



**Response: SEC Consultation on The Enhancement and  
Standardisation of Climate-related Disclosures for Investors  
16 June 2022**

## **Background**

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around \$100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around \$120 trillion. The 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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## **Response: SEC Consultation on The Enhancement and Standardisation of Climate-related Disclosures for Investors**

### **General Comments**

The WFE welcomes the SEC's proposed rules to enhance and standardise climate-related disclosures for investors (the "Proposed Rules"). For several years, the WFE's own Annual Sustainability Survey has highlighted the lack of consistency in disclosure frameworks as a risk to investors. To this end, we welcome Chair Gensler's remarks that the Proposed Rules, if adopted, would "provide investors with consistent, comparable and decision-useful information for making their investment decisions, and it would provide consistent and clear reporting obligations for issuers". We would, however, stress the need for consistency amongst international frameworks to avoid confusion in the market.

The WFE agrees, in principle, with the general direction of travel of the Proposed Rules. However, the timeline (given the sense of urgency with which the climate crises need to be tackled), and the relative complexity of the reporting required under the Proposed Rules, are likely to create disproportionate reporting burdens for issuers in the short run. On this basis, we would argue that a comply-or-explain, rather than a mandatory framework is more suitable at this stage, and that the regulator, in setting stretching thresholds and requirements, may need to introduce a phase-in period during implementation to allow issuers to establish best practices to meet these expectations.

### **Specific Comments**

Specifically, we have the following observations to make about the proposals:

#### **Scope 3 Emissions**

We agree with the SEC's goal of increasing consistency, reliability and comparability of climate-related disclosures, including Scope 3 emissions. This is particularly relevant given that for most business sectors, approximately 80% of total emissions are Scope 3<sup>1</sup>. We recognise that challenges exist with determining the accuracy and materiality of Scope 3 emissions data. This requires an intensive fact-specific exercise that involves collecting and relying upon third-party data. However, more disclosure and transparency should help to address this challenge. We also support a safe harbour provision for Scope 3 disclosures, but have become aware of concerns that the narrow safe harbour is insufficient to mitigate against the risk of litigation, and that the Private Securities Litigation Reform Act safe harbour for forward-looking disclosures is inconsistently applied for other climate-related information. In light of this, we urge the consistent application of safe harbour provisions.

#### **Materiality**

The SEC has diverged from its traditional definition of materiality currently applicable to its filings, namely that a matter is material if there is substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote. The Proposed Rules would require (i) mandatory disclosures of Scope 1 and 2 emissions, regardless of materiality, (ii) a qualitative materiality test for Scope 3

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<sup>1</sup> [World Business Council for Sustainable Development \(WBCSD\) Value Chain Carbon Transparency Pathfinder \(March 2022\)](#)

emissions that “make up a relatively small portion” of an issuer’s emissions; and (iii) financial statement disclosures of line-item impacts above 1%, even if such amount is not considered material by the issuer.

We recognise that while some markets within our membership are seeking to incorporate a concept of ‘double materiality’ (as in the European Union), others would find it difficult to do so given their regulatory mandates. Considering this, we support the International Sustainability Standards Board (ISSB) and International Organisation for Securities Commission (IOSCO) ‘building blocks’ approach, where ‘investor-focused’ materiality is implemented as a base and interoperable with ‘multi-stakeholder focused’ materiality. This would provide different markets with the flexibility to adopt the latter, should this fit with their regulatory frameworks. We also note that materiality is considered in the context of an issuer’s current financial condition and may not extend to the long-term horizon of many climate-related impacts. As such, we would further recommend that the SEC provides guidance to issuers on what it deems to be material information taking into account the long-term impacts of climate change and the energy transition, particularly at the sector-level (e.g., manufacturing, financial services, etc.) as it pertains to Scope 3 emissions.

### **Climate Governance**

It is imperative for all issuers to be able to disclose their climate governance practices and to demonstrate how these processes have been implemented for managing climate-related risk and opportunities. Investors will rely on this information when engaging with issuers and will want to know who is responsible for climate risk oversight and whether issuers are prioritising climate-risk appropriately. Whilst governance is an established pillar of ESG, we note that not all issuers will be familiar with this aspect of climate-related disclosures and therefore, we recommend that the SEC provides guidance on the minimum expectations for governance disclosures.

### **Assurance**

The SEC has proposed that Scope 1 and 2 emissions should be subject to limited assurance, in recognition of the nascent state of assurance which would then progress to reasonable assurance. Under the draft Corporate Sustainability Reporting Directive, proposed by the European Commission, a similar approach was adopted, i.e., the European Commission proposed to start with a ‘limited’ assurance requirement. This represents a significant advance on the current situation, while not imposing a ‘reasonable’ assurance requirement (a stronger, more demanding level) for the time being. A limited assurance requirement is less costly for companies, and better corresponds to the current capacity and technical ability of the market for audit (assurance) services. Reasonable assurance of sustainability reporting is difficult at this stage in the absence of sustainability assurance standards. The WFE welcomes this convergent approach, along with the work of IOSCO and the IFRS Foundation in developing a global framework for audit and assurance of sustainability information.

We support limited assurance in the interim, however until there is a move towards reasonable assurance, bearing in mind the developing global framework in this regard, we would recommend that the internal audit function should have a role to play to buttress the governance structure. This function can conduct an internal review of the reporting processes, focused on the design and process of workflow reporting, with a view to increasing the quality and accuracy of reported data.