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Submitted via Commission's internet comment form

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090
Docket No. 2022-06342

Re: "The Enhancement and Standardization of Climate-Related Disclosures for Investors," 87 Fed. Reg. 21,334 (Apr. 11, 2022) (File No. S7-10-22)

Clean Air Task Force together with Clean Air Council, Clean Wisconsin, NCX, Partnership for Policy Integrity, and National Wildlife Federation ("Commenters") hereby submit the following comments on the use of carbon offsets in companies' plans for reaching climate targets and goals and other issues related to the U.S. Security and Exchange Commission's ("SEC" or "Commission") proposed rule, "The Enhancement and Standardization of Climate-Related Disclosures for Investors," 87 Fed. Reg. 21,334 (Apr. 11, 2022) (the "Proposal").

The comments provided here first explain that the climate-related disclosures the SEC proposes to require are well within the Commission's statutory authority. Additionally, the proposed shift from voluntary disclosure to required disclosure is warranted, and indeed overdue, the SEC having recognized its authority to take this step over a decade ago. Next, the comments focus on ensuring the availability of consistent, comparable, and transparent information to allow an investor to (1) assess the ambition of a company's efforts to reduce its climate-related risks and track its annual progress toward any greenhouse gas emissions reduction targets and goals; and (2) determine the quality and credibility of any offsets used by a company to achieve its stated climate targets and goals. The comments explain why the disclosure of additional information on the nature and use of carbon offsets is material to investor decision-making, and why it is needed to promote consistency and avoid serious questions of integrity currently facing the voluntary carbon market. These disclosures will allow investors to assess whether companies are making real progress towards climate goals. The entire net-zero community needs to be held to a higher standard of proof so that investors can assess the real climate impact of purchasing offsets—the SEC can help raise that standard by requiring disclosure of the necessary details to allow investors to understand whether reliance on carbon offsets will deliver real, additional, and verifiable greenhouse gas reductions.[1]

[1] Avery Ellfeldt, *Regulator tackles CO2 offsets, as 'crisis of integrity' looms*, Politico (June 3, 2022), https://subscriber.politicopro.com/article/eenews/2022/06/03/regulator-tackles-co2-offsets-as-crisis-of-integrity-looms-00036866.

I. <u>The Proposed Climate Disclosures Fall Squarely within the SEC's Authority to Require Disclosure of Material Facts and Information Necessary to Inform and Protect Investors</u>

The SEC's Proposal is squarely rooted within its traditional disclosure authority. The Proposal would require disclosure of climate-related risks, data, and related financial metrics, that are material to a registrant's financial soundness, thus enabling investors to make informed judgments about the impact of these risks on the financial value of equity offerings. Congress authorized exactly such disclosures to protect current and potential investors. While the SEC has had guidance in effect on voluntary climate risk disclosure for more than a decade, this has resulted in non-standardized and even potentially unreliable climate disclosures. The standardization and direction of this Proposal thus is essential to ensure uniformity of climate-risk information by registrants, which can better inform investment decisions by allowing direct comparison between investment opportunities.

a. The statutes confer authority on the SEC to require information disclosure to protect investors from current and future risks.

In 1933, Congress wrote an extensive and detailed list of 32 items that companies must disclose—ranging from general to highly specific. 15 U.S.C. § 77aa ("Schedule A"). Congress permitted the SEC to waive requirements where appropriate and instructed it to develop additional regulations requiring disclosure of information, considering whether it is "necessary or appropriate in the public interest … [and] in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation." 15 U.S.C. § 77b(b); *see also id*. at §§ 77g(a)(1); 78l; 78m; 78o. "Rather than casting disclosure rules in stone, Congress opted to rely on the discretion and expertise of the SEC for a determination of what types of additional disclosure would be desirable." *Nat. Res. Def. Council, Inc. v. SEC*, 606 F.2d 1031, 1045 (D.C. Cir. 1979).

