IETA Response to SEC Proposed Rule for "The Enhancement and Standardization of Climate-Related Disclosures for Investors"

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Comments submitted to:
https://www.federalregister.gov/documents/2022/04/11/2022-06342/the-enhancement-and-standardization-of-climate-related-disclosures-for-investors

The International Emissions Trading Association **(IETA)** appreciates this opportunity to provide comments on the Securities and Exchange Commission **(SEC)** Proposed Rule for "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

As the leading international business voice on climate markets and finance, IETA represents nearly 250 companies and non-profit organizations, many of which face climate risks and opportunities across the United States and globally. IETA's market expertise is regularly called upon to inform market-based policies that deliver greenhouse gas **(GHG)** reductions, address economic competitiveness, and balance economic efficiencies with social equity and co-benefits.

Our mission is to empower businesses to engage in climate action, advancing the objectives of the Paris Agreement as informed by IPCC science, and to establish effective, market-based trading systems for GHG emissions that are environmentally robust, fair, open, efficient, accountable, and consistent across national boundaries.

As market participants, IETA recognizes the important role transparency and trust play in enabling fair and efficient markets. Reliable, consistent, and comparable information is foundational for ensuring that trust and transparency. We applaud the SEC for undertaking this effort. By defining what climate information is useful for market participants and standardizing how that information is disclosed, the SEC can protect investors, facilitate capital formation, and ensure financial markets continue to be worthy of the public's trust.

While many IETA members will be subject to this rule, and most – if not all – will use the information disclosed, **our comments will focus on the role of carbon offsets and other sustainability certifications in the corporate climate mitigation strategy**, ensuring comparability and reliability in corporate carbon accounting.

IETA's below comments to the SEC are organized into two sections:

- Section 1 provides priority high-level input to guide the SEC's final disclosure rules; and
- Section 2 answers specific questions for consideration raised in the public consultation.

Section 1: High-Level Priority Input

Introduction to IETA

The International Emissions Trading Association is a non-profit business organization, established in 1999 to serve businesses engaged in market solutions to tackle climate change.

IETA's core objective is to build robust policy and market frameworks for reducing GHGs at low costs while facilitating and accelerating the net zero transition. Our proven record as the multi-sector business champion on all aspects of carbon pricing, markets and climate finance means that IETA members are at the global forefront of policy evolution, innovation and workable solutions. IETA's breadth of member companies include some of the world's leading corporations, including global leaders in oil, electricity, cement, aluminum, chemical, and other industrial sectors, as well as leading firms in GHG data verification and certification, brokering and trading, legal, finance, technology, and consulting businesses. With deep relationships across the world's key policy centres and commercial arenas, IETA is the collective voice for the full range of businesses involved in carbon markets and management worldwide.

For over a decade, IETA has convened expert forums on carbon markets and climate finance. These were produced in collaboration with the UN Framework Convention on Climate Change **(UNFCCC)**, the World Bank and International Finance Corporation, the Asian Development Bank, the African Development Bank and other multilateral development banks. The forums include Innovate for Climate **(I4C)**, Carbon Forum Asia Pacific, the African Carbon Forum, the Latin American and Caribbean Carbon Forum and Carbon Forum North America. They have featured heads of state, ministers, CEOs, financial executives, and market visionaries. Each of these events routinely attract hundreds of attendees. Given the far-ranging locations of the forums – and the national and regional contexts in which they were produced – we have developed strong skills across different cultural and political contexts.

In addition, IETA regularly facilitates smaller working groups of members and sister organizations to develop solutions to market or policy issues. Through these experiences, we have developed extensive expertise in forging consensus in the business community on the challenge of climate finance.

