The Honorable Gary Gensler, Chair
Securities and Exchange Commission
100 F St. NE
Washington, DC 20549
rule-comments@sec.gov

June 10, 2021

**Re: Public Input Welcomed on Climate Change Disclosures**
(https://www.sec.gov/news/public-statement/lee-climate-change-disclosures)

Dear Chair Gensler and Commissioners,

The Coalition on Materials Emissions Transparency (COMET)—an initiative between RMI, the Columbia Center on Sustainable Investment (CCSI), the Payne Institute for Public Policy at the Colorado School of Mines, and the Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change)—is pleased to submit our comments to the SEC in its effort to evaluate the desirability of mandatory climate disclosures.

*1) Without information on the material risks and opportunities presented by climate change, investors cannot adequately prepare for the future.*

The signatories of this letter would first like to thank the SEC for its consideration to update its ruling on climate change disclosures. This is much needed as the current state of climate change disclosures may eventually prevent the SEC from complying with its stated objectives, such as: *"to protect investors, facilitate capital formation, and maintain fair, orderly, and efficient markets."*[1]

[1] "SEC: What We Do," Securities and Exchange Commission (SEC) (website), SEC, last modified December 18, 2020, https://www.sec.gov/about/what-we-do; National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290, 110 Stat. 3425 (adding 15 U.S.C. § 77b(b) to the Securities Act of 1933 and 15 U.S.C. § 78c(f) to the Securities and Exchange Act of 1934).

Climate change poses material risks that have become the focus of numerous institutional investors and companies, as shown in the Commodity Futures Trading Commission's report *Managing Climate Risk in the U.S. Financial System*.[2] This report, unanimously approved by experts representing banks, asset managers, agribusiness, the oil and gas sector, academia, and environmental organizations, demonstrates the essential role of climate data and disclosures within the US Financial System.

Climate change presents physical, transitional, economic, and technological challenges that must be effectively addressed by regulatory bodies. In order to facilitate efficient investment decisions, investors need access to information on how companies are and plan to address these challenges, through their measurement, management, and mitigation methods. Once this information exists, markets will internalize the costs of climate risks and valuations will more accurately reflect these material risks.

Currently, the disclosure of climate-related challenges is conducted in a haphazard way that limits investors, consumers, policy makers, and other stakeholders. The problem is particularly acute when it comes to carbon accounting. The following sections explain the challenges and implications of unregulated climate disclosures, and how these issues may be addressed.

*2) Regulatory intervention on GHG emissions disclosures is overdue.*

The current disclosure ecosystem is unregulated and voluntary, which limits its accuracy and usefulness in a way that is particularly detrimental to United States capital markets. Many modern industries now involve multiple companies that operate internationally, which has made it increasingly difficult to keep track of different products, their source of origin, and which company is responsible for the associated greenhouse gas emissions. This has grown to be a large enough concern that the EU, in its regulation on sustainability-

[2] Climate-Related Market Risk Subcommittee, *Managing Climate Risk in the U.S. Financial System,* (Washington, D.C., Commodity Futures Trading Commission, Market Risk Advisory Committee, September 9, 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.

related disclosures in the financial services sector, [3] has recently introduced mandatory disclosure obligations on 40% of listed companies that represent 80% of direct GHG emissions.[4]

Without a level of environmental comparability on the global stage, and with growing international regulation, US companies will struggle to prove their environmentally positive practices. Market-driven frameworks and tools to help companies, governments, investors, and other stakeholders better understand greenhouse gas emissions (e.g., CDP, GRI, TCFD, SBTi) have been developed, but they are not enough. These frameworks do not work together and each company who uses them can do so differently. Many of them are based upon the GHG Protocol, and while the protocol has standardized the areas that companies should focus on, they have not standardized how these areas are measured, estimated, or disclosed.

Reporting companies who are following the GHG Protocol or other frameworks are not required to disclose how they calculated their emissions estimates, if they measured the data themselves, if they spoke to other companies in their supply chain, or what type of research they did to prepare for their disclosures. This makes disclosures, even if they are following the same protocol or framework, completely incomparable. As this becomes more apparent, US companies risk failing to differentiate themselves in an increasingly global market, and foreign governments may begin to reject US goods, as they already have in specific industries.[5]

While the problem is acute for direct (Scope 1 and 2) emissions, it is even more serious for indirect emissions (Scope 3). There are currently no universal rules for attributing or validating emissions from assets to products, making accountability along supply chain emissions difficult, if not impossible to achieve. Indeed, although the GHG protocol provides several approaches to allocation of emissions by sector, decisions of which approach to take (and which aspects of Scope 3 are financially significant) are often left up to the company's discretion. This often means that companies diverge on what they consider

[3] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

[4] European Commission, "Sustainable Finance and EU Taxonomy: Commission Takes Further Steps to Channel Money Towards Sustainable Activities," press release, April 21st, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1804.