Schedule A was tailored to the relevant risks at the time it was developed, but also contained broad language of the kind the Supreme Court has elsewhere held would "forestall … obsolescence." *Massachusetts v. EPA*, 549 U.S. 497, 532 (2007); *see also PA DEC v. Yeskey*, 524 U.S. 206, 212 (1998) ("the fact that a statute can be applied in situations not expressly anticipated by Congress does not demonstrate ambiguity. It demonstrates breadth.") (citation omitted). Regulation S-K underpins the SEC's reporting obligations and is derivative of the nearly 90-year-old Schedule A. 17 C.F.R. § 229. The SEC has very successfully used this authority to require various disclosures of information material to corporate financial health beyond those enumerated in the statute, including, among other things, executive compensation (Item 402), ethics (Item 406), related-party transactions (Item 404), oil and gas producing activities (Items 1201-08), mine safety (Items 104, 1300-05), and general risk factors (Item 105).

b. Climate information disclosures are in line with prior SEC disclosure rulemakings.

Required disclosures have included material environmental risk information for decades. 87 Fed. Reg. at 21,337-38. Nearly fifty years ago, the SEC specifically required disclosure of the

financial effects of corporate compliance with environmental laws. "Disclosure With Respect to Compliance With Environmental Requirements and Other Matters," 38 Fed. Reg. 12,100 (May 9, 1973).

Congress has twice called on the SEC to "modernize and simplify" disclosure, since 2012.[2] This Proposal is responsive to that directive in that it directs the provision of information that is material today, given increased concerns and rapidly expanding impacts of climate change on the economy and corporate assets, while building on current disclosure requirements. The Proposal also builds on the SEC's 2010 "Commission Guidance Regarding Disclosure Related to Climate Change, Release No. 33-9106," 75 Fed. Reg. 6290 (Feb. 8, 2010) (the "Guidance"). The Guidance made it clear that climate-related financial risks are material to investor decisions and directed voluntary disclosure of such risks under the then-current regulatory scheme.

While the Guidance was a step in the right direction, it did not mandate information disclosure, nor did it provide a standardized framework for quantitative disclosure, such as would allow for comparison of risks across registrants in the same industry. Additionally, it did not limit or direct the content even of narrative disclosures, and the net effect has been largely unsuccessful in eliciting quality information for investors.[3] This Proposal builds upon what the SEC learned in working with the Guidance and would codify specific and standard disclosure requirements of material facts related to climate risk that should, to a large extent, already be made under the Guidance.

c. Companies are now voluntarily providing investors with climate-risk information that is difficult to decipher and compare.

Current climate disclosures are generally found in corporate sustainability reports, which are produced by 92 percent of public companies in the S&P 500.[4] However, these disclosures currently are voluntary and of varying consistency, rigor, and usefulness.[5] 87 Fed. Reg. 21,343-45 (summarizing the development of various climate-related reporting frameworks). Investors need the Commission to require companies to disclose standardized, comparable, and reliable information on climate-related risks.[6] 87 Fed. Reg. at 21,340-43 (describing the growing investor demand for climate-related risk disclosure and related information).

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[2] Jumpstart Our Business Startups Act, Pub. L. No. 112-106, § 108, 126 Stat. 306, 313 (2012); Fixing America's Surface Transportation Act, Pub. L. No. 114-94, § 72003, 129 Stat. 1312, 1785 (2015).

[3] U.S. Gov't Accountability Off., GAO-18-188, Climate Related Risks: SEC Has Taken Steps to Clarify Disclosure Requirements at 19 (2018).

[4] G&A Institute, 2021 Sustainability Reporting in Focus (Dec. 2021), https://www.ga-institute.com/research/ga-research-directory/sustainability-reporting-trends/2021-sustainability-reporting-in-focus.html.

[5] Sustainability and Accounting Standards Board, Climate Risk Technical Bulletin at 19 (2021), https://www.sasb.org/wp-content/uploads/2021/05/Climate-Risk-Technical-Bulletin2021-042821.pdf (explaining that few current disclosures provide quantitative metrics beyond GHG emissions).