IETA has deep domain expertise in carbon market policies and operations. We have been an accredited observer organization to the UNFCCC for over 20 years, most recently in frequent engagement on advocacy and design support of Article 6 of the Paris Agreement and its recently adopted Rulebook at COP26. We have contributed policy proposals dating back to Kyoto Protocol's Clean Development Mechanism **(CDM)** and Joint Implementation **(JI)** programs. Our policy recommendations have made significant impacts and are well-regarded by national and state-level officials across key markets – including, but not limited to, the EU Emissions Trading System **(EU ETS)**, California-Quebec's Western Climate Initiative **(WCI)**, Regional Greenhouse Gas Initiative **(RGGI)**, Korea Emissions Trading System **(K-ETS)**, China's national Emissions Trading Systems, and more. IETA regularly convenes experts across the growing and evolving voluntary carbon market as well as the new Carbon Offset Reduction Scheme for International Aviation **(CORSIA)** market established by the UN International Civil Aviation Organization **(ICAO)**. Taken together, IETA's expertise on carbon markets ranges from the international to national, regional, state, and corporate levels.

Finally, IETA has deep familiarity with the World Bank's programs on carbon markets and climate finance. In addition to our collaboration on the Innovate for Climate **(I4C)** annual global forum, we have worked in close collaboration with the Partnership for Market Readiness **(PMR)** and launched the aligned "Business Partnership for Market Readiness" **(B-PMR)** in 2014 – an initiative focused on building business readiness for carbon pricing and market programs with partner countries and recipients of PMR funding. In 2022, IETA launched the Business Partnership for Market Implementation **(B-PMI)** reflecting the new generation of business capacity-building efforts in close alignment with the World Bank's newly-launched Partnership for Market Readiness **(PMI)** initiative. In addition, IETA has participated in the World Bank's Networked Carbon Markets **(NCM)** roundtables, including leading a research project for the NCM with the Harvard Project on Climate Agreements. We are also a founding member of the Carbon Pricing Leadership Coalition **(CPLC)**. Most recently, we have consulted with the World Bank Climate Warehouse on commercializing new global carbon market architecture to support private sector cooperation as envisioned by Article 6 of the Paris Agreement.

<u>**Carbon Market Fundamentals & Core Criteria**</u>

From the beginning of the carbon market, a fundamental premise remains, "a ton is a ton." This simple concept has had a paramount impact on ensuring both market integrity and environmental integrity. It has guided IETA's efforts across the globe. **At the international level, IETA has participated in developing transparency rules, guidance and accounting standards under Articles 5 and 6 of the Paris Agreement**, CORSIA and voluntary markets. At the national and sub-national levels, IETA promotes best practices for **carbon markets and advocates strongly for market linkages underpinned by integrity across the world.**

The atmosphere cares little about where a ton of carbon that is emitted comes from, nor where a ton of carbon removed goes. The atmosphere only cares about how much carbon it can hold. Similarly, when corporations or governments are determining their progress toward net-zero or other climate commitments, the most important piece is accurate and consistent measurement, tracking, and credibility. Ultimately, that is why IETA supports the SEC's proposal to instill greater transparency and standardization in carbon accounting across all publicly traded entities.

Scientific knowledge on climate change demands urgent and substantial cuts in GHG emissions. Achieving this requires a comprehensive strategy of carbon management for organizations. Carbon management is the implementation of a thorough, transparent, and organization-wide process to measure and report GHG emissions. Such a process exists to identify and implement actions to reduce internal emissions in line with science, and thereafter invest in external greenhouse gas reductions and/or use high-quality carbon credits to offset unavoidable emissions.

When offsetting GHG emissions, IETA bases the use of carbon credits on the following core criteria:

- Real
- Measurable
- Permanent
- Additional
- Independently verified
- Unique

Disclosure of Emissions and Mitigation Efforts

IETA agrees with the proposal to have each registrant disclose its emissions. Parties should clearly indicate whether each scope is measured or calculated. Any offsets or other sustainability instruments should be disclosed separately alongside the entity's emissions, with a clear indication of how these instruments apply to the entities' sustainability goals.

IETA believes the proposed rule improperly groups Renewable Energy Credits (RECs) and carbon offsets. IETA agrees that disclosure of instruments will enable any investor or interested third party to evaluate its quality and integrity. Specific considerations and recommendations for RECs and Carbon Offsets are summarized below.

