



**B Lab Global & B Lab US & Canada Comment on SEC Consultation Climate Change Disclosures
June 6, 2022**

Hon. Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F St, NE
Washington, DC 20549

Dear Chair Gensler:

Thank you for the opportunity to respond to the Securities and Exchange Commission's proposed rule titled "The Enhancement and Standardization of Climate Related Disclosures for Investors"; we applaud your efforts to ensure investors and companies are better able to navigate climate risks through standardized corporate disclosures.

Background

B Lab is the global non-profit organization behind the B Corp movement. Its vision is an inclusive, equitable, and regenerative economic system, which we believe aligns with the objectives of the SEC and this proposed rule in particular. The key focus points for B Lab to achieve its end goal are: (1) the adoption by businesses of an adapted legal framework that embeds a commitment to act in the interest of all stakeholders, not just shareholders, which comes with an obligation to disclose its impact through third party standards that are comprehensive, independent, credible and transparent; (2) the creation of free and publicly available impact management tools for businesses housed within a common technology and data platform (the B Impact Assessment and SDG Action Manager) to measure, manage, and benchmark their performance; and (3) fostering a community of exemplary companies ("Certified B Corporations") that have met the highest levels of social and environmental performance, transparency, and accountability.

Since its U.S. launch in 2007, the B Corp Movement has grown to include over 5,000 B Corps in 80 countries, and over 150,000 users of the B Impact Assessment. As a US-based nonprofit organization, B Lab's work is divided into two primary branches: B Lab Global and B Lab US & Canada. B Lab Global coordinates the wider B Global Network and develops, manages, and verifies the B Corp performance standards. B Lab US & Canada LLC, as a subsidiary of B Lab Global, is focused on growing, supporting, and mobilizing the B Corp community in the US and Canada, with a deepening emphasis on racial equity, climate justice, and stakeholder governance. Together, B Lab Global, B Lab US & Canada, and the entire B Global Network share a commitment to and vision of an equitable, inclusive, and regenerative economy. More than 1,700 B Corps make up the U.S. & Canada community, supported by the nonprofit, B Lab U.S. & Canada. This includes leading companies who have long been pioneers in both business and sustainability, including Patagonia, Allbirds, Lemonade, Danone North America, Ben & Jerry's, Amalgamated Bank, Warby Parker, and Coursera. These companies are demonstrating to the world that it is possible to do well by doing good, with a proven link between the B Corp Certification and turnover growth.¹

¹ Paelman, Van Cauwenberge, and Vander Bauwhede, "The Impact of B Corp Certification on Growth."

B Lab's offerings allow companies to evaluate, manage, and improve standards for non-financial performance. While these offerings do not set out to create a non-financial reporting standard per se, our work inherently overlaps with the objectives of the SEC. This is why we support the proposed rule in its current form. We would also like to note our support for the input provided by CERES in its [Statement of Essential Principles](#), which to date has been signed by 520 stakeholders including over 110 Certified B Corps, and the [comments](#) from the Coalition on Inclusive Economic Growth, which represents 60 impact-oriented business and investor organizations.

In addition to the perspective offered by CERES and the Coalition on Inclusive Economic Growth, we would like to provide additional considerations for your work, particularly as it evolves over time. Our answers here are from the perspective of B Lab Global and B Lab US & Canada specifically. Primarily, we would like to highlight the importance of Scope 3 in the proposed rule, its alignment with other existing and emerging standards, and the concept of materiality.

Scope 3 Emissions

Scope 3 GHG emissions represent the vast majority of most businesses' climate impact, which necessitates consideration of core elements of a business, such as product and product formulations, business models, and supply chain practices that are fundamental to determining a company's performance and management of climate issues. As you point out, this information is vital to investors who believe that successfully managed portfolios require an understanding of systemic risks like climate change. While there are arguments being made indicating that measurement of Scope 3 GHG emissions is too difficult for many, especially smaller businesses, our own analysis of data from the community of Certified B Corporations and other companies using our impact management tools indicate that companies are ready and able to measure and report Scope 3 GHG emissions. Consider the following:

- More than 1700 companies globally have committed to achieve Net Zero by 2030, including publicly traded companies like Lemonade and Allbirds, and publicly traded Foreign Private Issuer Natura. The Net Zero by 2030 commitment includes expectations to measure and report relevant Scope 3 emissions.
- Forty percent of companies already report that they measure at least some portion of their Scope 3 emissions, according to data collected for companies across locations and sizes from the SDG Action Manager.

Based on this data, we believe it is realistic to require larger companies to disclose Scope 3 GHG emissions. Additionally, we believe this is possible for smaller reporting companies as well.

While we support this rule in its current form, based on the information above we believe there is room to refine the materiality assessment associated with Scope 3 disclosures in order to avoid costly underreporting.

