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June 17, 2022

Comments to the U.S. Securities and Exchange Commission on S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

World Resources Institute comments based on Greenhouse Gas Protocol Accounting and Reporting Standards

The World Resources Institute welcomes the proposed rule on Enhancement and Standardization of Climate-Related Disclosures for Investors and appreciates the opportunity to provide comments.

World Resources Institute is a research nonprofit organization founded in 1982 with over 1,400 staff in 12 international offices, working in over 50 countries. The organization's goal is to bring objective analysis and policy engagement to the pressing global challenges linking economic development, natural resources and the environment. WRI has a reputation for practical solutions and global impact based on rigorous analysis and deep long-term engagement with governments, corporations, city leaders and communities.

The proposed rule builds on the 20+ year history of the Greenhouse Gas Protocol, a joint initiative of the World Resources Institute (WRI) and the World Business Council on Sustainable Development (WBCSD) to develop greenhouse gas emissions accounting and reporting standards through global multi-stakeholder standards development processes, beginning with publication of the Corporate Accounting and Reporting Standard (first edition) in 2001. All Greenhouse Gas Protocol standards, guidance and tool are available at https://ghgprotocol.org/.

The focus of our comments is on questions relevant to greenhouse gas accounting and reporting based on our experience with the Greenhouse Gas Protocol. Therefore we have provided responses related to disclosure of a registrant's greenhouse gas emissions.

As the proposed rule notes, GHG emissions have become a commonly used metric to assess a registrant's exposure to climate-related risks. Complete disclosure by registrants of scope 1, scope 2, and scope 3 emissions in a disaggregated format will help ensure that investors have transparent and useful information to use in evaluating climate-related risks across business value chains.

The GHG Protocol Corporate Accounting and Reporting Standard (First Edition) was published in 2001 and the Revised Edition in 2004. Building on the Corporate Standard, the Corporate Value Chain (Scope 3) Accounting and Reporting Standard was published in 2011 and the Scope 2 Guidance was published in 2015. GHG Protocol's standards and accompanying guidance have been widely adopted by nearly all business-focused greenhouse gas emissions accounting standards, programs, platforms, and disclosure initiatives. Over 90% of Fortune 500 companies that report emissions data to CDP do so according to the GHG Protocol accounting standards.

GHG Protocol is planning a process to determine the need and scope for additional guidance building on the existing set of corporate greenhouse gas accounting and reporting standards for scope 1, scope 2, and scope 3 emissions to support and enhance implementation of the GHG Protocol standards. In this process we will take into consideration the final SEC rule with the aim to promote alignment between GHG Protocol

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standards and SEC requirements to maintain harmonization in corporate emissions disclosure standards and practices and assist companies in implementing SEC rules. As with all Greenhouse Gas Protocol standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

The following are WRI responses to specific requests for comment included in the proposed rule (organized by question number).

Contact details are as follows for any questions or clarifications: Pankaj Bhatia (Director, GHG Protocol, World Resources Institute) or David Rich (Deputy Director, GHG Protocol, World Resources Institute).

24. 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? Should the proposed definitions of carbon offsets and RECs be clarified or expanded in any way? Are there specific considerations about the use of carbon offsets or RECs that we should require to be disclosed in a registrant's discussion regarding how climate-related factors have impacted its strategy, business model, and outlook?

Response: Yes, if a registrant that has used carbon offsets or RECs, it should be required to separately disclose the role that the offsets or RECs play in its overall strategy. We do not recommend reporting net emissions, but instead reporting disaggregated information on scope 1 emissions, scope 2 emissions, and scope 3 emissions (by scope 3 category), with any purchases of credits separately reported. Disaggregated information is critical for investors to evaluate climate-related risks specific to each reporting category, which would be lost if summed or netted.

Decarbonizing a company's GHG inventory directly, without the use of offsets or unbundled RECs[1], best reduces climate-related financial risks stemming from activities in the company's operations or value chain (through concrete actions such as increasing energy efficiency, generating on-site renewable energy, sourcing lower carbon raw materials, transitioning to selling zero emitting products, etc.), whereas the use of offsets or unbundled RECs is in general not expected to reduce such risks. For example, a highly GHG-intensive company (e.g. energy-intensive manufacturer, automaker producing high emitting vehicles, fossil fuel company, electric utility generating electricity from coal) would continue to face the same climate-related financial risks (e.g. related to high energy costs, changing consumer preferences, regulation) regardless of whether they purchase offsets. Offsets are not expected to reduce climate-related financial risks since they represent action external to the company's activities, operations, and value chain.

Registrants should separately disclose decarbonization strategies—and separately disclose their scope 1, scope 2 and scope 3 emissions—separately from any purchases of credits or contractual instruments such as offsets or RECs. Within scope 2 emissions reporting, this requires separate reporting of scope 2 emissions using the location-based method from reporting of scope 2 emissions using the market-based method (through dual reporting, as defined in the GHG Protocol *Scope 2 Guidance*). As a simplified approach, all

[1] RECs can be 'bundled' through a supplier program or direct energy contracts such as power purchase agreements, where an energy attribute certificate or other instrument is traded with the underlying energy produced, or 'unbundled' as part of an energy attribute certificate that is traded separately from the underlying energy produced.

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registrants should report scope 2 emissions using the location-based approach at a minimum (further described below).

94. Should we require a registrant to disclose its GHG emissions both in the aggregate, per scope, and on a disaggregated basis for each type of greenhouse gas that is included in the Commission's proposed definition of "greenhouse gases," as proposed? Should we instead require that a registrant disclose on a disaggregated basis only certain greenhouse gases, such as methane (CH_4) or hydrofluorocarbons (HFCs), or only those greenhouse gases that are the most significant to the registrant? Should we require disaggregated disclosure of one or more constituent greenhouse gases only if a registrant is obligated to separately report the individual gases pursuant to another reporting regime, such as the EPA's greenhouse gas reporting regime or any foreign reporting regime? If so, should we specify the reporting regime that would trigger this disclosure?

Response: Yes, reporting emissions in both the aggregate as well as disaggregated by gas, as proposed, provides the most transparent and useful information for investors, since climate-related financial risks vary by gas. Methane, HFCs, or other gases can be subject to gas-specific or sector-specific regulations, liabilities, and risks. Aggregating gases together without disaggregation would therefore mask risk and opportunities which are unique to each greenhouse gas.

95. We have proposed defining "greenhouse gases" as a list of specific gases that aligns with the GHG Protocol and the list used by the EPA and other organizations. Should other gases be included in the definition? Should we expand the definition to include any other gases to the extent scientific data establishes a similar impact on climate change with reasonable certainty? Should we require a different standard to be met for other greenhouse gases to be included in the definition?

Response: Greenhouse gases should include at minimum those required under the GHG Protocol and many regulatory programs: CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3. Other gases identified by the IPCC may also be reported, separately from the above-listed gases.

96. Should we require a registrant to express its emissions data in CO_2e, as proposed? If not, is there another common unit of measurement that we should use? Is it important to designate a common unit of measurement for GHG emissions data, as proposed, or should we permit registrants to select and disclose their own unit of measurement?

Response: Yes, in addition to reporting disaggregated emissions by gas, emissions data should be aggregated in units of CO_2e in order to have a common unit of measurement across companies. CO_2e should be calculated using global warming potential (GWP) values for each gas provided by the IPCC in the latest IPCC assessment report.

97. Should we require a registrant to disclose its total Scope 1 emissions and total Scope 2 emissions separately for its most recently completed fiscal year, as proposed? Are there other approaches that we should consider?

Response: Yes, registrants should be required to separately report total scope 1 and total scope 2 emissions. Scope 1 emissions are direct emissions from sources owned or controlled by the registrant, while scope 2 emissions are indirect emissions resulting from the registrant's use of purchased or acquired electricity,

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steam, heat or cooling. Scope 1 emissions and scope 2 emissions present very different risks and opportunities, so aggregated disclosure of scope 1 and 2 emissions would not provide useful information to investors.

Within scope 2, the GHG Protocol *Scope 2 Guidance* defines a location-based accounting method and a market-based accounting method. The proposed rule allows flexibility to use the location-based method, market-based method, both methods, a combination, or another method. The current proposal would lead to registrants providing inconsistent and non-comparable data on emissions and related risks if some use one scope 2 method and others use another scope 2 method. Instead, all registrants should be required to either report scope 2 emissions using both methods (i.e. dual reporting of scope 2 emissions using the location-based and market-based method) or using the location-based method only as a simplified approach. In either case this means that registrants should be required to report scope 2 emissions using the location-based method at a minimum. Requiring use of the location-based method by all registrants would enable comparability such that all registrants report scope 2 emissions using the same simple and consistent method, and would help investors understand and evaluate climate-related financial risks related to consumption of electricity from the grid. In addition to reporting scope 2 emissions using the location-based method, registrants may separately report scope 2 emission using the market-based method (i.e. dual reporting), following the requirements (including the eight quality criteria) contained in the GHG Protocol *Scope 2 Guidance* including any future updates or additional guidance. Registrants should not be allowed to report scope 2 emissions using the market-based method only. Registrants should also not be allowed to report scope 2 emissions using 'other' methods which would provide inconsistent and non-comparable information to investors. As with all Greenhouse Gas Protocol standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

98. Should we require a registrant to disclose its Scope 3 emissions for the fiscal year if material, as proposed? Should we instead require the disclosure of Scope 3 emissions for all registrants, regardless of materiality? Should we use a quantitative threshold, such as a percentage of total GHG emissions (*e.g.*, 25%, 40%, 50%) to require the disclosure of Scope 3 emissions? If so, is there any data supporting the use of a particular percentage threshold? Should we require registrants in particular industries, for which Scope 3 emissions are a high percentage of total GHG emissions, to disclose Scope 3 emissions?

Response: Scope 3 is a diverse category that includes many different types of activities and emissions spread across a business value chain. The scope 3 categories are linked to key business functions such as procurement, supply chain management, product design, sales, finance, and more. Scope 3 emissions are expected to present material risks for all companies, as no company's value chain is immune from potential systemic climate-related liabilities.

For most companies, scope 3 represents the largest category of emissions. CDP estimated that scope 3 emissions account for three-quarters of companies' emissions on average across sectors, with the importance of scope 3 emissions varying considerably by sector—for example, scope 3 represented more than 99% of combined scope 1, 2 and 3 emissions on average for companies in the financial services sector.

Within scope 3, there are 15 separate categories, each with unique considerations, impacts, risks, and opportunities. For example, for an automobile manufacturer or an oil and gas company, 'Use of sold products' is expected to be highly material. For a financial institution, 'Investments' is expected to be highly

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material. For companies outsourcing manufacturing or purchasing GHG-intensive or energy-intensive raw materials, intermediate goods, or other products or services, 'Purchased goods and services,' is expected to be highly material. For companies for which leased assets, franchises, or investments fall outside the company's defined organizational boundary, these activities are accounted for in scope 3 and are expected to be highly material. Each company is expected to have material activities and climate-related financial risks within scope 3, with the specific emissions and risk profile varying by company.

Scope 3 emissions disclosure should therefore be required. Scope 3 disclosure gives investors an opportunity to evaluate climate-related financial risks in their decision-making arising from a wide range of upstream and downstream value chain activities.

Rather than being used to exclude scope 3 altogether, materiality can be used to prioritize data collection and quantification efforts within scope 3 and prioritize strategies to reduce risks. Scope 3 activities that are highly material should be quantified using high-quality data sources and methods, where higher quality data is needed to inform risk mitigation efforts focusing on a company's hot spots. If necessary, scope 3 activities which are comparatively less material could be quantified using lower quality data and methods if higher quality data and methods are not available. For example, within 'Purchased goods and services,' certain categories of purchased products may be more material than others (such as those that represent a larger share of the company's total spend and those that represent a larger share of total upstream emissions). Materiality can therefore guide data quality prioritization and risk mitigation efforts, while still ensuring complete disclosure of scope 3 emissions for each category, to ensure investors have a complete view of emissions and risks by category and to avoid cherry-picking. Any exclusions of scope 3 emissions should be disclosed and justified.

A quantitative threshold approach poses risks that material activities and climate-related financial risks are excluded if they fall below the quantitative threshold, but which are nevertheless material based on an assessment of qualitative factors and should therefore be disclosed.

It would be helpful for SEC to provide a non-exhaustive list of industries for which scope 3 emissions are expected to be a high percentage of total GHG emissions (based, for example, on data reported to CDP). It is not expected to be possible to provide an exhaustive list of industries for which scope 3 emissions are material, since material activities and climate-related financial risks are expected to lie within scope 3 for all companies. Companies within industries also differ. Within a given industry, the degree to which certain activities are accounted for in scope 1 vs. scope 3 by a company depends on the individual company's business model (i.e. whether they are vertically integrated and the degree to which they outsource activities such as manufacturing) which dictates what falls in scope 1 vs. scope 3.