Renewable Energy Credits:

When considering what information should be disclosed regarding Renewable Energy Credits, there is room for clarity in the definition and treatment of these credits, given the numerous ways in which registrants and other entities use and procure renewable energy. Specifically, IETA believes that registrants should disclose whether RECs are "bundled" or "unbundled" along with the amount of generated renewable energy represented (if different from the standard 1MWh), the nature and location of the underlying projects, and any registries or other authentication of the RECs.

With respect to bundled RECs, where the REC serves as a contractual instrument and the renewable attribute is tied to the underlying energy purchase, companies are able to procure renewable energy in the following ways: through utility and retail providers, via power purchase agreements or financial contracts, or through self-generation, both on- and off-site.[1] Whereas, unbundled RECs may or may not be locationally and or temporarily relevant to the entity's carbon emissions.

Carbon Offsets:

For carbon offsets, IETA recommends that the SEC adopt the criteria used by the United States Federal Aviation Authority under ICAO's CORSIA program. If a disclosed offset credit is a CORSIA Eligible Emission Unit, the reporting entity only needs to disclose the registry that issued the credit, the project it was credited from, and its vintage. If a disclosed offset credit is not a CORSIA Eligible Emission Unit, the reporting entity should provide further details on the program that issued the credit, and how the program addresses the eleven program design elements outlined by CORSIA below.

The CORSIA Emissions Unit Eligibility Criteria is summarized below:

Program Design Elements. At the program level, ICAO should ensure that eligible offset credit programs meet the following design elements:

1. ***Clear Methodologies, Protocols, and Development Process***
2. ***Scope Considerations***
3. ***Offset Credit Issuance and Retirement Procedures***
4. ***Identification and Tracking***

[1] https://www.epa.gov/sites/default/files/2018-08/documents/guide-purchasing-green-power-4.pdf, 4-3

5. ***Legal Nature and Transfer of Units***
6. ***Validation and Verification procedures***
7. ***Program Governance***
8. ***Transparency and Public Participation Provisions***
9. ***Safeguards System***
10. ***Sustainable Development Criteria***
11. ***Avoidance of Double Counting, Issuance and Claiming***

Based on this design criteria and ICAO's credit integrity criteria, ICAO has determined which Emissions Unit Programs are approved by the ICAO Council to supply CORSIA Eligible Emissions Units. This ICAO document identifies the registries designated by CORSIA Eligible Emissions Unit Programs as valid.[2] CORSIA Eligible Emissions Units are identified as such by each Emissions Unit Program, according to each program's respective Scope of Eligibility. Criteria reflect Eligible Unit Dates and any specifications regarding activity and/or unit types, methodologies, program elements, and/or procedural classes.

In addition to the CORSIA process for identifying high quality sources of offset credits, the voluntary carbon market has evolved to become a robust and cost-effective mechanism based on carbon crediting programs. Over many years, IETA's voluntary market-focused affiliate, ICROA, has developed criteria for reviewing and endorsing these programs. Those that meet the criteria are approved and listed in ICROA's Code of Best Practice as eligible for offsetting. Service providers that are successfully audited annually against the Code's requirements are accredited by ICROA, representing a well-know and highly respected stamp of quality.

ICROA also works closely with key initiatives such as the Integrity Council for Voluntary Carbon Markets **(IC-VCM)** and the Voluntary Carbon Market Integrity Initiative **(VCMI)** to agree on a sensible way forward for corporate climate action claims that ensure the highest level of quality, integrity and impact. These initiatives could establish new benchmarks on credit quality (IC-VCM) and demand-side integrity (VCMI) and help reduce confusion related to a lack of guidance. Furthermore, IETA forms part of the Executive Secretariat of the IC-VCM, supporting the work of the Board of Directors and Senior Advisory Council in establishing Core Carbon Principles **(CCPs)** which intend to set a criteria for high quality credits in the voluntary carbon market.

