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Ms. Vanessa Countryman, Secretary
U.S. Securities and Exchange Commission
100 F St. NE
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RE: Enhancement and Standardization of Climate-Related Disclosures for Investors (S7-10-22)

This comment recommends adoption of the International Organization for Standardization (ISO) 14000 family of standards as an approved GHG reporting methodology under SEC proposed rule S7-10-22. The views represented are my own and do not necessarily represent those of my university or other affiliations. This comment letter is also posted as an Editorial at the Journal of Sustainable Real Estate.¹

First, allow me to commend the Securities and Exchange Committee (SEC) for proposing this rule; the capital markets have unequivocally spoken that physical and transition risks are material. The trillions of dollars of capital committed to net zero emissions and the additional trillions in Environmental, Social, and Governance (ESG) related funds globally demonstrate investor demand for transparent, consistent reporting of climate risk, especially in light of previously opaque claims. The proposed rule discusses what companies need to disclose and the final rules will assuredly detail how to report those disclosures. This comment makes recommendations on how to report transition risk.

The ISO 14000 family of standards, specifically ISO 14064-1, 14064-2 and 14064-3, represents the global standard accepted for greenhouse gas (GHG) reporting across virtually every major economic region. The Climate Neutral Now initiative of the United Nations Framework Convention on Climate Change (UNFCCC) secretariat recognizes the use of ISO standards for reporting GHG inventories. This standard is accepted or cited by every major global ESG reporting platform. As a stated goal of the proposed SEC rule is to, “limit the compliance burden associated with these disclosures (P. 36),” selecting an accepted global standard minimizes the reporting cost for multinational firms. Given the large multinational footprint of many domestic stocks, this issue resonates domestically as well as internationally. Importantly, ISO is already overwhelmingly the most used standard for reporting by S&P 500 companies. The relationship between ISO and the SEC would be similar to that of the SEC and Financial Accounting Standards Board (FASB). With FASB, the SEC acts as an enforcement body and delegates standards setting to FASB, with approval rights of the standard. Similarly, the SEC could approve ISO standards and set guidelines on enforceable attestation qualifications.

This comment will briefly outline the global acceptance of the ISO 14000 family of standards, the relevance of multinational acceptance to domestic stocks, the existing predominance of ISO as the de facto reporting standard within domestic public firms and identify parallels a SEC/ISO relationship may have to SEC/FASB.

First, the ISO 14000 family of standards, specifically ISO 14064, is widely accepted across the globe by many of the United States’ largest economic trading partners. The European Commission’s harmonised standards include numerous ISO methodologies, particularly ISO 14064, as an approved GHG measurement standard.² Australia identifies ISO 14064 as its approved methodology for GHG

¹ <https://www.tandfonline.com/doi/10.1080/19498276.2022.2065797>

² Commission Implementing Decision (Eu) 2020/183

reporting.³ The Japanese government lists ISO 14064 as “compliance with international standards.”⁴ The United States’ North American neighbors, Canada and Mexico similarly cite ISO 14064 as their verification standard for GHG reporting.^{5,6} Major ESG reporting platforms such as CDP⁷ and United Nations Principle for Responsible Investment (UNPRI) identify acceptance of ISO standards. The Global Reporting Initiative (GRI) and SASB do not directly list ISO as a standard but there are numerous references to ISO standards throughout their documents. Similarly, the Task Force on Climate-related Financial Disclosures, TCFD does not identify any specific standards, but numerous references, including an example disclosure, do reference ISO.⁸ The SEC has an opportunity to fully align GHG reporting with accepted global standards by selecting ISO as one of, if not the primary, approved reporting methodologies.

Global reporting alignment represents a critically important concern to domestic based public firms. Nearly half (48%) of the subsidiaries held by S&P 500 companies are defined as foreign subsidiaries.⁹ Depending on estimates, over one third of revenues for S&P 500 firms come from outside the United States.¹⁰ In the private capital sector partially regulated by the Financial Industry Regulatory Authority (FINRA), which is regulated by the SEC, private asset managers routinely raise capital outside of the United States. Approximately \$45 billion of foreign direct investment (FDI) was raised in the Finance and Real Estate sectors alone in 2019¹¹—firms that raise capital in the European Union already face reporting requirements there. With \$2.3 Trillion of FDI from Europe alone, many public and private firms currently face global reporting requirements. Clearly, for the many public and private domestic firms required to report across multiple economic regions, a single harmonized reporting standard represents tremendous value.