99. Should we require a registrant that has made a GHG emissions reduction commitment that includes Scope 3 emissions to disclose its Scope 3 emissions, as proposed? Should we instead require registrants that have made any GHG emissions reduction commitments, even if those commitments do not extend to Scope 3, to disclose their Scope 3 emissions? Should we only require Scope 3 emissions disclosure if a registrant has made a GHG emissions reduction commitment that includes Scope 3 emissions?

<u>Response:</u> The requirement to disclose scope 3 emissions should not depend on whether the registrant has a scope 3 reduction commitment. Companies will face climate-related financial risks stemming from their scope 3 emissions irrespective of whether they have a target or not. In fact, such risks might be larger for companies without targets than those with targets. Therefore, all companies need to provide information to

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investors to enable an understanding of financial risks and opportunities stemming from their scope 3 emissions. There is also a risk that the proposed approach could disincentivize registrants from setting emission reduction targets.

100. Should Scope 3 emissions disclosure be voluntary? Should we require Scope 3 emissions disclosure in stages, e.g., requiring qualitative disclosure of a registrant's significant categories of upstream and downstream activities that generate Scope 3 emissions upon effectiveness of the proposed rules, and requiring quantitative disclosure of a registrant' s Scope 3 emissions at a later date? If so, when should we require quantitative disclosure of a registrant's Scope 3 emissions?

Response: Scope 3 emissions disclosure should be required, not voluntary, to ensure investors and shareholders are well informed about the full scope of climate-related financial risks of registrants. Making scope 3 voluntary would defeat that purpose. Quantitative, rather than qualitative information, is needed to identify where the most significant activities, risks, and opportunities lie (across scope 3 categories) and to observe changes in emissions over time (either to observe demonstrated progress made in reducing emissions and associated risks over time, or to see whether emissions and associated risks are increasing over time) which would not be possible with only qualitative information.

101. 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? 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?

Response: Yes, it is necessary to exclude any use of purchased or generated offsets when disclosing scope 1, scope 2, and scope 3 emissions, as proposed. Under the GHG Protocol, scope 1, 2 and 3 emissions are reported independent of any offsets or credits. If applicable, any offsets should be reported separately from scope 1, scope 2, and scope 3 emissions (with purchased offsets separately reported from offsets generated). We do not recommend reporting a total amount with offsets. Offsets should instead be reported as separate information, not to be mixed or netted with emissions reported by scope. Offsets do not reduce risks related to emissions reported in the scopes since offsets represent action external to the company's activities, operations, and value chain. Disclosing disaggregated data without any netting is essential to provide investors with an accurate and complete understanding of the emissions assets, liabilities, and related climate-related financial risks of a company.

102. Should we require a registrant to disclose its Scope 3 emissions for each separate significant category of upstream and downstream emissions as well as a total amount of Scope 3 emissions for the fiscal year, as proposed? Should we only require the disclosure of the total amount of Scope 3 emissions for the fiscal year? Should we require the separate disclosure of Scope 3 emissions only for certain categories of emissions and, if so, for which categories?

Response: Scope 3 reporting should be disaggregated by category. Climate-related financial risks and opportunities vary significantly by scope 3 category and would be lost by aggregating across categories. For example, upstream emissions from purchased goods and services present altogether different risks and opportunities from downstream emissions related to the use of sold products. Reporting aggregated scope 3 emissions without disaggregation by category would not provide the necessary information to investors. Reporting can be aggregated across scope 3 categories as long as emissions are disaggregated by category,

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as proposed. Disaggregated information by scope 3 category is expected to provide much more relevant and useful information to investors than aggregated scope 3 totals.

103. Should the proposed rules include a different standard for requiring identification of the categories of upstream and downstream emissions, such as if those categories of emissions are significant to total GHG emissions or total Scope 3 emissions? Are there any other categories of, or ways to categorize, upstream or downstream emissions that a registrant should consider as a source of Scope 3 emissions? For example, should we require a registrant to disclose Scope 3 emissions only for categories of upstream or downstream activities over which it has influence or indirect control, or for which it can quantify emissions with reasonable reliability? Are there any proposed categories of upstream or downstream emissions that we should exclude as sources of Scope 3 emissions?

Response: We recommend requiring disclosure of scope 3 emissions following the 15 established categories of scope 3 emissions provided by the GHG Protocol *Scope 3 Standard*, as proposed. Doing so builds on current practice and creates consistency of information for investors. The GHG Protocol *Scope 3 Standard* (Chapter 5) provides detailed definitions and descriptions of each scope 3 category. The fifteen scope 3 categories provide companies with a systematic framework to organize, understand, and report on the diversity of scope 3 activities within a corporate value chain. The categories are designed to be mutually exclusive, such that, for any one reporting company, there is no double counting of emissions between categories.

Companies have influence over all scope 3 emissions categories. For example, a business has control over its business decisions related to procurement of raw materials, components, goods and services (scope 3, 'Purchased goods and services'), capital goods ('Capital goods'), energy ('Fuel and energy related activities (not included in scope 1 or scope 2)', transportation and distribution ('Upstream transportation and distribution'), waste and recycling decisions ('Waste generated in operations'), business travel ('Business travel') and more, as well as over the types and designs of the products and services the company sells ('Use of sold products' and 'End-of-life treatment of sold products'), investments ('Investments'). Through these business decisions, companies have influence on the fifteen categories of scope 3 emissions, including means of reducing emissions and associated risks.

104. Should we, as proposed, allow a registrant to provide their own categories of upstream or downstream activities? Are there additional categories, other than the examples we have identified, that may be significant to a registrant's Scope 3 emissions and that should be listed in the proposed rule? Are there any categories that we should preclude, *e.g.*, because of lack of accepted methodologies or availability of data? Would it be useful to allow registrants to add categories that are particularly significant to them or their industry, such as Scope 3 emissions from land use change, which is not currently included in the Greenhouse Gas Protocol's Scope 3 categories? Should we specifically add an upstream emissions disclosure category for land use?

Response: Registrants should classify their scope 3 emissions into the existing fifteen scope 3 categories, as applicable. Any emissions from scope 3 activities that do not fall into the fifteen scope 3 categories should be reported separately (e.g., in an "other" scope 3 category), while providing a description of the type of other category under scope 3.