[6] *See* Virginia Harper Ho, *Modernizing ESG Disclosure*, 2022 Univ. Ill. L. Rev. 277, nn.73-76 (2022) (cataloguing various calls for consistent and compatible climate disclosure data).

Information about the risks posed by climate change to a registrant's corporate interests, including the company's greenhouse gas emissions, direct risks of physical impacts on business activities due to climate change effects, and company goals and plans to combat such risks, is highly material to investment decisions. There is near universal support for robust climate disclosure frameworks, and many such frameworks have emerged.[7] For example, the United Nations, World Economic Forum, International Organization of Securities Commissions, the G20's Financial Stability Board, and the International Accounting Standards Board are all developing environmental, social, and governance (ESG) frameworks, many focusing first on climate disclosure.[8]

The SEC must seek to "ensure disclosure by corporate management in order to enable the shareholders to make an informed choice." *Tsc Indus. v. Northway*, 426 U.S. 438, 448 (1976). The test for determining which facts are material to a reasonable investor's decision about whether to invest in a company can be boiled down to whether disclosure of a fact would be viewed by a reasonable investor as significantly altering the total mix of information available to support its investment decision. *Id*. at 449; *see also Basic Inc. v. Levinson*, 485 U.S. 224, 232 (adopting the same definition of materiality in a different context). The Commission defines "material" information as "those matters to which there is substantial likelihood that a reasonable investor would attach importance in determining whether to buy or sell the securities registered." 17 C.F.R. § 240.12b-2.

Information about corporate exposure and responses to climate risk is financially material and a mainstream business concern.[9] The Sustainability Accounting Standards Board finds that 89 percent of the market capital of S&P Global 1200 companies are exposed to climate risk.[10] The U.S. Commodity Futures Trading Commission concluded in its 2020 report "Managing Climate Risk in the U.S. Financial System" that

> climate change poses a major risk to the stability of the U.S. financial system and its ability to sustain the American economy. Climate change is already impacting or is anticipated to impact nearly every fact of the economy, including infrastructure, agriculture, residential and commercial property, as well as human health and labor productivity … This reality poses complex risks for the U.S.

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[7] *See* Bd. of the Int'l Org. of Sec. Comm'ns (IOSCO), Sustainable Finance and the Role of Securities Regulators and IOSCO 23-24 (2020), https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf (identifying the multiplicity of frameworks and standards as a key challenge for ESG disclosure) [hereinafter IOSCO, Sustainable Finance]. *See generally* Hans B. Christensen et al., *Mandatory CSR and Sustainability Reporting Standards: Economic Analysis and Literature Review* (Eur. Corp. Governance Inst.-Fin., Working Paper No. 623/2019, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3427748 (identifying this concern in their study of sustainability reporting standards and practice).

[8] Sustainability and Accounting Standards Board, Climate Risk Technical Bulletin at 21 (2021), https://www.sasb.org/wp-content/uploads/2021/05/Climate-Risk-Technical-Bulletin2021-042821.pdf (summarizing the leading voluntary frameworks).

[9] *See* Virginia Harper Ho, *Modernizing ESG Disclosure*, 2022 Univ. Ill. L. Rev. 277, nn.9-10 (2022) (summarizing reports and studies demonstrating the financial materiality of climate-related risks).

[10] Sustainability and Accounting Standards Board, Climate Risk Technical Bulletin at 8 (2021), https://www.sasb.org/wp-content/uploads/2021/05/Climate-Risk-Technical-Bulletin2021-042821.pdf.

