SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

Re: File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Ms. Countryman,

The Science-Based Targets initiative (SBTi) welcomes the opportunity to respond on File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors ("Proposed Rule").

Overall, the SBTi is encouraged by the Commission's Proposed Rule and we believe this Proposed Rule will support the necessary transparency for investors to evaluate financial risk from climate change. The SBTi also acknowledges references made to the initiative in the Proposed Rule and welcomes the recognition from the Commission of the role it plays in building a scientific path towards decarbonizing the economy.

I. Background on SBTi

The Science Based Targets initiative (SBTi) is a global body enabling companies and financial institutions to set ambitious emissions reductions targets in line with the latest climate science. It is focused on accelerating corporate climate action in line with halving global emissions before 2030 and achieving net-zero emissions before 2050.

The SBTi is a joint initiative between CDP, the United Nations Global Compact, World Resources Institute (WRI), the World Wide Fund for Nature (WWF), in collaboration with the We Mean Business Coalition. The Science Based Targets initiative enables private sector organizations to set science-based emissions reduction targets. Since its launch in 2015, SBTi has evolved to become a global standard setter and quality assurer to ensure credible climate targets from corporates and financial institutions.

In 2021, the SBTi entered its sixth year of exponential growth with a rate of more than 110 companies setting or committing to targets each month. As of June 2022, 3170 companies have now committed to set science-based climate targets and 1448 have had their targets validated. These companies cover over a third of the global economy, with $38 trillion in market capitalization

Among these companies with approved science-based targets, more than two-thirds of companies were aligned with 1.5ºC by the end of 2021. The Intergovernmental Panel on

Climate Change's 2018 1.5°C Special Report warned that the difference in the severity of climate change impacts between 1.5°C and 2°C of warming would be stark. In order to meet the 1.5°C target, the global economy will need to halve emissions by 2030, and achieve net-zero before 2050. To reflect the latest climate science supporting the importance of limiting warming to 1.5°C, from July 2022 onwards, only target submissions aligned with 1.5ºC will be accepted by the SBTi.

SBTi companies are demonstrating broad support with limiting warming to 1.5°C. Between 2015 and 2020, companies with approved targets reduced combined scope 1 and 2 emissions by 29%. An annual 4.2% linearized emissions reduction is required for 1.5ºC-aligned science-based targets. A typical SBTi-approved company has been even more ambitious than the 1.5ºC trajectory, with a linear rate of 8.8% scope 1 and 2 reductions — effectively reducing emissions twice as fast as required.

As the SBTi strives to continue to grow and deliver on ambitious corporate climate action, efforts will be made to deliver a standardized accountability mechanism and methodology to assess the progress and achievement of science-based targets.

II. Feedback for Consultation

In reviewing the Proposed Rule and the comprehensive list of guiding questions, the SBTi has focused its comments on the following topics.

A. **Time Horizon** – *[Q.8 & Q.21]*

The SBTi supports the proposal to disclose an assessment of risks over the short, medium and long.-term. We believe that a short term should be a 5 year period. Medium term 5 to 15 years. And long-term by 2050, at the latest, which is consistent with the timeframe in which the global economy is expected to reach net-zero emissions, according to the pledges made by a large number of countries, sub-national governments, financial institutions and corporates.

B. **Use of Offsets** – *[Q.24 & Q.101]*

Overall, we support maximum transparency about the use of offsets, RECs and other market-based instruments. However, we also believe that robust and truthful accounting practices are critical for the credibility of climate disclosures. In this regard, we recommend that carbon credits are reported separately without being deducted from a company's own emissions. Carbon credits represent an instrument to finance an emission reduction of carbon removal activity that occurs somewhere else. Financing a climate mitigation activity somewhere else is important for global climate stability. Yet, it does not eliminate the impact of a company on the climate or the risks associated with continuing to rely on processes, activities, products and assets that release greenhouse gas emissions into the atmosphere.