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The Greenhouse Gas Protocol is currently developing new Land Sector and Removals Guidance, which provides requirements and guidance for how companies account for and report emissions from land use and land use change in their scope 1, 2 and 3 greenhouse gas inventories, as well as CO_2 removals. The guidance has been under development through a multistakeholder process since 2020, and will be circulated for public consultation and pilot testing in summer 2022. For more information see https://ghgprotocol.org/land-sector-and-removals-guidance. In the guidance, scope 3 emissions from land management and land use change are included in the existing scope 3 categories, as applicable, rather than as additional or separate scope 3 categories. For example, emissions from land management and land use change associated with a company's purchased agricultural or forestry products are reported in the scope 3 'Purchased goods and services' category. Within each scope 3 category, companies are required to separately report land emissions (e.g. from land management and land use change) from non-land emissions (e.g. from stationary or mobile fossil fuel combustion, industrial processes, or fugitive emissions). Companies should be required to report emissions from land use and land use change in the relevant scope (1, 2, or 3) and scope 3 category, using the GHG Protocol Land Sector and Removals Guidance after it is published in 2023.

106. Should we require a registrant that is required to disclose its Scope 3 emissions to describe the data sources used to calculate the Scope 3 emissions, as proposed? Should we require the proposed description to include the use of: (i) emissions reported by parties in the registrant's value chain, and whether such reports were verified or unverified; (ii) data concerning specific activities, as reported by parties in the registrant's value chain; and (iii) data derived from economic studies, published databases, government statistics, industry associations, or other third-party sources outside of a registrant's value chain, including industry averages of emissions, activities, or economic data, as proposed? Are there other sources of data for Scope 3 emissions the use of which we should specifically require to be disclosed? For purposes of our disclosure requirement, should we exclude or prohibit the use of any of the proposed specified data sources when calculating Scope 3 emissions and, if so, which ones?

Response: Yes it should be required for registrants to describe the data sources used to calculate Scope 3 emissions, as proposed. For each scope 3 category, registrants should disclose the percentage of emissions calculated using data obtained from suppliers or other value chain partners, and whether such data were verified or unverified; a description of the types and sources of data used to calculate emissions (including activity data, emission factors, and global warming potential values); a description of the data quality of reported emissions data; and a description of the methodologies, allocation methods, and assumptions used to calculate scope 3 emissions. An understanding of underlying data and methods used in quantifying or estimating scope 3 emissions is needed to properly understand and interpret the context and limitations of reported emissions data and associated risks.

109. Should we require a registrant to disclose the intensity of its GHG emissions for the fiscal year, with separate calculations for (i) the sum of Scope 1 and Scope 2 emissions and, if applicable (ii) its Scope 3 emissions (separately from Scopes 1 and 2), as proposed? Should we define GHG intensity, as proposed? Is there a different definition we should use for this purpose?

Response: Reporting absolute scope 1, scope 2, and scope 3 emissions (by scope 3 category) is needed for investors to understand the real magnitude of climate-related liabilities and risks related to each scope. In addition, reporting emissions intensity should be required information, as a supplement to (but not a

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substitute for) absolute emissions. We recommend separate reporting of emissions intensity for each scope (scope 1, scope 2, and scope 3) separately, rather than aggregating scope 1 and scope 2 emissions intensity. Scope 1 and scope 2 present significantly different risks and opportunities that would be lost if summed. Scope 3 emissions intensity should be disaggregated by scope 3 category in order to provide decision-relevant information, rather than only providing emissions intensity for scope 3 as a whole, given the diverse nature of scope 3.

114. Should we require GHG emissions disclosure for the registrant's most recently completed fiscal year and for the appropriate, corresponding historical fiscal years included in the registrant's consolidated financial statements in the filing, to the extent such historical GHG emissions data is reasonably available, as proposed? Should we instead only require GHG emissions metrics for the most recently completed fiscal year presented in the relevant filing? Would requiring historical GHG emissions metrics provide important or material information to investors, such as information allowing them to analyze trends?

Response: Yes, registrants should be required to disclose GHG emissions for the registrant's most recently completed fiscal year and for the appropriate, corresponding historical fiscal years included in the registrant's consolidated financial statements in the filing, to the extent such historical GHG emissions data is reasonably available, as proposed. Providing data over multiple years is necessary to understand the evolution and effectiveness of the business strategy to manage climate related liabilities, including whether climate-related risks are increasing or decreasing over time.

115. Should we require a registrant to disclose the methodology, significant inputs, and significant assumptions used to calculate its GHG emissions metrics, as proposed? Should we require a registrant to use a particular methodology for determining its GHG emission metrics? If so, should the required methodology be pursuant to the GHG Protocol's Corporate Accounting and Reporting Standard and related standards and guidance? Is there another methodology that we should require a registrant to follow when determining its GHG emissions? Should we base our climate disclosure rules on certain concepts developed by the GHG Protocol without requiring a registrant to follow the GHG Protocol in all respects, as proposed? Would this provide flexibility for registrants to choose certain methods and approaches in connection with GHG emissions determination that meet the particular circumstances of their industry or business or that emerge along with developments in GHG emissions methodology as long as they are transparent about the methods and underlying assumptions used? Are there adjustments that should be made to the proposed methodology disclosure requirements that would provide flexibility for registrants while providing sufficient comparability for investors?

Response: Yes, it should be required to disclose the methodology, significant inputs, and significant assumptions used to calculate its GHG emissions metrics, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information and associated risks.

WRI recommends use of the GHG Protocol's *Corporate Accounting and Reporting Standard* and related standards and guidance, including the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, which are the most widely used standards for corporate greenhouse gas emissions accounting and reporting. These standards have stood the test of time and become an integral part of the GHG accounting and reporting ecosystem over the last twenty years including extensive use of scope 1, scope 2 and scope 3 data by investors. These standards will continue to be regularly enhanced with additional guidance to

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maintain continued applicability and effectiveness as the market and business needs and practices evolve. Using a common standard is as essential for climate-related financial risks as it is for other types of financial risks that are regulated through common financial accounting and reporting standards. The use of a common GHG accounting standard is critical for investors to have a reliable, accurate, complete, and consistent understanding of the emissions and resulting financial risks and opportunities of a business. To allow the use of multiple standards would defeat this purpose and lead to a variety of claims, diminish comparability, and result in confusion in the marketplace. Fortunately, GHG Protocol's *Corporate Accounting and Reporting Standard*, *Scope 3 Standard*, and accompanying guidance are widely adopted by almost all business-focused standards, platforms, and reporting initiatives since the *Corporate Accounting and Reporting Standard* (Revised Edition) was published in 2004. Over 90% of Fortune 500 companies that report emissions data to CDP do so according to the GHG Protocol accounting standards.

