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100 F Street, NE
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File Number S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Members of the Commission:

The U.S. Green Building Council (USGBC) appreciates the opportunity to provide comments on the Commission's proposed rule regarding the Enhancement and Standardization of Climate-Related Disclosures for Investors.

About USGBC
USGBC is a nonprofit organization dedicated to transforming the way buildings and communities are designed, built and operated, enabling an environmentally and socially responsible, healthy, and prosperous world. We are best known for our successful Leadership in Energy & Environmental Design (LEED) green building certification system. In addition to LEED, we leverage our sustainability performance platform, education and credentials, events, and policy advocacy activities to drive sustainable and high performing buildings, campuses, and communities that improve the quality of life for all. Through these programs, we support building owners, operators, and tenants from the private and public sectors in meeting their goals for spaces that save energy and water, support occupant health and productivity, reduce impacts on the climate, and incorporate resilience.

USGBC has more than 8,000 business, organizational, and government members, and many additional individual members. Our business membership encompasses the full range of the building sector, including builders of all sizes, product manufacturers, professional firms, and real estate owners and firms, as well as health care, major retail corporations, hospitality, financial services and insurance companies. More than 200,000 individuals around the globe have LEED credentials including LEED AP and Green Associate.

1. USGBC Supports Improving and Expanding Climate Disclosures through a New Rule

We support a rule for climate related financial disclosures. Buildings are a critical component of those disclosures, as buildings represent about 31% of energy-related CO_2 emissions in the U.S. – more than any other sector of the economy. Many companies are taking actions, such as tracking and benchmarking, setting net zero goals for new construction, and implementing retrofits to reduce those emissions. This work also enhances the climate resilience of these buildings – and of owners and tenants.

As the SEC works on a final rule, we ask the agency to carefully consider the range of views, concerns, and opportunities identified in comments across the real estate and building sector, and industries with building portfolios, to craft a rule that is clear and robust in collecting consistent information about GHG emissions, climate-related risks, and risk reduction activities that is reliable, accurate, standardized, and where appropriate, verified. Specific comments to this end are provided below. This rule could have a tremendous positive impact in informing investors about business risks as the global economy transitions to clean energy and low carbon needs. We urge the SEC to proceed expeditiously with this rulemaking.

2. Transparency in data sources, breakdowns of reported emissions, assumptions, and use of verification should be paramount in all aspects of rule

An important impetus for the rule is the wide variation in companies' public disclosure of climate risk information, as reflected in the wide range, quality and scope of environmental, social, and governance (ESG) information sharing and reporting offered today. While an increasing number of companies voluntarily publish ESG reports, the inconsistency in scope, detail, and nature of data reduce their usefulness for investor decisions. The Commission's proposed rule should significantly improve the quality and consistency of such information with respect to climate risks. To do so, the Commission should prioritize transparency throughout the rule and for data, including with respect to underlying data sources, use of estimates, and assumptions. Transparency on data should also include any verification from the source, intermediaries, third parties, and/or the reporting company.
[redacted]

Reliable and comparable climate risk data is imperative for understanding risk and driving actions that reduce such risk. Relatedly, reporting rolled-up totals of emissions will not be sufficient for investors to understand the company position, nor to track a company's changes from year to year. Disclosure requirements should specify disclosures of emissions separated by scope, and the major categories of emissions in each scope. We believe the more detailed breakdowns offered by these separate scope and category disclosures are critical to achieve the goals of the rule. For example, in a situation where a company's disclosed Scope 2 emissions decrease over several years, the change could be related to energy improvements undertaken by the company; independent changes in power grids; reductions in the company's portfolio or products and services; or other factors. Knowing which changes resulted in decreased emissions may be important for investors to understand the company's risk exposure and reduction strategy. A sufficient breakdown in the elements of each scope of emissions will be important to illuminate where companies are proactively reducing climate-related risks. Moreover, sufficient granularity in disclosure will be important so that one company's disclosures can help inform other companies' Scope 3 calculations. Note: we discuss requirements for Scope 3 emissions below.

We support the proposed rule's general consistency with the GHG Protocol as an established and proven method, while leaving some flexibility in GHG emission methodologies.