Given the focus of the SEC climate disclosure rule on transparently communicating climate risks, keeping separation between a company's own emissions and any market instrument is of utmost importance to prevent disclosing entities from potentially misleading investors and the public by appearing to be better prepared for a low-carbon transition than what they actually are.

Regarding the use of renewable energy credits or certificates (RECs), SBTi suggests that companies disclose location-based and market-based Scope 2 emissions, in line with the GHG Protocol Scope 2 guidance.

C. **Scenario Analysis** – *[Q.30-31]*

Scenario analysis helps businesses develop more effective climate targets and strategies. Disclosing scenario analysis equips business stakeholders with essential information about business model readiness for the future. The SBTi supports mandatory disclosure of scenario analysis, and incentivizing all businesses to include at least one credible 1.5C-aligned scenario in their analysis. Credible 1.5C-aligned scenarios should be clearly defined (for example, see the SBTi technical summary *Pathways to Net-Zero*) and include the IEA Net-Zero scenario.

D. **Scope 3** – *[Q.98-106]*

Scope 3 represents the largest source of emissions for most companies. CDP's Supply Chain report concluded that Scope 3 emissions are, on average, 11 times higher than Scope 1 and Scope 2 emissions. In many cases, the most material sources of risks are associated with activities and emission sources happening in the value chain of a company. For instance, energy companies and car manufacturers face the largest risks associated with their products, which are emission sources classified as Scope 3. Similarly, financial institutions face risks primarily from high-carbon activities in their portfolios. On the other hand, there are sectors and business models where the most carbon-intensive activities occur in the supply chain and where the major climate risks are located. This is the case for companies with significant land-use change emissions in their supply chain.

Considering all this, the SBTi wholeheartedly supports the disclosure of Scope 3 emissions for all sectors and companies based on a clear materiality threshold. In the SBTi, we use a materiality threshold for Scope 3 target setting of 40% (i.e. companies are expected to set Scope 3 targets when Scope 3 represents more than 40% of a company's Scope 1, Scope 2 and Scope 3 emissions)

We also want to highlight that there Scope 3 emissions accounting and target-setting has already become a common practice in the corporate sector. As of December 2021, 96% of SBTi companies with approved science-based targets have targets for scope 3 emissions. Those who have not yet set scope 3 targets are generally from 'hard to abate' sectors such as cement, steel, etc, that have the majority of emissions within scope 1 and 2 and do not need to set a scope 3 target under the current SBTi requirements.

In relation to the level of disaggregation of Scope 3 emissions, we recommend that companies disclose Scope 3 emissions by category. The nature of each Scope 3 category is unique, and aggregation of emissions does not help stakeholders understand where the largest source of emissions lies (i.e. in the product portfolio of a company, in their supply chain, etc.):

E. Target Setting – *[Q.168-169]*

The SBTi strongly recommends that the SEC rule requires companies to disclose any GHG emission-reduction targets that they have set. We recommend the following information to be included for each target:

- Coverage of the target (% of emissions by Scope)
- Base year and target year;
- Type of target (e.g. absolute emission reduction target, carbon intensity reduction target, renewable electricity procurement target, etc.);
- Target magnitude with clear metrics (e.g. reduction of Scope 1, Scope 2 and Scope 3 emissions by 25% between 2020 and 2025; Sourcing 100% of renewable electricity by 2030;
- If the target has been assured against any standard to ensure alignment with global climate goals (e.g. SBTi);
- Progress made against the target in the reporting year;

In conclusion, the SBTi warmly welcomes the SEC Proposed Rules as a step forward in ensuring reliable and transparent disclosure of climate-related financial information.

The SBTi highly encourages to align the SEC Proposed Rules with the GHG Protocol and upcoming standards (e.g. ISSB, EU Sustainability Reporting Standards, etc.). The alignment would provide a high degree of coherence between different international standards, constructing the basis for a future global climate disclosure standard.

For further discussion or questions, please contact:: Tom Dowdal, SBTi Advocacy Lead, [redacted]

Signed,

Alberto Carrillo Pineda
Chief Technical Officer
Science Based Targets initiative
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