SEC emissions disclosure rules can be based on and consistent with underlying concepts developed by the GHG Protocol, while providing additional specification and enhancements to meet the specific needs and objectives of the SEC rule, while building on the common foundation provided by the GHG Protocol.

116. Should we require a registrant to disclose the organizational boundaries used to calculate its GHG emissions, as proposed? Should we require a registrant to determine its organizational boundaries using the same scope of entities, operations, assets, and other holdings within its business organization as that used in its consolidated financial statements, as proposed? Would prescribing this method of determining organizational boundaries avoid potential investor confusion about the reporting scope used in determining a registrant's GHG emissions and the reporting scope used for the financial statement metrics, which are included in the financial statements? Would prescribing this method of determining organizational boundaries result in more robust guidance for registrants and enhanced comparability for investors? If, as proposed, the organizational boundaries must be consistent with the scope of the registrant's consolidated financial statements, would requiring separate disclosure of the organizational boundaries be redundant or otherwise unnecessary?

Response: Yes, it should be required to disclose the organizational boundaries used to calculate GHG emissions, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information and associated risks.

As noted, the GHG Protocol Corporate Standard provides a choice of consolidation methods (equity share, financial control, or operational control) to define a company's organizational boundary. WRI welcomes feedback on whether directly aligning organizational boundaries used for emissions accounting and disclosure with those used for financial accounting is the most relevant and appropriate approach, for example, to enhance comparability and avoid confusion for investors about the reporting scope used in determining a registrant's GHG emissions and the reporting scope used for financial statement metrics. If so, GHG Protocol can consider additional guidance in the future to include this option. If, on the other hand, feedback suggests that one (or more) of the existing consolidation methods under the GHG Protocol is appropriate to meet the objectives of the SEC climate disclosure rules, one (or more) of the existing consolidation approaches provided under GHG Protocol could be provided as an option, with a requirement that registrants disclose and justify the approach used to define the registrants' organizational boundary. Depending on the final rule, GHG Protocol can consider additional guidance to align and maintain harmonization in corporate climate disclosure standards and practices. As with all Greenhouse Gas Protocol standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

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117. Except for calculating Scope 3 emissions, the proposed rules would not require a registrant to disclose the emissions from investments that are not consolidated, proportionately consolidated, or that do not qualify for the equity method of accounting. Should we require such disclosures for Scopes 1 and 2 emissions, and if so, how?

Response: If the proposed organizational boundary approach is maintained, emissions from these activities should be accounted for in scope 3, category 15 (investments category), rather than excluding emissions from these activities altogether. In this case, they would fall outside the company's defined organizational boundary, but are still reflected in the company's greenhouse gas emissions inventory which includes indirect emissions. If, on the other hand, different organizational boundary setting rules are selected which lead to the inclusion of these activities within the company's organizational boundary, then emissions from these activities would be reported in scope 1 and scope 2. In either scenario, emissions from these activities should be disclosed, rather than being excluded, given the substantial financial risk involved for the financial sector through their investment activities.

119. Alternatively, should we require registrants to use the organizational boundary approaches recommended by the GHG Protocol (*e.g.*, financial control, operational control, or equity share)? Do those approaches provide a clear enough framework for complying with the proposed rules? Would such an approach cause confusion when analyzing information in the context of the consolidated financial statements or diminish comparability? If we permit a registrant to choose one of the three organizational boundary approaches recommended by the GHG Protocol, should we require a reconciliation with the scope of the rest of the registrant's financial reporting to make the disclosure more comparable?

Response: WRI welcomes feedback on this question, which can be used to consider additional guidance to the GHG Protocol in the future, if needed. As noted, the GHG Protocol Corporate Standard provides a choice of consolidation methods (equity share, financial control, or operational control) to define a company's organizational boundary. WRI welcomes feedback on whether directly aligning organizational boundaries used for emissions accounting and disclosure with those used for financial accounting is the most relevant and appropriate approach, for example, to enhance comparability and avoid confusion for investors about the reporting scope used in determining a registrant's GHG emissions and the reporting scope used for financial statement metrics. If so, GHG Protocol can consider additional guidance in the future to include this option. If, on the other hand, feedback suggests that one (or more) of the existing consolidation methods under the GHG Protocol is appropriate to meet the objectives of the SEC climate disclosure rules, one (or more) of the existing consolidation approaches provided under GHG Protocol could be provided as an option, with a requirement that registrants disclose and justify the approach used to define the registrants' organizational boundary.

If there is not agreement to align directly with financial accounting on the definition of organizational boundaries, SEC could allow registrants to use any of the three consolidation approaches provided under the GHG Protocol in the initial phase of disclosure. Flexibility would allow companies currently following GHG Protocol to continue accounting for and reporting emissions using the same consolidation approach they have used to date. If flexibility is allowed, SEC could decide to harmonize around a single consolidation approach for all registrants after experience is gained during an initial phase of disclosure.

Depending on the final rule, GHG Protocol can consider additional guidance to align and maintain harmonization in corporate climate disclosure standards and practices. As with all Greenhouse Gas Protocol

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standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

120. Should we require a registrant to disclose its operational boundaries, as proposed? Should we require a registrant to discuss its approach towards the categorization of emissions (*e.g.*, as direct or indirect emissions) and emissions sources (*e.g.*, stationary or mobile) when describing its operational boundaries, as proposed?

Response: Yes, it should be required to describe the operational boundaries including emissions sources included in the emissions disclosure across scope 1, scope 2 and scope 3. The approach to defining direct and indirect emissions should be determined by the definition of organizational boundaries and by use of the scope 1, scope 2, and scope 3 framework and definitions, including disclosure of scope 3, where registrants are required to separately report emissions by scope following definitions provided in the proposed rule. Disclosure of emissions sources included within each scope is necessary to properly understand and interpret reported emissions information and associated risks.

