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June 17, 2022

The Honorable Vanessa Countryman
Secretary of U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: File Number S7-10-22

Dear Madam Secretary,

Thank you for the opportunity to comment on the Securities and Exchange Commission's proposed rule to enhance and standardize climate-related disclosures for investors.

In my work and research, I have performed greenhouse gas accounting, investigated greenhouse gas accounting practices, and evaluated greenhouse gas accounting principles. I appreciate that the Commission acknowledges the importance of scope 3 emissions in the proposed rule. However, I disagree with its proposal to require disclosure of scope 3 emissions only when deemed material to investors or when the company has emissions targets that encompass scope 3 emissions. My understanding is that the proposed approach aims to "balance the importance of scope 3 emissions with the potential relative difficulty in data collection and measurement." However, I do not believe that this balance is appropriate or necessary for the following reasons:

- **Scope 3 emissions are important for understanding risk exposure**. Scope 3 emissions account for the largest share of most companies' greenhouse gas emissions. Therefore, scope 3 estimates are essential for understanding companies' full exposure to transition risks.

- **Thousands of companies already estimate scope 3 emissions.** Companies have been gaining greenhouse gas accounting experience for several decades and thousands of companies already estimate and publicly report scope 3 emissions each year.

- **Process controls can be established for managing uncertainty**. Estimation is common and necessary in financial accounting. Process controls, such as high-quality audits and disclosure of significant assumptions, are critical to reliable financial reporting. With similar process controls, companies should be able to provide investors informative data on value chain emissions and progress toward addressing the associated transition risks.

Attached is a draft post I plan to publish in the coming days. It provides a more detailed explanation and provides evidence to support the above points. In summary, the Commission would provide investors with more complete information about their exposure to climate-related financial risks by requiring scope 3 emissions disclosure.

I am available to answer questions or discuss my comments.

Sincerely,

Shannon M. Lloyd, Ph.D.
Associate Professor of Management

Trends Show Companies Are Ready for Scope 3 Reporting with U.S. Climate Disclosure Rule

In March 2022, the United States Securities and Exchange Commission (SEC) proposed a new climate disclosure rule which would require companies registered with the SEC to disclose climate-related information so that investors can consider climate-related financial risks when making investment decisions. This includes physical risks from the impacts of climate change and transition risks from moving to a lower carbon economy, including pressure to reduce greenhouse gas (GHG) emissions.

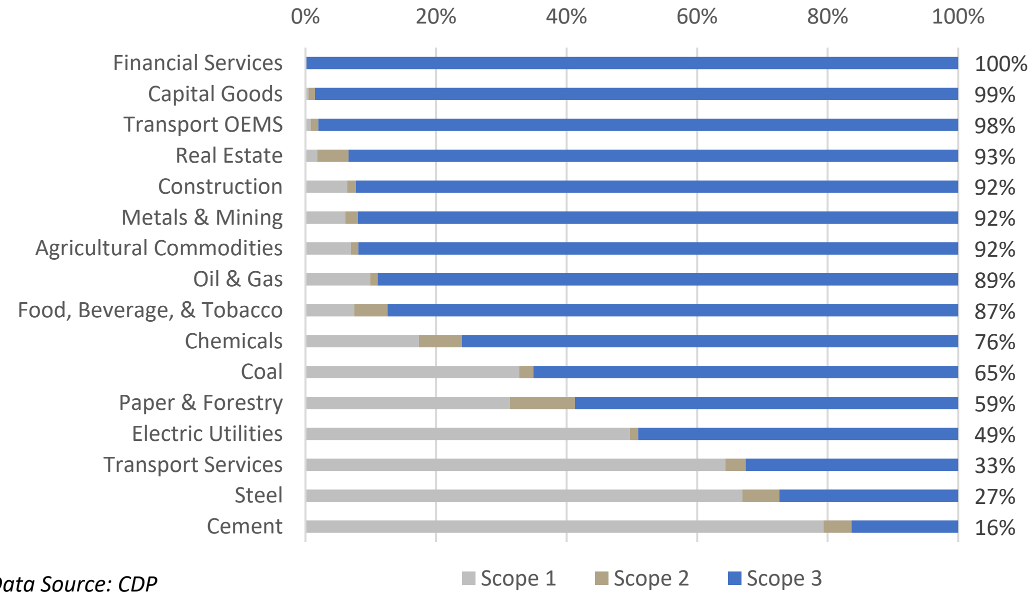
The proposed rule would require companies to disclose scope 1 emissions (from direct sources) and scope 2 emissions (from purchased electricity, heat or steam), whereas it would require disclosure of scope 3 emissions (from other sources in the value chain) when deemed material to investors or when the company has emissions targets that encompass scope 3 emissions. **But scope 3 emissions are an important source of climate-related financial risk across the business value chain and should be reported by all registrants under the SEC proposed climate disclosure rule.**