High quality carbon credits enable critical finance, but to raise ambition, they must be used with integrity. Offsets cannot be a substitute for science-aligned carbon mitigation. End users of offsets need to follow the mitigation hierarchy with long term decarbonization plans where offsetting helps address residual emissions beyond a science-aligned pathway. Offsetting along the way helps achieve more ambition and requires appropriate transparency and disclosure. See ICROA's Code and recent high level guidance on corporate climate action for further details.

[2] See Chapter 4 of Annex 16 — *Environmental Protection*, Volume IV — *Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)* https://www.icao.int/environmental-protection/CORSIA/Pages/SARPs-Annex-16-Volume-IV.aspx

Offsets and Other Sustainability Certificates

As the proposal states, "(w)hile both carbon offsets and RECs represent commonly used GHG emissions mitigation options for companies, they are used for somewhat different purposes."[3] IETA accepts the **broadly accepted definition of a carbon offset to represent one ton of carbon dioxide equivalent (CO2e) that has not been emitted.** This definition can be refined to differentiate a ton of CO2e that has been removed, reduced, or avoided. There are varying qualitative virtues that are often assigned to these differentiated offsets, but they all represent one ton of CO2e. Consistent with our premise outlined at the beginning (i.e., "a ton is a ton"), **we believe the definition of an offset should – at a minimum – establish the one metric ton quantitative standard to each offset credit.** This is a simple yet important aspect of standardizing carbon accounting and measuring impact.

IETA also supports the proposal's definition of a REC to mean a credit representing each purchased megawatt-hour (1 MWh or 1000 kilowatt-hours) of renewable electricity generated and delivered to a registrant's power grid. IETA believes it is important to underscore the obvious in this definition. A REC does not necessarily represent a GHG emission reduction that is real, measurable, permanent, additional, independently verified, and unique.

While IETA acknowledges that RECs are widely used in corporate climate strategies to "lower an organization's gross market-based scope 2 emissions from purchased electricity,"[4] we believe it is important to recognize their limitations in terms of representing an entity's carbon footprint.

Having said that, corporate climate strategies are often part of an entity's broader environmental, social, and governance **(ESG)** goals. As investors, customers, and stakeholders steadily increase their expectations for a company's ESG rating, having a means to demonstrate impact in a clear, transparent, and measurable way is needed. For example, companies that rely heavily on water as input are purchasing Water Benefit Certificates which represent quantified and certified impacts to securing access to water.[5] Large natural gas buyers are purchasing natural gas with certificates which differentiate the product based on methane-emission intensity and other critical metrics.[6] Others are working to reduce plastic pollution through crediting programs like the Plastic Waste Reduction Program.[7]

These initiatives are important not just because of their stated goals, but because they are designed to quantitatively measure impact. Like RECs, Water Benefit Certificates, differentiated natural gas certificates, and plastic waste reduction credits all represent a public policy initiative that has a direct climate benefit. **Therefore, IETA supports the proposal's approach to exclude instruments (offsets, RECs, etc.) from a company's emissions accounting and instead have these instruments disclosed separately as part of the company's mitigation strategy.** This will enable a company to demonstrate myriad efforts at addressing climate and other ESG challenges, yet not undermine the comparability and reliability of the company's carbon footprint.

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[3] *See, e.g.*, EPA, *Offsets and RECs: What's the Difference?*, available at https://www.epa.gov/sites/default/files/2018-03/documents/gpp_guide_recs_offsets.pdf.
[4] ibid
[5] https://www.goldstandard.org/our-story/sector-water-benefits
[6] https://xpansiv.com/xpansiv-completes-landmark-digital-natural-gas-transaction
[7] https://verra.org/project/plastic-program/

Section 2: Answers to Select Consultation Questions

Question 24:

1. **If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the role that the offsets or RECs play in its overall strategy to reduce its net carbon emissions, as proposed?**

IETA Response:

Yes, IETA believes it is important for companies to be held accountable for the emission reduction targets they set. Despite the willingness to reduce all their emissions, there will still be some that are impossible to reduce at the given time. Offsetting the currently unavoidable emissions is a legitimate and effective tool to help companies meet those targets in a transparent way. IETA supports the disclosure of a registrant's overall strategy to reduce its net carbon emissions and demonstrate the role offsets, RECs, and other sustainability certificates in that strategy.