121. The proposed operational boundaries disclosure is based largely on concepts developed by the GHG Protocol. Would requiring a registrant to determine its organizational boundaries pursuant to the GAAP applicable to the financial statement metrics included in the financial statements but its operational boundaries largely pursuant to concepts developed by the GHG Protocol cause confusion? Should we require a registrant to apply the GAAP applicable to its financial statements when determining whether it "controls" a particular source pursuant to the definition of Scope 1 emissions, or particular operations pursuant to the definition of Scope 2 emissions, as proposed? If not, how should "control" be determined and would applying a definition of control that differs from applicable GAAP result in confusion for investors?

Response: WRI supports use of established and widely used GHG Protocol definitions and concepts developed for greenhouse gas emissions accounting and reporting. WRI welcomes feedback on whether GAAP terms and definitions (e.g. related to control) should be considered as part of providing additional guidance under the GHG Protocol in the future, if needed. As with all Greenhouse Gas Protocol standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

122. Should we require a registrant to use the same organizational boundaries when calculating its Scopes 1 and 2 emissions, as proposed? Are there any circumstances when a registrant's organizational boundaries for determining its Scope 2 emissions should differ from those required for determining its Scope 1 emissions? Should we also require a registrant to apply the same organizational boundaries used when determining its Scopes 1 and 2 emissions as an initial step in identifying the sources of indirect emissions from activities in its value chain over which it lacks ownership and control and which must be included in the calculation of its Scope 3 emissions, as proposed? Are there any circumstances where using a different organizational boundary for purposes of Scope 3 emissions disclosure would be appropriate?

Response: Yes, it is important for organizational boundaries to be defined in a consistent way across all scopes. The definition of organizational boundaries dictates what falls into scope 1, scope 2, and scope 3 in a consistent way that avoids double counting. Scope 1 emissions are from sources included within the organizational boundary. Scope 2 emissions result from use of purchased or acquired electricity, steam, heat or cooling consumed by operations within the organizational boundary. Scope 3 emissions are from sources

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outside the company's organizational boundary, which are a consequence of the reporting company's activities, both upstream and downstream.

123. Should we require a registrant to be consistent in its use of its organizational and operational boundaries once it has set those boundaries, as proposed? Would the proposed requirement help investors to track and compare the registrant's GHG emissions over time?

<u>Response:</u> Yes, in setting organizational boundaries, a registrant should select an approach for consolidating GHG emissions and then consistently apply the selected approach to define those businesses and operations that constitute the company for the purpose of accounting and reporting GHG emissions.

Consistency is important to ensure investors can track and compare GHG emissions information over time in order to identify trends and to assess the performance of the registrant. The consistent application of accounting approaches, inventory boundary, and calculation methodologies is essential to producing comparable GHG emissions data over time. The GHG information for all operations within an organization's inventory boundary needs to be compiled in a manner that ensures that the aggregate information is internally consistent and comparable over time. If there are changes in the inventory boundary, methods, data or any other factors affecting emission estimates, they need to be transparently documented and justified.

Regarding the operational boundary, registrants could over time improve the completeness and quality of scope 1, 2, and 3 emissions data, including improving completeness of scope 3 categories over time, in cases where registrants do not have full completeness in the first year of disclosure. Such changes, as well as improvements in calculation methodologies, should be disclosed to explain changes in reported emissions over time.

124. Should we require a registrant to disclose the methodology for calculating the GHG emissions, including any emission factors used and the source of the emission factors, as proposed? Should we require a registrant to use a particular set of emission factors, such as those provided by the EPA or the GHG Protocol?

<u>Response:</u> Yes, it should be required to disclose the methodology for calculating GHG emissions, including emissions factors and source of emission factors, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information and underlying limitations if any. Registrants should use credible sources of emission factors, such as those provided by US EPA. GHG Protocol compiles emission factors provided by other sources such as US EPA.

126. Should we require a registrant to disclose, to the extent material, any use of third-party data when calculating its GHG emissions, regardless of the particular scope of emissions, as proposed? Should we require the disclosure of the use of third-party data only for certain GHG emissions, such as Scope 3 emissions? Should we require the disclosure of the use of third-party data for Scope 3 emissions, regardless of its materiality to the determination of those emissions? If a registrant discloses the use of third-party data, should it also be required to identify the source of such data and the process the registrant undertook to obtain and assess the data, as proposed?

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Response: Yes, it should be required to disclose use of third-party data when calculating GHG emissions, including data sources. Such disclosure is necessary to properly understand and interpret reported emissions information.

127. Should we require a registrant to disclose any material change to the methodology or assumptions underlying its GHG emissions disclosure from the previous year, as proposed? If so, should we require a registrant to restate its GHG emissions data for the previous year, or for the number of years for which GHG emissions data has been provided in the filing, using the changed methodology or assumptions? If a registrant's organizational or operational boundaries, in addition to methodology or assumptions, change, to what extent should we require such disclosures of the material change, restatements or reconciliations? In these cases, should we require a registrant to apply certain accounting standards or principles, such as FASB ASC Topic 250, as guidance regarding when retrospective disclosure should be required?

Response: Yes, it should be required to disclose any material change to the methodology or assumptions underlying its GHG emissions disclosure from the previous year, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information.

128. Should we require a registrant to disclose, to the extent material, any gaps in the data required to calculate its GHG emissions, as proposed? Should we require the disclosure of data gaps only for certain GHG emissions, such as Scope 3 emissions? If a registrant discloses any data gaps encountered when calculating its Scope 3 emissions or other type of GHG emissions, should it be required to discuss whether it used proxy data or another method to address such gaps, and how its management of any data gaps has affected the accuracy or completeness of its GHG emissions disclosure, as proposed? Are there other disclosure requirements or conditions we should adopt to help investors obtain a reasonably complete understanding of a registrant's exposure to the GHG emissions sourced by each scope of emissions?

Response: Yes, it should be required to disclose any gaps in the data required to calculate GHG emissions, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information.

129. When determining the materiality of its Scope 3 emissions, or when disclosing those emissions, should a registrant be required to include GHG emissions from outsourced activities that it previously conducted as part of its own operations, as reflected in the financial statements for the periods covered in the filing, in addition to emissions from activities in its value chain, as proposed? Would this requirement help ensure that investors receive a complete picture of a registrant's carbon footprint by precluding the registrant from excluding emissions from activities that are typically conducted as part of operations over which it has ownership or control but that are outsourced in order to reduce its Scopes 1 or 2 emissions? Should a requirement to include outsourced activities be subject to certain conditions or exceptions and, if so, what conditions or exceptions?

Response: Yes, it should be required for a registrant to include GHG emissions from outsourced activities that it previously conducted as part of its own operations, as proposed. Such disclosure is necessary to properly understand and interpret reported emissions information and related financial risk.