> financial system. Risks include disorderly price adjustments in various asset classes, with possible spillovers into different parts of the financial system, as well as potential disruption of the proper functioning of financial markets.[11]

In the face of clear financial risks associated with greenhouse gas emissions and resulting climate changes and physical damage to corporate assets due to such damage, and a demand for standardized and streamlined disclosure process, the SEC has set forth the proposed rule to fulfill its core mission to "protect investors, maintain fair, orderly and efficient markets, and promote capital formation, not to address climate related issues more generally." 87 Fed. Reg. at 21,336. It proposes to require disclosure of data relevant to climate risks, and where available, corporate plans to address such risks. These disclosures clearly are material to investor decision making, and standardized reporting will allow informed decisions. For these reasons, Commenters support the SEC's decision to establish a framework for required climate disclosures. Commenters provide more specific comments in the remaining sections, on emissions reporting and clarity in describing and reporting measures to be taken to mitigate identified climate risks.

II. More information is needed to ensure standardization and transparency in GHG emissions reporting.

Our organizations strongly support the requirement that a registrant must disclose its annual greenhouse gas emissions, including direct and indirect emissions, both for the most recently completed fiscal year and any prior years included in the filing if that information is reasonably available. In response to request for comment item 24 in the Proposal, we further support required disclosures of Scope 1, Scope 2, and Scope 3 emissions, as set forth in proposed 17 C.F.R. § 229.1504 (a)(2). Our organizations agree that registrants should exclude the impact of any purchased or generated offsets when disclosing Scope 1, 2, and 3 emissions. Requiring the disclosure of gross, rather than net, greenhouse gas emissions to the atmosphere provides a baseline for comparison between registrants in the same industry, as well as an indication of the need for a company to set targets and goals to reduce its climate impact.

The SEC proposes separately to define "carbon offsets" as "emissions reduction or removal of greenhouse gases ("GHG") in a manner calculated and traced for the purpose of offsetting an entity's GHG emissions." Proposed 17 C.F.R. § 229.1500 (a). In response to request for comment item 101, to be consistent with this definition, we suggest that the final rule should include the word "carbon" before "offsets" in 17 C.F.R. § 229.1504(a)(2), so that it would read:

> (2) When disclosing a registrant's Scopes 1, 2, and 3 emissions, exclude the impact of any purchased or generated carbon offsets.

Our organizations agree that it is appropriate for registrants to report on their goals and targets for mitigating the climate risks facing their businesses, as well as the degree to which their forward-looking business plans address their own contribution to the climate problem, including

[11] U.S. Commodity Futures Trading Commission, Managing Climate Risk in the U.S. Financial System at i (Sept. 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.

how the company plans to reduce its own Scopes 1, 2, and 3 emissions. In particular, our comments focus on the details that must be reported in order to ensure, as the SEC asserts is its intention, 87 Fed. Reg. 21,406-07, that reported greenhouse gas emissions reductions resulting from or projected to result from these measures are real and verifiable. Information about how well a registrant is managing its identified climate-related risks is material to an investor's decision about whether to invest in the company's future. Furthermore, information about the details of any carbon offsets purchased in furtherance of the registrant's climate-related objectives can inform investors of the integrity of those offsets and any concerns about their climate impact. *Id.*

A growing number of companies are setting and publicizing net-zero greenhouse gas emission targets. Such targets can distinguish a company from its competitors among climate-focused consumers. By one account, 27 percent of 637 U.S. companies in the S&P 500 and high-emitting sectors now have net-zero targets.[12] Globally, 315 businesses have taken the Climate Pledge to reach net-zero emissions by 2040.[13] Most companies that have set net-zero targets purchase carbon credits in the voluntary market to offset some portion of their emissions so that they meet their non-regulatory obligations. The increase in companies setting net-zero targets has contributed to the growth of the voluntary carbon market. One source reports that the value of the voluntary carbon market exceeded $1 billion (USD) in 2021.[14] The Chair of the Commodity Futures Trading Commission (CFTC) has noted that the size of the voluntary carbon market could "blow past $1 trillion [USD] by 2050."[15]

Net-zero targets have come under increasing public scrutiny through media exposes and claims of greenwashing aimed at companies that have reportedly invested in low-quality offsets that do not deliver real, additional, quantifiable, permanent, and socially beneficial carbon removals.[16] Despite significant public interest and concern, a recent survey of 55 of the largest U.S.