3. The rule should allow two options for the timing of annual emissions disclosures

The proposed rule would require companies to include emissions disclosures in the annual 10K report, which is due 90 days after the end of a fiscal year. Companies could file estimates for the fourth quarter and then refile later after actual data are in. This creates an extra burden on companies and we recommend the SEC provide companies with another option. From our perspective and experience with buildings emissions data, 90 days would be insufficient time for a company to obtain all energy consumption data, review and clean the data, include in the emissions calculation, and subject it to attestation as may be required. For example, many jurisdictions with building energy benchmarking do not require individual building compliance reports from building owners until May or June after the calendar year. We suggest the Commission [redacted]ant to choose either (1) filing the estimated prior year disclosures with the 10K followed by another report once data are complete, as in the proposed rule, or (2) to file disclosures in the following year's 10K. In such case, the registrant should identify the selected approach and be encouraged to post a publicly available copy once completed, prior to the subsequent year's 10K filing. For example, a company could state in the March 2023 10K that it is using option 2, and include year 2021 emissions in the March 2023 report. We see this as reasonable to improve data reliability while reducing the reporting burden on companies which could impact a company's available resources to undertake activities to address climate risks.

4. **The Commission should develop sector-specific guidance with robust stakeholder input**

The nature of development and presentation of GHG emissions and climate-related risks varies by sector, and the Commission should develop guidance for particular sectors. Guidance should be developed with robust stakeholder input and expert consultation, and consideration of existing and evolving best practices. For example, with respect to the building sector, the Sustainable Accounting Standards Board (SASB) has developed industry-specific standards for sectors including real estate and others, the UK Green Building Council developed the Guide to Scope 3 Reporting in Commercial Real Estate, and the International Sustainability Standards Board (ISSB) has issued exposure drafts of IFRS® Sustainability Disclosure Standard IFRS S2 Climate-related Disclosures, Appendix B Industry-based disclosure requirements, including volumes for Real Estate, Real Estate Services, Engineering and Construction, and other sectors. To support the Commission's intent of reliable, consistent, and comparable information, sector-specific guidance is critical to provide explanations and best practices regarding the intricacies and details of GHG emission accounting. For example, it is our understanding that different real estate companies treat tenant emissions differently (e.g., as Scope 1-2 vs. Scope 3).

The guidance should be science-based and seek to align with existing and emerging best practices. The guidance should support transparency by clarifying where data sources, estimates, and assumptions should be identified in explanatory text to emissions disclosures. In light of the National Technology Transfer and Advancement Act (NTTAA) and OMB Circular A-119, the guidance should consider where existing and future consensus standards can be useful to companies in determining [redacted] example standards for environmental product declarations. The guidance could also identify different verification options relevant to a given sector, including for example, approaches and minimum requirements for building portfolio emissions verification to be fed into the overall emission disclosures.

The guidance should also address the use of data available from Federal and other public sources, including states, utilities, and independent system operators (ISOs). The process of developing the guidance should include consultation from relevant Federal agencies and public data sources to identify relevant data and appropriate uses of such data. For example, agencies with relevant data and tools include the U.S. Environmental Protection Agency (EPA), the National Institute of Standards and Technology (NIST), the Energy Information Administration (EIA), the Department of Energy (DOE), the National Academies of Science, Engineering, and Medicine, and others. In particular, the use of fuel and electricity grid emission factors at different levels of granularity and from different sources should be discussed, potentially with recommended tiers of most preferred to acceptable.

The source and granularity matters because a "net zero" building calculated based on annual emissions factors and energy consumption can nonetheless cause GHG emissions from its reliance on grid electricity during peak times when grid GHG intensity tends to be highest. Emerging best practice is to account for the time of use of grid power along with the corresponding, more granular grid GHG intensity.

With respect to safe harbor, the use of government data and factors should be acceptable if used as intended, however the rule should not lock in a less precise approach as data availability continues to expand. The rule and guidance should reinforce required transparency about key factors, data sources, and assumptions used in the disclosures. The guidance could consider whether and to what degree a company should identify the available factors including granularity and why a more precise source was not used. Finally, we recommend that the rule itself should reference such guidance to allow for incorporation of future developments in data availability and norms in GHG emissions.

5. The Commission should revise its approach to Scope 3 emissions to ensure consistent application

Scope 3 emissions reporting may be challenging to some companies [redacted]mission acknowledges in the proposed rule.

Nonetheless, Scope 3 emissions are an important component of a company's comprehensive climate risks. Moreover, means to reduce components of Scope 3 emissions are being developed and increasingly available. For example, a company undertaking construction can use tools such as Environmental Product Declarations as well as design tools and targets to reduce the GHG (also referred to as embodied carbon) associated with the capital purchases for construction (e.g., materials and products).