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130. Should we require a registrant that must disclose its Scope 3 emissions to discuss whether there was any significant overlap in the categories of activities that produced the Scope 3 emissions? If so, should a registrant be required to describe any overlap, how it accounted for the overlap, and its effect on the total Scope 3 emissions, as proposed? Would this requirement help investors assess the accuracy and reliability of the Scope 3 emissions disclosure?

Response: The fifteen scope 3 categories defined in the GHG Protocol Scope 3 Standard are designed to be mutually exclusive, such that, for any one reporting company, there is no double counting of emissions between categories. Therefore, prescribing that registrants follow the agreed taxonomy of scope 3 categories and their definitions provided in the Scope 3 Standard (Chapter 5) avoids overlap or double counting between categories.

If a company identifies any potential double counting of emissions between scope 3 categories or within a scope 3 category, the company should avoid double counting by only reporting scope 3 emissions from the activity once, clearly explaining where the emissions are reported, and providing cross-references, if needed.

Scope 1, scope 2, and scope 3 as defined in the GHG Protocol are also mutually exclusive for the reporting company, such that there is no double counting of emissions between the scopes. For example, a company's scope 3 inventory does not include any emissions already accounted for as scope 1 or scope 2 by the same company.

In case there is an overlap between categories, it should be required for registrants to disclose such overlaps and how such overlaps are avoided in the accounting, such that there is not double counting within a single company's emissions inventory.

132. Should we require a registrant to follow a certain set of published standards for calculating Scope 3 emissions that have been developed for a registrant's industry or that are otherwise broadly accepted? For example, should we require a registrant in the financial industry to follow PCAF's Global GHG Accounting & Reporting Standard for the Financial Industry when calculating its financed emissions within the "Investments" category of Scope 3 emissions? Are there other industry-specific standards that we should require for Scope 3 emissions disclosure? Should we require a registrant to follow the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard if an industry-specific standard is not available for Scope 3 emissions disclosure? If we should require the use of a third-party standard for Scope 3 emissions reporting, or any other scope of emissions, how should we implement this requirement?

Response: Yes, SEC should require registrants to follow the GHG Protocol's *Corporate Value Chain (Scope 3) Accounting and Reporting* Standard. This standard is already in common use by issuers and other market participants. Any industry-specific standard used should be consistent with the GHG Protocol's *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, while providing additional industry-specific detail or harmonization. Examples of industry-specific guidance based on GHG Protocol standards include IPIECA Methodology for estimating petroleum industry value chain (Scope 3) greenhouse gas emissions for the oil and gas sector, and the WBCSD Cement Sector Scope 3 GHG Accounting and Reporting Guidance for the cement sector. Registrants in the financial industry should follow PCAF's Global GHG Accounting & Reporting Standard for the Financial Industry when calculating its financed emissions within the "Investments"

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category of Scope 3 emissions, building on the GHG Protocol's *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

133. Should we provide a safe harbor for Scope 3 emissions disclosure, as proposed? Is the scope of the proposed safe harbor clear and appropriate? For example, should the safe harbor apply to any registrant that provides Scope 3 disclosure pursuant to the proposed rules, as proposed? Should we limit the use of the safe harbor to certain classes of registrants or to registrants meeting certain conditions and, if so, which classes or conditions? For example, should we require the use of a particular methodology for calculating and reporting Scope 3 emissions, such as the PCAF Standard if the registrant is a financial institution, or the GHG Protocol Scope 3 Accounting and Reporting Standard for other types of registrants? Should we clarify the scope of persons covered by the language "by or on behalf of a registrant" by including language about outside reviewers retained by the registrant or others? Should we define a "fraudulent statement," as proposed? Is the level of diligence required for the proposed safe harbor (*i.e.*, that the statement was made or reaffirmed with a reasonable basis and disclosed in good faith) the appropriate standard? Should the safe harbor apply to other climate-related disclosures, such as Scopes 1 and 2 emissions disclosures, any targets and goals disclosures in response to proposed Item 1505 (discussed below), or the financial statement metrics disclosures required pursuant to Proposed Article 14 of Regulation S-X? Should the safe harbor apply indefinitely, or should we include a sunset provision that would eliminate the safe harbor some number of years, (*e.g.*, five years) after the effective date or applicable compliance date of the rules? Should the safe harbor sunset after certain conditions are satisfied? If so, what types of conditions should we consider? What other approaches should we consider?

<u>Response:</u> Focusing only on the accounting related elements in the questions above, we think it would avoid confusion and ensure rigor, consistency, and comparability by requiring all registrants to follow the GHG Protocol *Scope 3 Standard* for reporting scope 3 emissions. Further, we would agree that the registrant is asked to report using the PCAF standard as a GHG Protocol approved standard if the registrant is a financial institution. GHG Protocol plans to consider integrating the PCAF standard into the Scope 3 Standard as part of future additional guidance to promote further alignment. The GHG Protocol standards are structured into a set of 'shall' and 'should' accounting and reporting statements, to ensure a minimum standard with respect to required information that meets the principles of accuracy, completeness, relevance, consistency, and transparency. The 'shall' statements are an important verification criterion for assurance providers. Referencing the GHG Protocol *Scope 3 Standard* including its approved sector supplements such as the PCAF standard serves an important purpose in this regard. As with all Greenhouse Gas Protocol standards, any additional guidance will be developed through an inclusive, global, multi-stakeholder development process, with participation from businesses, NGOs, academia, and government worldwide.

159. If we require or permit a registrant to use the GHG Protocol as the methodology for determining GHG emissions, would the provisions of the GHG Protocol qualify as "suitable criteria" against which the Scope 1 and Scope 2 emissions disclosure should be evaluated?

<u>Response:</u> The GHG Protocol standards are designed with the objective of verifiability in mind. GHG Protocol standards including for scopes 1 and 2 are structured into a set of 'shall' and 'should' accounting and reporting statements, with the purpose of ensuring a minimum set of criteria that can be evaluated to determine if the reported information and associated statements represent a faithful, true, and fair account

of a company's GHG emissions. The 'shall' statements serve as an important verification criterion for assurance providers. There has been almost twenty years of established business and market practice in using GHG Protocol as minimum criteria against which scope 1 and scope 2 emissions are evaluated.