Scope 3 emissions account for the largest share of most companies' GHG emissions, and investors report that scope 3 estimates are useful for informing their financial decisions, reflecting the SEC's definition of financial materiality. The SEC's proposed approach aims to "balance the importance of scope 3 emissions with the potential relative difficulty in data collection and measurement." But many companies already estimate scope 3 emissions, and the SEC's procedures for disclosing material assumptions and uncertainties in financial accounting could be applied to scope 3 emission estimates.

Scope 3 emissions account for 75% of companies' greenhouse gas emissions on average

The CDP estimated that scope 3 emissions account for an average of three-quarters of a company's emissions. But the importance of scope 3 emissions varies considerably by sector and can approach 100% of a company's emissions (scope 3 emissions were estimated to be 99.98% on average for companies in the financial services sector). Other studies show that the supply chains of eight sectors account for half of the world's GHG emissions and provide evidence that scope 3 emissions from energy-intensive industries are increasing faster than their scope 1 and 2 emissions.

Contribution of Scope 3 Emissions to Total GHG Emissions by Sector



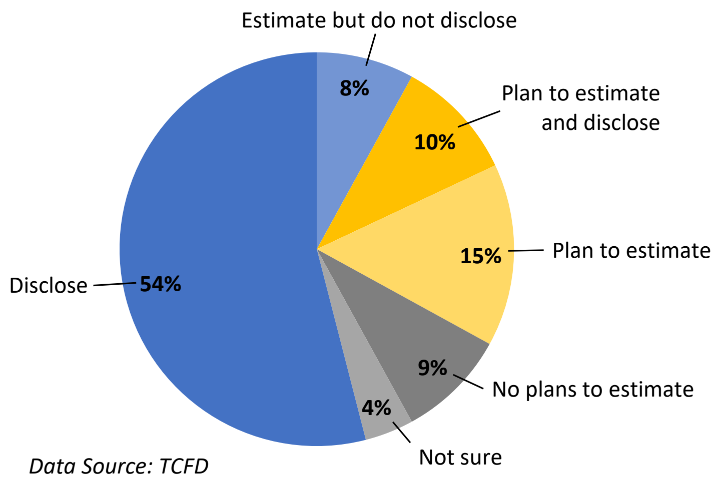
Data Source: CDP

Scope 3 emissions are too important to omit

Arguments against reporting scope 3 emissions focus on data collection and accounting challenges (e.g., lack of primary data, a reliance on industry average data, or potential double-counting of emissions between reporting entities) and the inability to control the actions of value chain partners. Counterarguments emphasize the importance of scope 3 emissions in understanding climate-related financial risks, facilitating actual emissions reductions within the value chain, preventing companies from claiming lower emissions and related liabilities by outsourcing carbon intensive activities (i.e., 'moving' emissions from scope 1 or 2 to scope 3), and preventing companies from skirting responsibilities to be transparent to their shareholders about their overall risk exposure, which is especially relevant for industries with a majority of their emissions classified as scope 3. Proponents also point to existing scope 3 accounting practices and advancements in scope 3 data collection as enablers of scope 3 disclosure.

The debate over importance versus accounting challenges for scope 3 emissions was evident in the 2021 Task Force on Climate-related Financial Disclosures (TCFD) public consultations on its proposed guidance on climate-related metrics, targets, and transition plans. TCFD surveyed and obtained feedback from 100 climate-disclosure users, 106 climate-disclosure preparers, and 46 other respondents. Nearly all (95%) users responded that scope 3 emission disclosures are useful for decision-making and most preparers (87%) responded that they estimate or plan to estimate scope 3 emissions.

