The Honorable Gary Gensler, Chair
Securities and Exchange Commission
100 F St. NE
Washington, DC 20549
rule-comments@sec.gov

June 17, 2022

Re: Statement on Proposed Mandatory Climate Change Disclosures
(https://www.sec.gov/news/statement/gensler-climate-disclosure-20220321)

Dear Chair Gensler and Commissioners,

The Columbia Center on Sustainable Investment (CCSI), as a member of the Coalition on Materials Emissions Transparency (COMET) — an initiative founded by CCSI, the Payne Institute for Public Policy at the Colorado School of Mines, RMI, and the Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change) — is pleased to submit its comments on the SEC's proposed rules on mandatory corporate climate-related disclosures.

1) Reliable information on the material risks and opportunities presented by climate change is necessary to allow investors to adequately prepare for the future.

CCSI would first like to thank the SEC for issuing its proposed rules on climate change disclosures, which constitute a necessary first step towards helping companies make informed decisions related to climate risk management and mitigation commitments. These rules will greatly aid in the SEC's efforts to comply with its stated objectives, such as: *"to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets."*[1]

Climate change poses material risks that have become the focus of numerous institutional investors and companies, as shown in the Commodity Futures Trading Commission's report *Managing Climate Risk in the*

[1] "SEC: What We Do," Securities and Exchange Commission (SEC) (website), SEC, last modified December 18, 2020, https://www.sec.gov/about/what-we-do; National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290, 110 Stat. 3425 (adding 15 U.S.C. § 77b(b) to the Securities Act of 1933 and 15 U.S.C. § 78c(f) to the Securities and Exchange Act of 1934).

U.S. Financial System.[2] This report, unanimously approved by experts representing banks, asset managers, agribusiness, the oil and gas sector, academia, and environmental organizations, demonstrates the essential role of climate data and disclosures within the US Financial System.

Climate change presents physical, transitional, economic, and technological challenges that must be effectively addressed by regulatory bodies. In order to facilitate efficient investment decisions, investors need access to information on how companies are and plan to address these challenges, through their measurement, management, and mitigation methods. Once this information exists, markets will internalize the costs of climate risks and valuations will more accurately reflect these material risks.

Climate change disclosures are most useful for companies when presented in a detailed and systematic fashion. In this respect, mandating disclosure of Scope 1 and Scope 2 emissions is an important step forward. Yet, as Moody's notes, "the benefit of climate-related disclosures to credit analysis would be enhanced by a greater degree of granularity and consistency. More quantified data would also facilitate comparison."[3] Not only would higher data standards contribute to fulfilling the needs of investors, but harmonization of carbon accounting methods would make this data even more comparable and useful, as discussed in the following section.

2) Existing GHG accounting methods cannot produce consistent and comparable data.

Pending adoption of the SEC's proposed new rules, the disclosure ecosystem is unregulated and voluntary in a way that limits its usefulness for U.S. capital markets. While market-driven frameworks such as CDP, the Global Reporting Initiative (GRI), TCFD, and the Science-Based Targets Initiative (SBTI) all work towards helping companies and investors to better understand the impact of GHG emissions, these frameworks suffer from ambiguity and limited interoperability. Greater regulation of these disclosure frameworks is welcome and sorely needed.

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2 Climate-Related Market Risk Subcommittee, *Managing Climate Risk in the U.S. Financial System,* (Washington, D.C., Commodity Futures Trading Commission, Market Risk Advisory Committee, September 9, 2020), https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf.

3 Climate-Related Market Risk Subcommittee, *Managing Climate Risk in the U.S. Financial System,* (Washington, D.C., Commodity Futures Trading Commission, Market Risk Advisory Committee, September 9, 2020), https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf

However, widely used disclosure frameworks recommended by the draft rules such as the GHG Protocol still do not provide the level of standardization and comparability necessary to provide companies with actionable data. Under these frameworks, reporting companies are not required to disclose how they calculated their emissions estimates, if they measured the data themselves, if they spoke to other companies in their supply chain, or what type of research they did to prepare for their disclosures. As this becomes more apparent, U.S. companies risk failing to differentiate themselves in an increasingly global market, and foreign governments may begin to reject US goods, as they already have in specific industries.[4] Should U.S. trading partners introduce policies such as carbon border adjustment mechanisms (CBAMs) to reduce their exposure to carbon leakage and imported emissions, the importance of tracking corporate emissions accurately and verifiably will only increase.[5]

The GHG Protocol's shortcomings are most apparent for upstream and downstream emissions in the value chain (Scope 3). There are currently no universal rules for attributing or validating emissions from assets to products, making accountability along supply chain emissions difficult, if not impossible to achieve. The GHG Protocol is explicitly "not designed to support comparisons between companies based on their Scope 3 emissions,"[6] since decisions on which approaches to take and which aspects of Scope 3 are financially significant are often left up to the company's discretion. This means that reported value chain emissions will vary wildly as companies determine on their own which Scope 3 emissions are worth reporting without informing or consulting with investors or other stakeholders.

