Comments on The Enhancement and Standardization of Climate-Related Disclosures for Investors

SECURITIES AND EXCHANGE COMMISSION
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The Enhancement and Standardization of Climate-Related Disclosures for Investors
AGENCY: Securities and Exchange Commission
ACTION: Proposed rule.

GHGSat is the only company in the world today using its own commercial satellites to monitor and to take direct measurements of greenhouse gas emissions. We welcome the SEC's proposals to enhance and standardize climate-related disclosures for investors. We are pleased to provide comments on the proposed rule, as follows:

A – Overview of the Climate Related Disclosure Framework

The Commission's climate-related disclosure framework should in general be modelled on the framework recommended by the TCFD where appropriate. Whilst TCFD has been widely accepted and adopted, one of the greatest challenges in implementing it within companies has been the availability of good data, and in particular Scope 3 data. Whilst we note that there will be staged implementation of the new rule, we suggest that the SEC gives due consideration to the guidance that will be provided to companies on data-collection and on what constitutes high-quality data.

A second challenge to the implementation of the TCFD framework has been a lack of education on the topic at the board level and a shortage of time for boards to consider the issues. Given the legal obligations of boards, we suggest that the SEC consider providing detailed guidance for boards on commitments and obligations relating to the proposed rule. This will help elicit climate-related disclosures that are consistent, comparable, and reliable for investors.

It is challenging for current reporting requirements to yield adequate and sufficient information regarding climate-related risks to allow investors to make informed decisions because of the reliance on limited field measurements, estimates, and self-reporting that are likely to underestimate emissions. Existing rules may elicit better disclosure about climate-related risks by leveraging the remote sensing capabilities of satellites and aircraft-based instruments to provide the timely and objective data needed to empower better environmental decisions by investors.

B – Disclosure of Climate Related Risks

There are currently no required standards for climate risk reporting, and we support the proposal that the disclosure of climate-related risks should include both physical and transition risks. To focus private capital on the transition from carbon intensive to lower carbon energy sources, standardized, timely climate risk reporting is essential. As part of the standardization of climate risk reporting, the proposed rules should specify a common definition of what constitutes "short", "medium", and "long" term in the form of overlapping ranges of years, for example, less than 5 years for short term, 3-15 years for medium term, and more than 10 years for long term. A definition based on overlapping ranges of years would strike a balance between the need for standardization with the recognition that some registrants may need flexible horizons that are most appropriate to their circumstances. While the science of climate modelling has progressed in recent years and enabled the development of various software tools that are available to assist registrants in making determinations of long-term climate-related risks, the initial and boundary conditions of these models should be based whenever possible on objective data, for example, measurements made by satellites or aircraft-based sensors.

C – Impact on Strategy, Business Model, and Output

The Proposed Rule would require companies to describe the actual and potential impacts of climate-related risks that are reasonably likely to have a material impact on the business and its consolidated financial statements. We suggest that the SEC consider providing a detailed definition of "reasonably likely", "material impact", and "time horizon" with a range of examples across different industries. Time horizons for assessing climate-related impacts should be defined within the proposed rules as suggested in our comments above per "B – Disclosure of Climate Related Risks".

Additional financial and other resources would be required by companies in developing, testing, and implementing new climate risk-assessment methodologies. Additionally, the use of scenario analysis to assess potential climate impacts may require access to specialist expertise and tools that may not have a common methodology. This may result in additional cost and some disruption to business operations. We suggest that the SEC consider providing greater guidance on proven risk-assessment methodologies with a range of examples across different industries. The focus of climate-related disclosure should be on historical data or recent measured data (such as from satellites and aircraft) and less on forward-looking information.

D - Governance Disclosure

GHGSat welcomes the increased focus on board oversight and management of climate-related risks and opportunities consistent with the TCFD framework. We believe that climate related risks should be considered as part of a company's business strategy, with clear communication of physical and transition risk to stakeholders and the market. Climate-related issues should be subject to the same level of board oversight as other financially material matters. Registrants should describe the processes by which the management positions or committees responsible for climate-related risks are informed about and monitor climate-related risks. However, as we have already suggested, educational guidelines for boards could be offered before the new rule is implemented. This would enhance understanding of the new rule and improve compliance.

E – Risk Management Disclosure

No comment.

F – Financial Statement Metrics

No comment.

G – GHG Emissions Metrics Disclosure

Greenhouse gas emissions disclosures required under the proposed rules would provide important information for investment decisions because it is quantifiable and comparable across industries and is therefore useful in evaluating the climate-related risks faced by registrants. A company's emissions footprint is also relevant to its access to financing or could signal potential changes in its financial planning as governments, financial institutions, and investors make demands to reduce emissions. The protocol identifies three types of GHG emissions and gives explicit guidance for measuring and reporting them. We agree that reporting Scope 1 and 2 should be relatively straightforward. However, whilst scope 3 emissions will be reported only if the emissions are material or of the company has set targets around Scope 3 emissions, the difficulty of tracking emissions from multiple suppliers and customers across multitier value chains renders it extremely challenging for a company to estimate its Scope 3 emissions data with current methodologies.

We suggest that the SEC reviews and evaluates best practices in emissions monitoring, measurement, and data-collection methodologies, including consideration of satellite and aircraft technologies and advanced data collecting tools already used by heavy emitting industries such as oil and gas. We fully support the requirement for historical emissions data as a key means by which investors can connect emissions with company performance. Indeed, the proposed rules should stipulate that emissions disclosures must be based on measured data whenever possible and that emission factors and estimates may only be used when measured data is not available or infeasible to obtain. Such a data requirement could help prevent instances of “greenwashing” or other misleading claims and would give investors the ability to evaluate the progress towards a registrant’s target or goal and whether they are actually being achieved. Registrants should be permitted to provide its greenhouse gas emissions disclosures for its most recently completed fiscal year up to two months after the due date for its Exchange Act annual report to be able to canonically include measured data from the fourth quarter without the need for a subsequent corrective filing. A requirement for a registrant to disclose, to the extent material and applicable, any use of third-party data when determining its greenhouse gas emissions would not only help investors better assess the reasonableness of the emissions determination but could also assist other companies in identifying data sources for their own Scope 3 disclosures.

H – Attestation of Scope 1 and Scope 2 Emissions Disclosure

One of the greatest challenges for investors today is the lack of audit of emissions data by qualified, independent third parties. Whilst in some jurisdictions the data collection process is required to be audited, the emissions data itself has remained unvalidated. We therefore welcome the requirement for the attestation of company disclosures covering Scope 1 and Scope 2 emissions.

From a skills perspective, the attestation process is likely to require collaboration between CPA and ESG qualified specialists. We therefore suggest that the SEC considers what these collaborations might look like and provides guidelines to companies on administering such collaborations. For completeness, the proposed rule should provide definitions of “limited assurance” and “reasonable assurance” even if such definitions repeat what is generally understood in the marketplace.

Furthermore, if attestation is to enable the presentation of validated and standardized data to investors, we suggest that the SEC considers ways in which attestation methodologies might be standardized. As part of this standardization, attestation reports should meet certain minimum requirements in addition to any form and content requirements set forth by the attestation standard used by the provider. The registrant should disclose whether the attestation provider has a license to provide assurance, and the attestation standards used should be publicly available at no cost to investors.

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