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[12] Carolyn Ching et al., *Evaluating the Use of Carbon Credits: Critical questions for financial institutions when engaging with companies*, Ceres (Mar. 2022), https://resources.ceres.org/carbon-credits/?utm_source=Bing&utm_medium=Paid&utm_campaign=LeadGeneration_2022&utm_term=CarbonCredit&msclkid=7f1fbb470aa01bc4cf76d9e551b4e26a.

[13] The Climate Pledge, https://www.theclimatepledge.com/us/en (last accessed May 26, 2022).

[14] Ecosystem Marketplace, Voluntary Carbon Markets Top $1 Billion in 2021 with Newly Reported Trades (Nov. 10, 2021), https://www.ecosystemmarketplace.com/articles/voluntary-carbon-markets-top-1-billion-in-2021-with-newly-reported-trades-special-ecosystem-marketplace-cop26-bulletin/.

[15] Avery Ellfeldt, *Regulator tackles CO2 offsets, as 'crisis of integrity' looms*, Politico (June 3, 2022), https://subscriber.politicopro.com/article/eenews/2022/06/03/regulator-tackles-co2-offsets-as-crisis-of-integrity-looms-00036866.

[16] *See*, *e.g.*, Ben Elgin, *This Timber Company Sold Millions of Dollars of Useless Carbon Offsets*, Bloomberg (Mar. 17, 2022), https://www.bloomberg.com/news/articles/2022-03-17/timber-ceo-wants-to-reform-flawed-carbon-offset-market; Ben Elgin, *A Top U.S. Seller of Carbon Offsets Starts Investigating Its Own Projects*, Bloomberg (Apr. 5, 2021), https://www.bloomberg.com/news/features/2021-04-05/a-top-u-s-seller-of-carbon-offsets-starts-investigating-its-own-projects; Patrick Greenfield, *Carbon offsets used by major airlines based on flawed system, warn experts*, The Guardian (May 4, 2021), https://www.theguardian.com/environment/2021/may/04/carbon-offsets-used-by-major-airlines-based-on-flawed-system-warn-experts; Lisa Song, *An Even More Inconvenient Truth: Why Carbon Credits for Forest Preservation May Be Worse Than Nothing*, ProPublica (May 22, 2019), https://features.propublica.org/brazil-carbon-offsets/inconvenient-truth-carbon-credits-dont-work-deforestation-redd-acre-cambodia/.

companies found that only 11 disclosed their offset purchases, a description of the offset, and the verification status of the offset.[17] In response to what has been termed a looming "crisis of integrity", the CFTC Chair recently stated that, "[the CFTC] must build its capacity to ensure the ongoing integrity of these markets, identify and pursue any potential fraud or other abusive practices in the underlying markets, and promote responsible innovation and fair competition." The Chair announced that the CFTC intends to issue a request for public comment on climate risk broadly, including on carbon offsets.[18]

Our organizations thus support the requirement in proposed 17 C.F.R. § 229.1506(a)(1) that if a registrant has set any climate-related targets or goals it must disclose them. We urge the SEC to require the following additional information with respect to those targets and goals. This additional information will allow investors to compare targets across companies and evaluate the extent to which the companies' targets and goals will contribute to lowering climate-related risks that could reasonably have a material financial impact on investors.

When disclosing the target or goal, pursuant to the requirements proposed in 17 C.F.R. § 229.1506, the registrant should additionally specifically describe:

1. More detail on any "interim" targets, under 17 C.F.R. § 229.1506(b)(5), including the timelines and specific emissions targets for any short-, medium-, and long-term GHG emission reduction goals or targets.
2. How the company's goals and targets and their associated time horizons are related to and/or aligned with evidence-based pathways for limiting global warming to within 1.5°C of pre-industrial levels as defined by the Intergovernmental Panel on Climate Change.
3. The percentage of total baseline Scope 1, 2, and 3 emissions that will need to be directly reduced to meet the target.
4. In addition to disclosing the amount of carbon removed or emissions avoided to be achieved by purchasing carbon offsets, also express that as a percentage of Scope 1, 2, and 3 emissions, including for any "interim" target years.
5. As part of the "relevant data" to be reported under proposed 17 C.F.R. § 229.1506(c) where there are goals and targets, and a plan to achieve them are previously established, disclose the actual measured progress (in metric tons of CO2e) for greenhouse gas emissions reduced compared to the goal or target by year).