[5] European Commission, "Sustainable Finance and EU Taxonomy: Commission Takes Further Steps to Channel Money Towards Sustainable Activities," press release, April 21st, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1804.

relevant, and thus what they choose to report, and do so without informing or consulting with investors or other stakeholders.

In 2016, 92% of Fortune 500 companies responding to the CDP used the GHG Protocol (directly or indirectly) to measure their carbon emissions[6], and most existing frameworks are already also built upon the GHG Protocol. For this reason, the Protocol has become synonymous with robust carbon accounting, but it is in fact too general to lead to rigorous comparable disclosures.

That is to say, to date, there has been no harmonization between corporate and product-level approaches, nor across the variety of methods used to make such disclosures. As products and emissions become more complex across borders and value chains, corporations are strained and challenged to define and account for what emissions they consider relevant at the corporate and product level. Each company or industry is left to independently determine how to use frameworks and methods while generalized reporting frameworks do not provide the specific requirements needed for accurate reporting within a specific material supply chain. This is where the SEC can help.

In the absence of mandatory disclosures, investors often request bespoke disclosures from companies, imposing an undue burden and creating an unfair playing field where certain investors are able to gain access to different kinds of material information. Even where data is accessible, it is often reported in different ways by different companies. This is especially the case with GHG emissions data, for the reasons addressed above. As a result, current disclosures are barely actionable for investment decision-making, and it is nearly impossible to effectively pressure companies to make meaningful progress that align with the long-term goals of the Paris Agreement. A harmonized approach to mandatory climate disclosures is necessary to improve the resilience and profitability of US corporations, especially in the context of growing climate-related material risks.

[6] "What is GHG Protocol?," Greenhouse Gas Protocol (website), World Resources Institute and World Business Council for Sustainable Development, accessed June 09, 2021, https://ghgprotocol.org/about-us.

Given these dynamics, it is no surprise that the 2010 SEC guidance,[7] despite being ahead of time and critical to raising awareness of investors, has proved insufficient to bring the necessary rigor to disclosure. According to the Sustainability Accounting Standards Board (SASB), analyzing the sustainability disclosures in the latest-available Form 10-K or 20-F filings for up to the top-10 companies in each of 79 industries, *"most sustainability disclosure consists of boilerplate language, which is largely useless to investors."*[8]

***3) Mandating climate-related disclosures is urgently needed, but it will also be necessary to continue building and refining the approach moving forward.***

Clear and robust regulatory guidance on what types of climate-related information is material for companies in different sectors, and how that information should be reported, will equip investors with data that is sufficiently comprehensive, consistent, and qualitatively robust. This in turn will enable fair, orderly, and efficient markets in a quickly changing global financial context.

Adopting mandatory climate-related disclosure is an urgent need for the SEC to be able to comply with its statutory obligations, and to allow financial service providers to comply with their fiduciary duties of capital protection and appreciation.

While a rule on mandatory disclosures of GHG emissions data is a critical first step not to be missed, the SEC should commit to continuing to build upon and refine the minimum standards over time. Across voluntary frameworks and global jurisdictions, a universal disclosure standard, encapsulating harmonized principles for GHG emissions data, would be the most efficient approach to minimize costliness and complexity of disclosures for companies that need to adhere to the rules of multiple jurisdictions. Through engagement with international regulators and the IFRS Foundation, for instance, the SEC should look to align US standards over time with global standards.

---

[7] SEC, Commission Guidance Regarding Disclosure Related to Climate Change, Release No. 33-9106 (Feb. 2, 2010) [75 FR 6290 (Feb 8, 2010)] (2010 Climate Change Guidance). https://www.sec.gov/rules/interp/2010/33-9106.pdf.

[8] Sustainability Accounting Standards Board (SASB), *The State of Disclosure 2017: An Analysis of the Effectiveness of Sustainability Disclosure in SEC Filings* (SASB: San Francisco, 2017), https://www.sasb.org/wp-content/uploads/2017/12/2017State-of-Disclosure-Report-web.pdf.