168. Should we require a registrant to disclose whether it has set any targets related to the reduction of GHG emissions, as proposed? Should we also require a registrant to disclose whether it has set any other climate-related target or goal, *e.g.*, regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products, in line with anticipated regulatory requirements, market constraints, or other goals, as proposed? Are there any other climate-related targets or goals that we should specify and, if so, which targets or goals? Is it clear when disclosure under this proposed item would be triggered, or do we need to provide additional guidance? Would our proposal discourage registrants from setting such targets or goals?

Response: Yes, registrants should be required to disclose whether they have set targets related to the reduction of GHG emissions, and any other relevant targets or goals. Setting and achieving targets to reduce emissions is a critical element of climate-related disclosure. For example, registrants should disclose whether they have set science-based greenhouse gas emission reduction targets under the Science Based Targets initiative.

169. Should we require a registrant, when disclosing its targets or goals, to disclose:
• The scope of activities and emissions included in the target;
• The unit of measurement, including whether the target is absolute or intensity based;
• The defined time horizon by which the target is intended to be achieved, and whether the time horizon is consistent with one or more goals established by a climate-related treaty, law, regulation, or organization;
• The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;
• Any intervening targets set by the registrant; and
• How it intends to meet its targets or goals, each as proposed?
Are there any other items of information about a registrant's climate-related targets or goals that we should require to be disclosed, in addition to or instead of these proposed items? Are there any proposed items regarding such targets or goals that we should exclude from the required disclosure? If a registrant has set multiple targets or goals, should it be permitted to establish different base years for those targets or goals?

Response: Yes, registrants should be required to disclose information about their targets and goals, as proposed, including:

- the scope of activities and emissions included in the target (including the gases, scopes, and scope 3 categories included in the target, with a recommendation for complete coverage of all emissions across scope 1, scope 2 and scope 3);
- the unit of measurement and whether the target is absolute or intensity based (with a recommendation to set absolute targets);
- The defined time horizon by which the target is intended to be achieved, and whether the time horizon is consistent with one or more goals established by a climate-related treaty, law, regulation, or organization (with a recommendation to set multi-year targets that limit emissions and associated

risks over multiple consecutive years, rather than only setting single-year targets that limit emissions and associated risks in a single year)

- The defined baseline time period and baseline emissions against which progress will be tracked with a consistent base year set for multiple targets;
- Any intervening targets set by the registrant (with a recommendation to set regular periodic targets to ensure emissions and associated risks are being reduced over time); and
- How it intends to meet its targets or goals.

In addition to the above list, registrants should also disclose:

- The level of the target (e.g. percent reduction in emissions from a base year, or absolute level of emissions to be achieved), with justification for the target level
- Whether they are participating in a target setting program, e.g. whether they have set science-based greenhouse gas emission reduction targets under the Science Based Targets initiative
- Whether the target excludes use of offsets or credits as a means of achieving the target (as in the Science Based Targets initiative)

170. Should we require a registrant to discuss how it intends to meet its climate-related targets or goals, as proposed? Should we provide examples of potential items of discussion about a target or goal regarding GHG emissions reduction, such as a strategy to increase energy efficiency, a transition to lower carbon products, purchasing carbon offsets or RECs, or engaging in carbon removal and carbon storage, as proposed? Should we provide additional examples of items of discussion about climate-related targets or goals and, if so, what items should we add? Should we remove any of the proposed examples of items of discussion?

Response: Yes, registrants should be required to disclose how they intend to meet their climate-related targets or goals, as proposed. Strategies to meet targets should focus on efforts to decarbonize scope 1, scope 2, and scope 3 emissions through concrete actions to reduce emissions and associated risks within scope 1, scope 2, and scope 3 (such as increasing energy efficiency, generating on-site renewable energy, sourcing lower carbon raw materials, transitioning to selling zero emitting products, etc.), rather than through purchase of offsets, which are external to a company's operations and value chain. For example, offsets are not allowed as means of meeting a greenhouse gas emissions target under the Science Based Targets initiative.

171. Should we require a registrant, when disclosing its targets or goals, to disclose any data that indicates whether the registrant is making progress towards meeting the target and how such progress has been achieved, as proposed?

Response: Yes, registrants should be required to disclose data indicating whether they are making progress toward meeting targets and how such progress has been achieved, as proposed. This is critical information to understand whether emissions and associated risks are being successfully reduced. Achievement of targets for reducing GHG emissions should be based on annually disclosed scope 1, scope 2, and scope 3 emissions data.

173. 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

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RECs, and the cost of the offsets or RECs, as proposed? 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? Are there proposed items of information that we should exclude from the required disclosure about offsets and RECs?

Response: Yes, if a registrant has used carbon offsets or RECs, it should be required for registrants to disclose the amount of greenhouse gas emissions reduction or removal 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. The information listed should be provided as additional optional information, separately from a registrant's scope 1, scope 2, and scope 3 emissions. Offsets are in general not expected to reduce financial risks since they represent action external to the company's activities, operations, and value chain. Therefore registrants should separately disclose decarbonization strategies (as well as their scope 1, 2 and 3 emissions), separately from any purchases of credits or offsets.

For offsets, it should be required to disclose whether the offsets result in GHG emission reductions or removals that would not have occurred in the absence of the purchase of the offset. It should also be required to disclose the project activity, project location, the year(s) credits were generated, GHG crediting program and protocols/methodologies used, quality criteria followed (including additionality, permanence, avoiding of leakage, unique issuance and claiming and avoidance of double counting, independent validation and verification, etc.), project baseline, scale (jurisdictional or project), and other information as relevant.

For RECs, it should be required to disclose the time period associated with the REC, the year the underlying renewable energy generation facility was built, the location (e.g. US state) where the renewable energy was generated, and whether the location and time of the renewable electricity generation matches the location and time of the registrant's electricity use. For companies using the scope 2 market-based method, it should be required to disclose how RECs or other contractual instruments meet the required scope 2 quality criteria, including the following: that they convey the direct GHG emission rate attribute associated with the unit of electricity produced; are the only instruments that carry the GHG emission rate attribute claim associated with that quantity of electricity generation; are tracked and redeemed, retired, or canceled by or on behalf of the reporting entity; are issued and redeemed as close as possible to the period of energy consumption to which the instrument is applied; are sourced from the same market in which the reporting entity's electricity-consuming operations are located and to which the instrument is applied; and that an adjusted, residual mix characterizing the GHG intensity of unclaimed or publicly shared electricity is made available and used. Further details are provided in the GHG Protocol *Scope 2 Guidance*.