support their suppliers and/or portfolio companies to start their climate journey. Here are two examples:

Apple

In 2020, Apple announced their ambitious goal to become carbon neutral for the entire life cycle of our products by 2030. To reach this target, they plan to transition their entire manufacturing supply chain — including material extraction, component manufacturing, and final product assembly — to 100 percent renewable electricity. They launched the Supplier

Clean Energy Program in 2015 to help facilitate this transition to clean energy in our manufacturing supply chain.

As of March 2022, 213 manufacturing partners in 25 countries have committed to 100 percent renewable electricity for Apple production.

Swisscom

Swisscom AG is a major telecommunications provider in Switzerland. Most of Swisscom's emissions do not come from the group itself. They come from the suppliers of the components that Swisscom uses to build its networks or from the manufacturers of the end devices that Swisscom customers use (such as mobile phones or TV boxes).

Previously, Swisscom collected emission data in a rather simple way. *"One person with the patience of an angel sent hundreds of emails and organized meeting after meeting to get the relevant data,"* says sustainability specialist Res Witschi. The collected values were then entered into Excel spreadsheets. *"But we had to realize that this quickly becomes confusing."* No wonder as the telecom group works with several thousand suppliers.

Thanks to specialized software and the use of technology, this process is now much easier as the data collection and calculation are automated.

e. Convergence in the climate-disclosure standard proposals

We can spot some differences in the proposed standards of the SEC, EFRAG or ISSB but the main goal remains the same: to promote sustainable economic development and prevent greenwashing by creating globally binding and comparable reporting standards for companies.

It’s important to note the various standards are based on the same ground: the Greenhouse Gas Protocol (GHG Protocol) and the Task Force on Climate-Related Financial Disclosures (TCFD), and take into consideration the company’s impact on its full value chain (including scope 3 emissions).

3. Financial materiality

As defined in the proposed document, climate disclosure is required when information is material, meaning there is a substantial likelihood that a reasonable investor would consider it important in deciding how to vote or make an investment decision.

Trade groups and organizations, state attorneys general, US senators, and other officials have already voiced opposition to mandatory reporting of Scope 3 emissions and its relationship to the materiality standard.

However, we think that, if investors are willing to gain a holistic picture of a company's carbon footprint, have a credible impact in the fight against climate change, and properly identify the risks that can arise all along the value chain, leaving Scope 3 emissions aside would mean missing out most of the energy transition case.

There's even a possible fiduciary risk when not integrating Scope 3. Indeed, ignoring (the largest) part of a company's emissions means to deliberately decide not to assess the full consequences of climate risks. As a result, not considering Scope 3 emissions in an investment decision is to turn a blind eye to potential financial outcomes, failing to adequately assess the entire spectrum of risks investors are exposed to.

In this case, we recommend applying the "comply or explain" rule. Not all the categories of the scope 3 defined by the GHG Protocol apply to all economic sectors. If a company decides not to report on a category, it will need to explain why it considers that it is not material in terms of emissions and impact for its activity.

4. Carbon pricing

Placing an adequate price on GHG emissions is of fundamental relevance, both to internalize the external cost of climate change in the broadest possible range of economic decision making, and in setting economic incentives for clean development. It can help to mobilize the financial investments required to stimulate clean technology and market innovation, fueling new, low-carbon drivers of economic growth.

We then welcome the introduction of the notions of carbon offsets and internal carbon pricing in the definition of the climate strategy for a company.

Internal carbon pricing is a tool an organization uses internally to guide its decision-making process in relation to climate change impacts, risks and opportunities. Companies can choose between a real internal fee or a shadow fee depending on the objective:

- Internal carbon fee: For each ton of carbon emitted, a fixed price needs to be paid internally - with the result of real financial consequences, i.e. a cost line on each P&L (ex: Microsoft 15€/tCO2e , SG 10€/tCO2e)

- Shadow fee: An assumed fee for carbon that is considered in investment decisions as a risk assessment tool, and not actually paid out internally (Shell 40€/tCO2e, Volvo Cars 100€/ tCO2e)[1]

However carbon credit is not an explicit pricing. In the current system, the carbon credit is a consumable unit and not a signal price, as explained by Renaud Bettin, Sweep's VP of Climate Action, in his paper published on the World Bank's Carbon Pricing Leadership Coalition (CPLC) [2] blog. He writes:

"The price signal isn't set by the market, it's set by companies' willingness to finance decarbonization. Project developers are left out of the pricing discussion, even though their work makes the existence of carbon credits possible.

Today, the low cost of carbon credits undermines the objective of carbon pricing: to reduce emissions at the source. This partly explains why the use of carbon credits is so controversial. We need to reconnect carbon pricing with carbon contributions so companies can effectively decarbonize while making a real impact on the planet."

Carbon offset is a way to fund climate projects that reduce or remove carbon. It's an important part of a climate programme – but it is only a part. The problem is when businesses use carbon offsets as a replacement for taking reduction action. Keeping business as usual and funding carbon won't be enough to get to close 1.5°C or a net zero target.

At Sweep, and as the climate community, we are moving away from the word "offsetting" altogether and leaning towards "contribution". When you contribute, you are investing in solutions that tackle climate change, and contributing to global efforts to reach planetary net zero. But you're not using it as a replacement for reduction.

By creating a carbon contribution budget based on an internal carbon price, companies can invest in decarbonizing their products or services. With this system, companies would no longer depend on the evolution of the voluntary carbon market. The climate projects you support drives investment decisions – not the number of carbon credits that fit into a budget. Setting an internal carbon price shows a real commitment to decarbonizing with impact. Investing in climate projects helps accelerate climate justice and get ready for the low carbon economy.

A company's climate programme does not end once it has measured its emissions and paid to offset them. The work to understand a carbon footprint, communicate it and reduce it, is a vital and ongoing process.

5. Conclusion

[1] https://sustechable.com/reports/pricecarbon
[2] https://www.carbonpricingleadership.org/blogs/2022/3/11/getting-credible-carbon-credit-pricing

The best way to start a climate program is to just do it (and the sooner the better, because before long, it will be illegal not to). We're at a crucial turning point, and momentum is building to figure out together how to deal with climate change before it's too late.

And, while cleaning up your carbon might feel like a huge – and possibly expensive – task, the long-term benefits include lower costs, a more efficient business, more engaged employees and happier customers. It is, quite simply, good for business.

Getting it right does require effort and dedication. But it's a necessity, both for every business and for our collective future.

The SEC has the opportunity to write history by making the USA one of the first countries that mandates Scope 3 reporting. But many companies and trade groups have argued against it, stating the complexity and uncertainty of data collection across a company's value chain. Thankfully, digital tools are emerging to help companies tackle this problem.

If the current full proposal gets approved with mandatory Scope 3 disclosures, it will be a milestone and set a precedent for other governments to do the same. More importantly, it will be a great win for companies - and the planet - as a full-scope carbon audit will help them anticipate climate hazards and prepare their activities for the low-carbon future.

Sincerely,
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VP of Climate Finance at Sweep

cc
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