We agree with the statement in the draft rule that, "If a registrant determines that its Scope 3 emissions are not material, and therefore not subject to disclosure, it may be useful for investors to understand the basis for that determination." Further, we suggest the SEC require Scope 3 GHG emissions disclosure for all large companies by setting it as a default requirement and then instituting a "comply or explain approach" for companies that determine Scope 3 emissions are non-material. Under this approach, companies that do not disclose Scope 3 emissions would need to demonstrate why their Scope 3 is immaterial. We believe this small change would still ground the rule in a materiality assessment and allow for self-assessment of materiality, while providing additional and necessary transparency to investors about the company's internal analysis.

We agree with the SEC's planned phase in approach for Scope 1 and Scope 2 assurance. However, we believe that a similar phase in approach towards limited assurance for Scope 3 would be beneficial to the market. As the SEC notes, assurance increases the "reliability of disclosures, which would allow investors

to make better-informed investment decisions”. Setting a future goal of limited assurance for Scope 3 will help standardize and harmonize the fragmented marketplace of voluntary disclosure standards.

Global Uniformity

As we have previously shared with the agency, we believe an alignment with existing and emerging global standards and disclosure regimes, including the International Sustainability Standards Board (ISSB) and Corporate Sustainability Reporting Directive ([CSRD](#).) would produce a significant efficiency benefits and reduce the reporting burden for those who already, or may be asked to, adhere to other standards, such as Foreign Private Issuers. Moreover, it allows the SEC to inform its efforts through credible, expert-driven reporting standards already in place. We recommend the SEC especially consider the ISSB standard in its efforts to achieve global harmonization.

Double Materiality

Given the SEC’s mandate, there is an existing focus on the concept of financial materiality for investors. While incorporating climate disclosures as a financially material issue is a substantive step in the right direction, there is also a critical shift occurring in the perception of the fundamental purpose of corporations to produce value not just for shareholders over the long term, but for stakeholders as well.

This is evident not only in the growing Certified B Corp community, but also in existing and emerging policy efforts related to corporate purpose and stakeholder governance like [benefit corporation](#) legislation in the U.S. and globally, and a review of [sustainable corporate governance](#) in the European Union. [Business Roundtable’s 2019](#) acknowledgement that the purpose of corporations should extend beyond even long term value for shareholders to also include fundamental commitments to stakeholders is further evidence of this cultural shift toward stakeholder capitalism. The EU Commission’s CSRD proposal acknowledges their own evolving disclosure regime will require companies to report “not just the risks to companies but also the impacts of companies on society and the environment.”

This important shift in the purpose of corporations directly relates to the concept of double materiality, in which reporting is not only limited to sustainability issues material to the financial performance of an organization, but more broadly to society. The SEC can and should consider the best way to take this trend into account to achieve a more inclusive, equitable, and regenerative economic system. In our view, this approach is fundamental for diversified investors to fulfill their obligations to their beneficiaries and to take a holistic view of their portfolio’s overall financial performance in the long term. This argument was highlighted in an [article](#) recently published by The Shareholder Commons and in a previous [comment](#) on climate disclosure that B Lab US & Canada co-signed and was authored by The Shareholder Commons.

Addressing this issue can include, at a minimum, creating a defined mechanism to coordinate with those working in the domain of “stakeholder materiality.” The SEC could also go beyond coordination by 1) acknowledging the concept of double materiality (combination of stakeholder and financial materiality) in their standards, 2) considering the broader impacts of this evolution on the overall strategy and goals of the SEC, and 3) lending their broad support to policy and other efforts to clarify this shift in purpose of corporations, for instance by collaborating with other agencies and the White House on initiatives like [From Shareholder Primacy to Stakeholder Capitalism](#) and a proposal for a [White House Initiative on Inclusive Economic Growth](#).

Conclusion

B Lab Global and B Lab US & Canada believe that a comprehensive approach is essential to gain a complete and accurate understanding of a company’s overall sustainability performance. This will help avoid the unintended consequence of shifting company action and attention between ESG issues, rather than altering their ambition and impact as a whole. There is no doubt that the climate emergency presents an existential challenge to businesses, but the emergency itself cannot be evaluated separately from other issues, especially as it relates to social and climate justice impacts.

Considering the essential role of the SEC in the U.S. business landscape, there is significant risk to the broader sustainability movement if the agency chooses to endorse reporting standards that are focused on climate only and financial materiality without recognition of both the social impacts of business and double materiality. Many newer entrants to this field will inevitably conclude that such reporting is sufficient, potentially negatively impacting the pace of change in the broader sustainability movement.

B Lab Global and B Lab US & Canada will continue to advocate for both the adoption of the measurement, management, and reporting of social and environmental impact and the expansion of the role of stakeholder governance structures as critical concepts for the creation of an inclusive, equitable and regenerative economy. We appreciate the opportunity to provide these comments and hope you will incorporate our suggestions into the final rule framework. Thank you for your consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jorge Fontanez', with a long, sweeping horizontal stroke extending to the right.

Jorge Fontanez

CEO, B Lab US & Canada

A handwritten signature in black ink, appearing to read 'Dan Osusky', with a stylized, cursive script.

Dan Osusky

Head of Standards and Insights, B Lab Global