Among the most relevant arguments for the adoption of ISO standards is that they are already, by far, the predominant standard used by S&P 500 companies currently reporting GHG. According to the Center for Audit Quality, of the firms that reported external verification of their GHG, 61% of them already report under the ISO 14064.¹² In other words, nearly two thirds of GHG reporting firms and approximately one third of all S&P 500 firms already report and receive external attestation using ISO. Accepting this standard as SEC compliant not only aligns with global standards but importantly meshes with existing practice of domestic firms.

As a regulatory body, the SEC may be concerned with its level of control over accepted standards. However, a prospective relationship between ISO and the SEC would be analogous to the existing and well-functioning relationship between the SEC and FASB. The SEC is primarily an enforcement body; as former SEC Chair Mary Jo White stated, “The SEC enforces U.S. GAAP as developed by the FASB.”¹³ The SEC delegates the setting of accounting standards to accountants as the experts in the field. Similarly, the engineers developing and refining ISO standards are the experts on GHG measurement and reporting. The SEC delegating a standards-setting function to the appropriate experts

³ National Greenhouse and Energy Reporting (Auditor Registration) Instrument 2019 (legislation.gov.au)

⁴ Japan Greenhouse Gas Emission Reduction/Removal Certification Scheme

⁵ Guidance Third-Party Verification Under The Output-Based Pricing System Regulations

⁶ Criteria for the verification of reports on Emissions of Compounds and Greenhouse Gases Greenhouse within the framework of the National Registry of Emissions

⁷ <https://www.cdp.net/en/guidance/verification>

⁸ <https://assets.bbhub.io/company/sites/60/2020/10/2019-TCFD-Status-Report-FINAL-0531191.pdf>

⁹ Heckemeyer, J. H., Olligs, P., & Overesch, M. (2018). “Home sweet home” versus international tax planning: Where do multinational firms hold their US trademarks?. *National Tax Journal*, 71(3), 485-520.

¹⁰ <https://www.morningstar.com/articles/914896/youre-more-internationally-diversified-than-you-probably-realize>

¹¹ <https://www.bea.gov/sites/default/files/2021-06/fdi0721.pdf>

¹² S&P 500 and ESG Reporting | The Center for Audit Quality (thecaq.org)

¹³ <https://www.sec.gov/news/speech/2014-spch052014mjw>

represents best and current practice. We would no more ask a doctor of chemistry to opine on a FASB update than we would a doctor of accounting to measure the GHG output of a chemical reaction.

One issue the SEC would need to resolve is the proper qualifications of attestation professionals. Ideally, this would be done in partnership with ISO and potentially through the ISO 14066 standard. Similar to FASB, the SEC could preserve approval rights of updated ISO standards, outline guidelines towards what an acceptable attestation qualification for an ISO provider would be, and other comparable governance mechanisms. The delegation of standard setting to an internationally recognized and widely accepted body is consistent with current practices.

In the proposed rule, questions 115 through 132 largely revolve around organizational boundaries, material change in reporting, data quality and disclosure. Using the ISO 14000 family would address many of these issues. Under ISO guidelines, any shift in organizational boundary would need to be clearly documented. The data sources and methods would need to be transparently stated. Best available data would be used at all times, with reasonable and defensible estimates permitted where data is unavailable.

In conclusion, this comment recommends that the SEC adopt the ISO 14000 family of standards, specifically ISO 14064, as acceptable for GHG reporting under proposed rule S7-10-22. It recommends the SEC outline specific attestation requirements for ISO 14064 family experts to qualify as attestation providers. This standard is already globally accepted across multiple economic regions, in North America, and through the United Nations. SEC acceptance of the standard would greatly mitigate the reporting burden for domestic firms. A significant portion of domestically reporting firms engage in multinational business operations and face multinational reporting requirements. This standard is currently the dominant standard used by domestic firms that are reporting their GHG. A relationship between the SEC and ISO would be analogous that of the SEC and FASB. The adoption of the ISO 14000 family of standards by the SEC would represent global alignment, ease of reporting for domestic firms, and a science-based standard upon which investors can rely.