Where a company intends to purchase or otherwise acquire carbon offsets as part of its plan to meet its climate-related targets or goals we agree that its disclosures must include details not only about the cost of the offsets, but also about the source of the offsets, a description and location of the underlying projects, and any registries or other authentication of the offsets, as proposed in 17 C.F.R. §229.1506(d). We suggest that the SEC require more detail about any

[17] David Shugar et al., *Road to Zero Emissions: 55 Companies Ranked on Net Zero Progress*, As You Sow (Mar. 3, 2022), https://www.asyousow.org/reports/2022/road-to-zero-emissions.

[18] Avery Ellfeldt, *Regulator tackles CO2 offsets, as 'crisis of integrity' looms*, Politico (June 3, 2022), https://subscriber.politicopro.com/article/eenews/2022/06/03/regulator-tackles-co2-offsets-as-crisis-of-integrity-looms-00036866.

registry or authentication. In order to assess whether a registrant will be able to reduce its climate-related risks, including reducing emissions, investors need to understand the real value of the offsets being relied on. Investors also can better evaluate the robustness of a climate-related strategy including financial risks and impacts, if more detail is provided about the degree to which the offsets provide "additional" greenhouse gas emissions reductions, and how likely they are to be permanent. Detailed information about carbon offsets and their quality is central to an investor's ability to assess and compare a company's physical climate risk, transition risk, and reputational risk (the likelihood that a company's plan will achieve its publicly stated targets).

Broad agreement has emerged regarding the core principles for what constitutes a credible carbon offset. Leading researchers, non-governmental organizations, and corporations have determined that the quality of offsets can be assessed using the following attributes:[19]

1. Additional – the carbon removed or emissions avoided would not have occurred without the financing provided by the carbon offset project. Additionality is determined through comparison of the anticipated emissions or removals to a counterfactual baseline.
2. Durable – the storage of carbon dioxide removed is measured in years and creates fully delivered, verifiable long-term climate benefits.
3. Measured – the measured or estimated volume of carbon removed or emissions avoided uses accounting methodologies that are scientifically robust, are third-party audited, and account for potential risks of reversal.
4. Leakage avoided – the potential for the carbon offset project to result in increased emissions elsewhere is minimized and accounted for.
5. Verified – the attributes above are verified by an independent, qualified, third-party verifier.
6. Double-counting avoided – the offset is given a serial number, is tracked, and is retired so that it is no longer tradeable and cannot be claimed by more than one entity.
7. Environmental and social impacts assessed – the offset project has been assessed for any potential supplemental environmental benefits or harms as well as land rights and community impacts.

Transparent reporting is central to the ability of investors (and indeed, other members of the public), to assess the veracity of corporate targets and the extent to which any carbon offsets used to achieve any stated targets are credible. [20]

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[19] Meryl Richards et al., *Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors*, Ceres (May 2021), https://www.iigcc.org/download/the-role-of-natural-climate-solutions/?wpdmdl=4569&refresh=62a265583037c1654809944; Univ. of Oxford Smith School of Enterprise and the Environment, The Oxford Principles for Net Zero Aligned Carbon Offsetting (Sept. 2020), https://www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf; Microsoft & Carbon Direct, Criteria for high-quality carbon dioxide removal (May 2022), https://query.prod.cms.rt microsoft.com/cms/api/am/binary/RWGG6f.