2. **Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way?**

IETA Response:

IETA recommends clarifying the definition of a carbon offset to represent "one metric ton of CO2e reduced, avoided, or removed." The proposal's definition of a REC is sufficiently quantitative.

As mentioned above, there are additional sustainability instruments that are utilized for corporate climate change strategies. If these, or bespoke offsets and RECs, are relevant, they should be disclosed along with a definition that quantifies their impact.

Question 101:

1. **Should we require a registrant to exclude any use of purchased or generated offsets when disclosing its Scope 1, Scope 2, and Scope 3 emissions, as proposed?**

IETA Response:

IETA supports the proposal's approach to exclude instruments (offsets, RECs, etc.) from a company's emissions accounting and instead have these instruments disclosed separately as part of the company's mitigation strategy. This will enable a company to demonstrate myriad efforts at addressing climate and other ESG challenges, yet not undermine the comparability and reliability of the company's carbon footprint.

2. **Should we require a registrant to disclose both a total amount with, and a total amount without, the use of offsets for each scope of emissions?**

IETA Response:

Yes, actual direct and indirect emissions should be disclosed both on a gross basis and net of any offsets or RECs used. By disclosing net emissions the registrant makes a claim to have retired offsets or RECs, and as such the volume and type of offset/REC instrument should also be disclosed. To prevent double counting or manipulation, evidence of the retirement of any offsets/RECs claimed in the disclosure of the company's net emissions should be provided.

Question 173:

1. **If a registrant has used carbon offsets or RECs, should we require the registrant to disclose the amount of carbon reduction represented by the offsets or the amount of generated renewable energy represented by the RECS, the source of the offsets or RECs, the nature and location of the underlying projects, any registries or other authentication of the offsets or RECs, and the cost of the offsets or RECs, as proposed?**

IETA Response:

We believe that the definition of an offset should establish a standard amount of carbon reduction represented by the offset, and a REC should also demonstrate a standard amount of generated renewable energy. If an offset or REC diverges from these standardized definitions, it is necessary to require the registrant to disclose the amount of carbon reduction represented or the amount of generated renewable energy represented. Additionally, the rule should acknowledge the importance of other instruments and certifications that currently exist or will be developed. Those certificates should be accompanied by further disclosure of what each certificate represents/quantifies.

All relevant instruments (offsets, RECs, DNGs, RSG, etc.) should be disclosed with the following information:

- Certification entity
- Registry and identification numbers
- Project type/location
- Vintage
- For Offset Credits: Identifying CORSIA eligibility will by definition include the existence/veracity of these elements, and thus would only need to be included via reference.
- EVIDENCE OF RETIREMENT of offsets or RECS used in reducing registrants' gross emissions

IETA believes that disclosure of the price of individual instruments is unnecessary and could potentially undermine competitiveness. However, we recognize the intention of disclosing near, mid, and long-term cost exposure and feel that disclosure of annual aggregate spending on each type of instrument will provide the same potential risk exposure to stakeholders.

2. **Are there other items of information about carbon offsets or RECs that we should specifically require to be disclosed when a registrant describes its targets or goals and the related use of offsets or RECs?**

IETA Answer

Yes, evidence should be provided of the permanent retirement or cancellation or irrevocable inability to further use, leverage or derive value from the offset or REC used, in order to substantiate the integrity of the claim to have offset emissions with use of carbon offsets or RECs.

Conclusion

Once again, we thank the Securities and Exchange Commission for this opportunity to provide feedback on the proposed rule for "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

If you have questions or require further information on IETA's observations and recommendations, please contact Tom Lawler, IETA Washington DC Representative, at [redacted].

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