Scope 3 Disclosure Practices and Intentions of Climate Disclosure Preparers

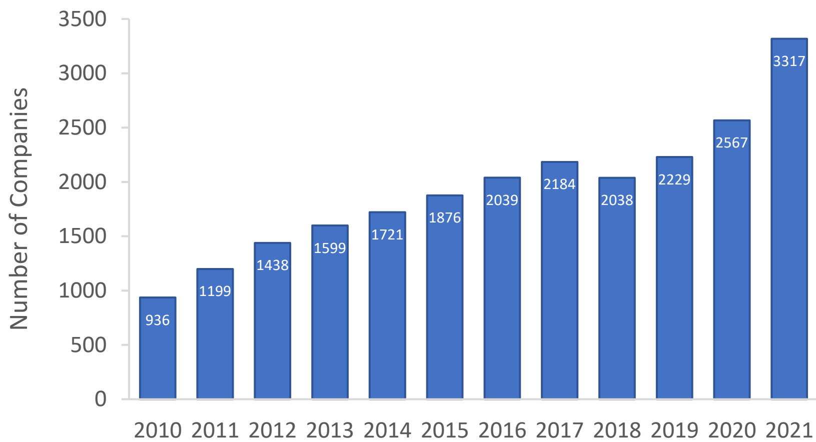


Preparers identified scope 3 emissions as one of the more difficult metrics to disclose, with 39% specifying it as very difficult, 42% as somewhat difficult, and only 20% as not at all or not very difficult. The most common challenges identified included difficulty accessing relevant data (83%), challenges selecting or applying calculation methodologies (60%), and lack of internal expertise or resources for calculating scope 3 emissions (29%). Almost all respondents (90%) expressed support for scope 3 disclosure (47% irrespective of materiality and 43% based on materiality).

Despite data challenges, thousands of companies publicly disclose scope 3 emissions estimates

As part of a research study commissioned by World Resources Institute (WRI) — a co-convener of the GHG Protocol — we evaluated the current scope 3 accounting practices of companies that disclosed climate information to CDP's global environmental disclosure system and agreed to their data being publicly available. The number of companies that reported scope 3 emissions in the public CDP dataset increased from 936 companies in 2010 to 3,317 companies in 2021. In 2021, more than half (55%) of companies did not agree to their data being publicly available in 2021. If these companies reported scope 3 emissions as the same rate as those in the public data set, we would expect the actual number of companies reporting scope 3 emission estimates to CDP to be higher than 7,000. Also, as seen in the TCFD consultations, more companies estimate emissions than disclose emissions. We would therefore expect an even higher number of companies that estimate scope 3 emissions.

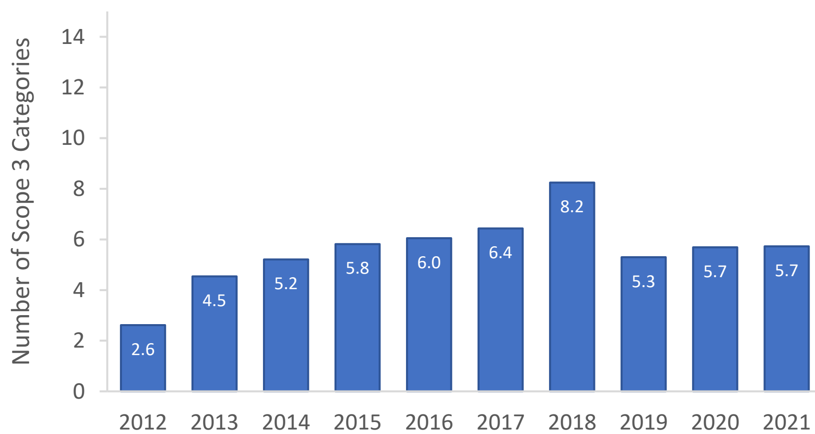
Number of Companies that Publicly Disclose Scope 3 Emissions



Data Source: CDP

We consider companies to report scope 3 emissions if they report emissions for one or more of the fifteen scope 3 categories identified in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. The companies that reported scope 3 emissions did so for an average of five to six categories in recent years.