[20] Sam Fankhauser et al., *The meaning of net zero and how to get it right*, 12 Nature Climate Change 15 (2022); Carolyn Ching et al., *Evaluating the Use of Carbon Credits: Critical questions for financial institutions when engaging with companies*, Ceres (Mar. 2022), https://resources.ceres.org/carbon-credits/?utm_source=Bing&utm_medium=Paid&utm_campaign=LeadGeneration_2022&utm_term=CarbonCredit&msclkid=7f1fbb470aa01bc4cf76d9e551b4e26a; Javier Lezaun et al., *Governing Carbon Dioxide Removal in the UK: lessons learned and challenges ahead* 1-5, Frontiers in Climate (Aug. 10, 2021).

We support the requirement that registrants disclose the role that carbon offsets play in their overall strategies to reduce their carbon emissions. *See* Proposed 17 C.F.R. § 229.1506(d) & request for comment 24. We further urge the SEC to require the disclosure of the following more specific information about any carbon offset projects the registrant will rely on to further its climate-related goals. This level of detail is required to provide the information needed to allow an investor to fully understand a company's efforts to mitigate climate-related risks:

1. Annual as well as total amounts of carbon removed or emissions avoided by the offsets, in CO_2e; any baseline against which these amounts are measured/estimated; if the carbon removals or avoided emissions are measured, where that information is made publicly available, if any; and if estimated, any methodology used to estimate the annual avoided carbon emissions or removals achieved (e.g., VM0003); in the description of any estimation methodology include whether the potential for leakage was accounted for.
2. The name of the carbon offset developer.
3. In the description of the project, include the offset type (e.g., emissions reduction, avoided emissions, or carbon removal) and sector (e.g., improved forest management, direct air capture).
4. In the description of the project, include the expected duration of any carbon storage (in years).
5. In the description of the project, include whether there are any carbon measurement, reporting, and verification protocols in place.
6. In the description of the project, include the estimated durability (in years) of any carbon storage and whether the potential risk for carbon stored by an offset project to be rereleased to the atmosphere, for example, due to disturbances such as wildfire, has been assessed, and whether governance measures, such as a buffer pool, have been established to mitigate any potential risk.
7. In the description of the project, disclose whether any steps were taken by the project developer to identify potential land rights and environmental justice issues.
8. For any verification or authentication, include the name of the third-party verifier, or authenticator, and the status of the verification or authentication process, and whether additionality of the offset has been verified.
9. In addition to disclosing whether a registry is used, disclose the name of any registries for the offset(s) that are used to ensure that credits are not double-counted, and provide information about where the information is made publicly available if at all.
10. In addition to disclosing the total cost of the offset(s), provide the cost per metric ton of carbon offset.

III. Conclusion

The signatories below support the steps taken by the SEC to make much-needed changes to require and improve climate-related disclosures. We find that the draft rule is a good first step, but additional disclosures are needed to provide investors with sufficient information about material financial risks.

Given the dramatic increase in public statements by private companies related to net-zero climate commitments, the reliance on carbon offsets from an unregulated voluntary market, and widespread concerns about the integrity of corporate net-zero efforts and the effective use of carbon offsets, the SEC must ensure investors have access to consistent, comparable, and transparent information that allows them to assess any potential material climate-related financial risks. Such risks may be related to a company's physical climate risks as well as its potential reputational or legal risks related to its climate targets and goals and associated transition plans, including the use of carbon offsets.

To meet this need, the SEC must first require that the protocol for GHG emissions reporting cover Scope 1, 2, and 3 emissions and that total emissions be reported, without the application of any carbon offsets. Second, the SEC must require registrants to provide sufficient detail regarding its climate targets and goals and its plans to achieve them, so that investors can evaluate and compare the climate ambition of the registrant and its potential exposure vis-a-vis future regulatory and policy changes. Third, the SEC must substantially strengthen the draft disclosures related to the use of carbon offsets so that investors have enough information to assess the quality of any offsets relied upon by a company to achieve its stated climate targets and goals and to, therefore, determine the veracity of any statements made related to achieving net-zero or other emissions targets.

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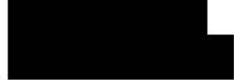

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