We are concerned the threshold for materiality will be inconsistently applied and hence result in uneven reporting of emissions. The Commission should carefully consider views from across industry and other relevant emissions accounting protocols in developing its approach to Scope 3 requirements and triggers. With respect to our sector, we urge the SEC to work with companies across the building and real estate sector as well as portfolio-owning companies of all types, to develop a clear threshold or approach that will be more likely to be consistently applied. Information on reported scope 3 emissions from leading companies doing so voluntarily as well as in the sector-specific guides identified above should be used to inform the Commission's approach to Scope 3.

We suggest consideration of an alternative approach. The proposed rule notes that the Commission is trying to "balance the importance of Scope 3 emissions with the potential relative difficulty in data collection and measurement," but the proposed thresholds of materiality or relevant goals may not optimally achieve this balance and could be undermined by inconsistent application. As others have commented, with respect to real estate, Scope 3 emissions would generally be the majority of a company's emissions and hence always trip the materiality threshold; however, some elements of Scope 3 emissions are lacking in data. For example, GRESB has observed that "according to the most recent GRESB data, less than 20 percent of all organizations that participate in GRESB assessments have all of the necessary processes, strategies and data collections systems in place to satisfy TCFD." This finding amongst those who are participating in voluntary sustainability reporting suggests that the general population of companies will be even less able to report all of Scope 3 properly.

An alternative approach could be to presumptively include certain categories of Scope 3 emissions as required to be reported (not subject [redacted]th other categories not required. Partial Scope 3 reporting would be similar to the approach taken by other government and voluntary systems such as the UK Streamlined Energy and Carbon Reporting (SECR) Guidance and GRESB. The Commission could phase in some or all of the remaining categories of Scope 3 emissions not initially required, or address them through a subsequent amendment. This would take advantage of evolving methodologies and increasing data availability and quality over time.

The included categories could be identified based on factors such as: the relative availability of data, the typical relative magnitude, and potentially the relative availability of choices to the company to affect the emissions. Such categories could be presumptively determined material using the sources noted. Other categories could be determined to be too attenuated or to lack adequate data at this time to make reporting meaningful, and hence not required or phased in over time. Presumptively included scope 3 categories could be distinguished between upstream and downstream emissions, particularly where upstream categories may present more choices by the company (such as in procurement).

Tenant emissions reporting poses varying challenges and occur in different contractual scenarios. With this alternative approach, the Commission could consider presumptively including all or a subset of tenant emissions scenarios, accompanied by guidance about methods and approaches to obtain data or develop estimates, verification, and other factors (see discussion of guidance above).

6. **We support the proposed rule's inclusion of climate-related targets and goals, and of data and progress on such goals and climate risk reduction as part of required disclosures; increased specificity would help ensure such information is reliable and comparable**

We support the broad range of such goals in proposed § 229.1506(a)(1) which includes "other" climate-related target or goal regarding energy usage, water usage, or other areas' and recommend the language be clear that such goals includes those developed and adopted or published by the company whether or not stemming from "regulatory requirements, market constraints, or other goals established by a climate-related treaty, law, regulation, policy, or organization." To be most useful to investors, climate-related risk disclosures should include not only goals, strategies [redacted]ed *actions* and progress towards identifying, managing, and reducing such risks, and towards climate and energy goals. The rule, or related guidance, should go further in specifying the level of detail and elaborate on the types of data needed to adequately describe goals and progress thereon, and encourage, where appropriate, verification of the actions and measured progress. This will facilitate investors in understanding the level of commitment of a company to its goals and risk reduction, such as by comparing completed activities year over year, in light of the stated strategy.

7. The Commission should consider focusing transition risk and physical risk disclosures in the Management's Discussion and Analysis ("MD&A")

The proposed rule would require reporting transition and physical risk on financial statements with notes, with a 1% threshold. We are concerned this threshold may be subject to different interpretations and applications. The Commission should consider a phased approach whereby for the initial period (perhaps 5 years), transition and physical risk disclosures are included in the MD&A section and only later is the financial statement disclosure included.

The Commission should also include, in the rule or in guidance developed with input from stakeholders, additional specificity on the types of information that should be standard in the MD&A discussion section with respect to climate-related transition and physical risks. Such information could include, for example, whether the company has conducted assessments of climate-related physical risks of all infrastructure and building assets, and the types of climate-related physical risks to be included (such as sea level rise, risk of flooding, risk of drought or interrupted water supply, excess heat, climate migration affecting workforce, and other factors).

Thank you for your consideration.

Sincerely,

Elizabeth Beardsley, P.E.
Senior Policy Counsel
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