Average Number of Scope 3 Categories Reported



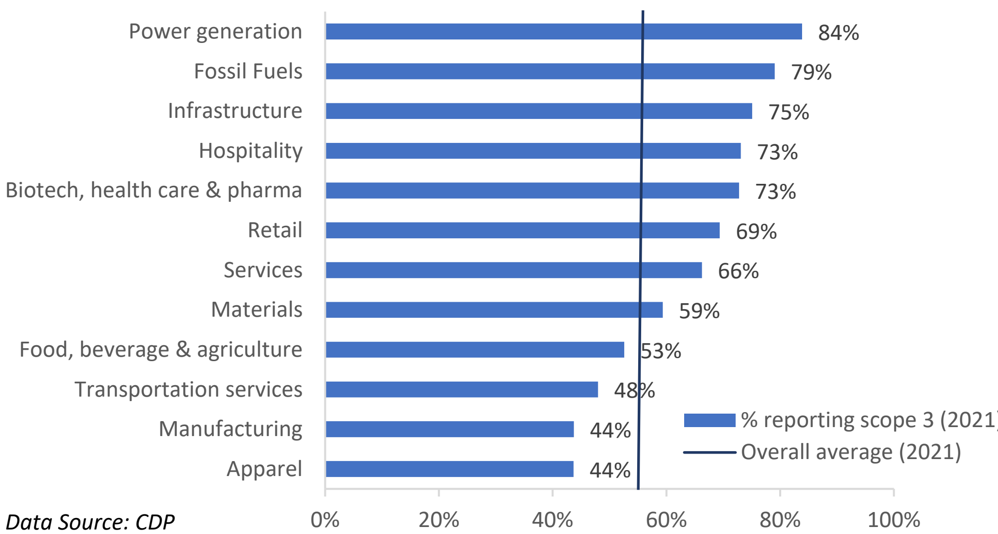
Data Source: CDP

Most companies report scope 3 emissions in many industries but not in several critical industries

In most industries, the overall rate of scope 3 reporting is higher than the CDP average. In 2021, the highest rate of scope 3 reporting was by companies in the power generation industry, with 84% of companies reporting scope 3 emissions. In contrast, the manufacturing industry drives down the overall rate of scope 3 reporting because it represents the largest portion of companies disclosing to CDP (38%) but has a lower scope 3 reporting rate (44%).

Some industries with lower rates of scope 3 reporting are associated with supply chains that have been found to account for half of the world's GHG emissions, including food, fashion, freight, as well as electronics and automotive (which fall under the manufacturing industry in CDP's dataset). With the SEC's proposed discretionary approach to scope 3 reporting, some companies with carbon-intensive value chains may continue to omit scope 3 emissions from their climate disclosures, thereby failing to provide complete information about exposure to climate-related financial risks.

Scope 3 Reporting by Sector



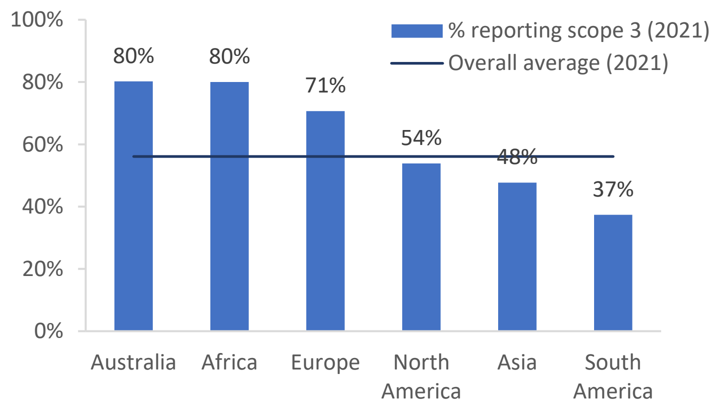
Data Source: CDP

US companies report Scope 3 emissions at a lower rate than their counterparts

The percentage of companies that report scope 3 emissions also varies by geography. Companies from other Global North regions are more likely to report scope 3 emissions in their climate disclosures than companies in the U.S.

In 2021, 71% of European companies and 80% of Australian companies that disclosed emissions to CDP reported scope 3 emissions. The lower global average reporting rate is heavily influenced by companies in the U.S., China, and Brazil, which have a high number of disclosing companies, but a lower rate of scope 3 emissions reporting. Companies in the U.S. accounted for the highest percentage (19%) of disclosing companies and had a scope 3 reporting rate of 56%; companies in China accounted for the second highest percentage (14%) of disclosing companies and had a scope 3 reporting rate of 27%; and companies in Brazil accounted for the fifth highest percentage (6%) of disclosing companies and had a scope 3 reporting rate of 37%. Consequently, U.S. companies may be at a disadvantage with investors who are increasingly concerned with climate-related financial risks, particularly risks associated with transitioning the economy away from fossil fuels.

Scope 3 Reporting by Continent



Data Source: CDP

Requiring scope 3 emissions reporting would better inform investors of climate-related financial risk

For over two decades, companies have been gaining GHG accounting experience, and thousands of companies now estimate and publicly report scope 3 emissions each year. For the majority of companies, scope 3 emissions represent a large source of transition risk.

Although scope 3 emissions can require assumptions, rely on imperfect estimation methods, and are uncertain, this is no different than many current financial accounting disclosures. Estimation is common and necessary in financial accounting, which is why the SEC requires disclosure of significant assumptions that go into accounting estimates. A high-quality audit that probes these estimates and assumptions for management bias is critical to reliable financial reporting. With similar process controls over estimation of Scope 3 emissions, checked by an independent auditor, companies should be able to provide investors informative data on how dependent their full value chains are on emissions and their progress toward addressing transition risks in their business models.

The SEC would provide investors with more complete information about their exposure to climate-related financial risks by requiring scope 3 emissions disclosure.