Therefore, despite the GHG Protocol's widespread use, it remains too general to lead to rigorous comparable disclosures. Harmonization is required between corporate and product-level approaches as products and emissions become more complex across borders and value chains. A more standardized and credible approach will contribute to the resilience and profitability of U.S. corporations by enhancing the robustness of information available to investors and alleviating the burden on companies of determining which specific emissions in their value chain are material and worthy of mention. The SEC can help facilitate this by improving the specificity of its recommendations, particularly relating to Scope 3 emissions. In doing

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4 European Commission, "Sustainable Finance and EU Taxonomy: Commission Takes Further Steps to Channel Money Towards Sustainable Activities," press release, April 21st, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1804.

5 Columbia Center on Sustainable Investment, "Event Highlights: Carbon Border Adjustments in the EU, the U.S., and Beyond," December 2021, https://ccsi.columbia.edu/content/event-highlights-carbon-border-adjustments-eu-us-and-beyond

6 Greenhouse Gas Protocol, "Corporate Value Chain (Scope 3) Accounting and Reporting Standard: Supplement to the GHG Protocol Accounting and Reporting Standard," https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf#page=8

so, it can also level the playing field between companies which divulge different levels of material information.[7]

3) Initiatives like the Coalition on Materials Emissions Transparency (COMET) complement and reinforce SEC action on mandatory disclosures.

The Coalition on Materials Emissions Transparency (COMET),[8] initiated between CCSI, the Payne Institute for Public Policy at the Colorado School of Mines, and RMI, and recently joined by the Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change), is working towards harmonizing emissions reporting methodologies in material and energy value chains.[9] Launched in Davos in January 2020, COMET is an open, multi-stakeholder initiative that intends to accelerate supply chain decarbonization by enabling producers, consumer-facing companies, investors, and policy makers to better account for all supply chain emissions in harmony with existing methods and platforms.

More specifically, the COMET Framework aims to review the differences between carbon accounting methodologies and provide recommendations from industry experts on bridging these differences and minimizing remaining ambiguities. COMET will closely examine the steel and aluminum sectors, especially concerning the impacts of upstream and downstream activities and differing Scope 2 calculation methods. It will strengthen standards for reporting on emissions associated with sorting and reprocessing of metal scrap, examine the validity of emerging voluntary standards for low-carbon products, and assess the feasibility of aligning methodologies across sectors in pursuit of a single, standardized GHG reporting framework intelligible to investors and all other relevant stakeholders. Ultimately, COMET will provide practitioners with the necessary tools to comprehensively account for their emissions and allow for full Scope 1, 2, and 3 comparability.

COMET's benefits will include:

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7 Columbia Center on Sustainable Investment, "SEC's Mandatory Climate-Related Disclosures Highlight Need to Harmonize Carbon Accounting Methods," Coalition on Materials Emissions Transparency (COMET), March 24, 2022, https://ccsi.columbia.edu/news/secs-climate-disclosures-carbon-accounting-comet.

8 "COMET, About," Coalition on Materials Emissions Transparency (COMET) (website), COMET, accessed June 9, 2021, https://www.cometframework.org.

9 "Accelerating Supply Chain Decarbonization," Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change) (website), UN Climate Change, accessed June 2, 2021, https://unfccc.int/news/accelerating-supply-chain-decarbonization.

- *Streamlining existing reporting protocols.* The COMET Framework brings together the main greenhouse gas (GHG) emissions standards and protocols, both generic and sector-specific, into an integrated set of guidance documents, built on the principles of the GHG Protocol. It integrates—without replacing—existing methodologies for specific sectors or use-cases. The COMET Framework can be used by any entity to report to any existing platform (CDP, TCFD, GRI…), according to any of the existing standards, in a manner that is harmonized and comparable with similar disclosures made by other entities to other platforms. Disclosures made with the "COMET inside" declaration will be universally comparable.

- *Enabling low-carbon product markets and standards*. The COMET Framework will provide the necessary building blocks to a system of reliable attribution of carbon to assets and products. In short, to succeed, efforts to quantify demand signals that *incentivize* industry to decarbonize will require a universal accounting approach such as the COMET Framework.

- *Guiding better decision making.* COMET and UN Climate Change believe that a harmonized carbon accounting and attribution *framework* will provide comprehensive views into where emissions are coming from and drive better decision making.

Over the next three years, COMET will plan to create a comprehensive set of guidance documents representing the state of the art in carbon accounting and attribution. While the development of the full framework remains ongoing, COMET is already prepared to make contributions to the SEC. As soon as more robust and harmonized standards of disclosure are developed through COMET or elsewhere, particularly for Scope 3 emissions, we suggest that the SEC promote them through future amendments to the proposed rules.

4) Increasingly robust mandatory climate disclosures will spill over on other actors eager to take actionable climate actions.

With a standardized framework of carbon accounting and reporting, the same data will be attributed at different levels, informing different sets of decision-makers about needed actions:

- Policy-makers will have national-level data to drive high-level efforts, such as defining their ambitions under their Nationally Determined Contributions.

- All levels of government will be able to set internal goals about procurement standards for projects requiring vast amounts of materials, for example, transportation infrastructure and buildings.

- Sovereign Institutional Financiers will be able to compose a picture of climate risk in their portfolios of loans or equity investments.

- Buyers will obtain a better representation of the emissions embodied in the products they buy.

In this context, the SEC's role in bringing rigor to GHG emissions disclosures is critical to ambitious climate action.

We remain available should you have any questions. Thank you for your consideration.

Sincerely yours,

Columbia Center on Sustainable Investment