*4) Initiatives like the Coalition on Materials Emissions Transparency (COMET) are complementary and mutually reinforcing to SEC action on mandatory disclosures.*

While there is currently none such robust set of principles or rules, our Coalition on Materials Emissions Transparency (COMET),[9] initiated between RMI, the Columbia Center on Sustainable Investment (CCSI), and the Payne Institute for Public Policy at the Colorado School of Mines, and recently joined by the Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change), is working toward this end in material and energy value chains.[10] Launched in Davos in January 2020, COMET is an open, multi-stakeholder initiative that intends to accelerate supply chain decarbonization by enabling producers, consumer-facing companies, investors, and policy makers to better account for all supply chain emissions in harmony with existing methods and platforms.

More specifically, the COMET Framework aims at creating effective and actionable "translation tables" between the myriad carbon accounting methodologies, such as for the 66 methodologies currently accepted by CDP, and others. The aim of our work is to provide practitioners with the necessary tools to more comprehensively account for their emissions, so that once Scope 1 or 2 emissions are recorded by a third party as Scope 3, it is represented in a way that is comparable with all other emissions (coming from different sectors) that compose that entity's Scope 3. The COMET Framework will enable harmonization of ways to report Scope 1 and 2 while providing a more practical approach to Scope 3, enabling comparability between disclosures.

COMET's benefits will include:

- *Streamlining existing reporting protocols.* The COMET Framework brings together the main greenhouse gas (GHG) emissions standards and protocols, both generic and sector-specific, into an integrated set of guidance documents, built on the principles of the GHG Protocol. It integrates—without replacing—existing methodologies intended to cover specific sectors or use-cases. The COMET Framework can be

[9] "COMET, About," Coalition on Materials Emissions Transparency (COMET) (website), COMET, accessed June 9, 2021, https://www.cometframework.org.

[10] "Accelerating Supply Chain Decarbonization," Secretariat of the United Nations Framework Convention on Climate Change (UN Climate Change) (website), UN Climate Change, accessed June 2, 2021, https://unfccc.int/news/accelerating-supply-chain-decarbonization.

used by any entity to report to any of the existing platforms (CDP, TCFD, GRI…), according to any of the existing standards, in a manner that is harmonized, comparable with similar disclosures made by other entities to other platforms. Disclosures made with the "COMET inside" declaration will be universally comparable.

- *Enabling low-carbon product markets and standards*. The COMET Framework will provide the necessary building blocks to a system of reliable attribution of carbon to assets and products. In short, to succeed, efforts to quantify demand signals that *incentivize* industry to decarbonize will require a universal accounting approach such as the COMET Framework.

- *Guiding better decision making.* COMET and UN Climate Change believe that a harmonized carbon accounting and attribution *framework* will provide comprehensive views into where emissions are coming from and drive better decision making.

Over the next four years, COMET will plan to create the following:

- A comprehensive set of guidance documents representing the state of the art in carbon accounting and attribution

- A web-based tool to make the COMET Framework applicable by users large and small, expert and non-expert, with a special eye to businesses in need to generate accurate and harmonized disclosures for assets and products

- A global utility showing country-level emissions data reported using the COMET Framework

- A coalition of industry and non-profit organizations to become the adopters and the promoters of the COMET Framework as it evolves to encompass more sectors and serve the ever-expanding demand for climate-aligned disclosures.

While the development of the full framework will take four years, the bulk of the work relevant for the SEC will already be done by mid-2022. We are not suggesting for the SEC's rule-making to wait for the completion of the COMET framework. We are proposing for the SEC to develop a rulemaking on mandatory

disclosure, and that as soon as one robust, harmonized standard of disclosure is developed, we suggest that the SEC should look to adopt it through future updates or rulemaking to enable comparable disclosures that facilitate efficient investment decisions.

*5) The SEC's robust mandatory climate disclosure will spill over on other actors eager to take actionable climate actions.*

With a standardized framework of carbon accounting and reporting, the same data will be attributed at different levels, informing different sets of decision-makers about needed actions:

- Policy-makers will have national-level data to drive high-level efforts, such as defining their ambitions under their Nationally Determined Contributions.
- All levels of government will be able to set internal goals about procurement standards for projects requiring vast amounts of materials, for example, transportation infrastructure and buildings.
- Sovereign Institutional Financiers will be able to compose a picture of climate risk in their portfolios of loans or equity investments.
- Buyers will obtain a better representation of the emissions embodied in the products they buy.

In this context, the SEC's role in bringing rigor to GHG emissions disclosures is critical to ambitious climate action.

We remain available should you have any questions. Thank you for your consideration.

Sincerely yours,

The Coalition on Materials Emissions Transparency (COMET)