



Proposal on SEC Climate-Related Firm Disclosures (S7-10-22)

Scope 1, 2, & 3 Emissions Disclosure Framework for the Prevention of Greenwashing

The Honorable Gary Gensler, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

June 4, 2022

In response to the growing problem of [greenwashing](#), we, members of Dartmouth’s economics course on financial intermediaries and markets, stand in favor of the [SEC’s proposal](#) for requiring registrants¹ to provide specific climate-related information in their annual reports. In order to specify the reporting standards, we would like to further propose our own reporting framework intended for nationwide implementation: ***Environmental Accountability Standards (EAS)***. This framework outlines the specific criteria that a firm would report in metric tonnes and in tonnes of CO2 equivalent, including Scope 1 & 2 emissions and category 11 of Scope 3.

Scope 1	Scope 2	Scope 3 (Category 11)
Direct greenhouse gas emissions that occur from sources that are controlled or owned by an organization. Criteria: Flaring / Combustion / Process Venting / Fugitive Venting	Indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Criteria: Electricity / Heating / Steam	Emissions from the use of goods and services sold by the reporting company in the reporting year. Criteria: Sale of Petroleum Products / Natural Gas / Coal / Biofuels, and Crude Oil

Problems Solved through Standardization

1. **Incomplete information** between firms looking to finance green projects and investors with an appetite for sustainable investment causing **high information cost and mispricing**.
2. **Misallocation of capital** towards firms who are currently greenwashing.
3. **Poor monitoring** of future green efforts and/or debt financing projects (green bonds).

Accuracy Assurance

The accuracy of a firm’s climate-related information as required by EAS will be validated through an independent auditor. This method of validation is already in use by the SEC with respect to financial statements reported under the Generally Accepted Accounting Principles (GAAP). Under Item 8 of annual financial statements (10-K): *Financial Statements and Supplementary Data*, a third party presents either an “unqualified opinion” that the financial statements fairly present the company’s

¹ Publicly traded companies and private companies with over 500 stockholders or option holders that are required to register under the Securities Exchange Act of 1934



conformity with GAAP or “qualified opinion” which expresses the opposite². We believe this process is applicable to EAS as well, and by doing so the published information would gain more credibility.

Challenge: Double Counting


We recognize that including Scope 3 further complicates the issue of double counting, which refers to the case in which two or more companies claim ownership of one greenhouse gas reduction within the same scope.³ With respect to the energy industry, however, it is necessary to account for Scope 3 to track the progress of the suppliers of fossil fuels. The problem of double counting can be addressed by requiring firms to specify entities they worked jointly with in reducing scope 3 emissions.

Conclusion

In order for markets to clear, participants need affordable access to **credible, comparable** figures on firms' environmental data. The standardization of this information will enable speculators to **assess whether business models account for the long-term risk** associated with climate change, **improving price discovery** as credible firms connect with conscious investors. In addition, all firms would be **incentivized to improve their environmental practices** in order to increase their market share in the ESG space.

Sincerely,

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² “Fast Answers.” *SEC Emblem*, 1 July 2011, <https://www.sec.gov/fast-answers/answersreada10k.htm.html#:~:text=An%20independent%20accountant%20audits%20the,part%20of%20the%2010%2DK>.

³Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard (https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf)