



June 14, 2022

The Honorable Gary Gensler, Chair
The Honorable Hester M. Peirce, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
U.S. Securities and Exchange Commission (SEC)
100 F Street NE
Washington, DC 20548-1090

Re: S7-10-22 Public Comments for the Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Commissioners,

We are writing to **express our strong support and additional recommendations** for the proposed Enhancement and Standardization of Climate-Related Disclosures for Investors (the “Proposed Rule”).

The University Network for Investor Engagement (UNIE) is a shareholder engagement network of over 17 Canadian university pension plans, foundations and endowments. Together, we leverage our power as institutional investors to meaningfully address climate change-related risks and accelerate the transition to a low-carbon economy. Many of the companies we hold in our portfolios are U.S.-listed.

UNIE commends the SEC for its recognition of the urgency and materiality of climate-related risks, and supports the Proposed Rule and its alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The Proposed Rule will assist institutional investors such as ourselves in making more informed investment decisions to address our own systemic climate-related risks, as well as those of our beneficiaries. It will also support our active engagement efforts.

Climate change is a *systemic* and *un-hedgeable* risk to both issuers and investors. To effectively address this risk, investors and issuers will need to support an orderly transition to a low carbon economy in support of the goals of the Paris Agreement, including pursuing efforts to limit the increase in the global average temperature to 1.5°C above pre-industrial levels. As the latest IPCC

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report underscores, this necessitates reducing greenhouse gas emissions by approximately 43 per cent by 2030.¹

Disclosures that address this objective are needed, and we believe that the **Proposed Rule will provide consistent, comparable and investment useful information to this end**. Current regulatory requirements have clearly not been sufficient to improve decision-critical disclosures for investors.

In order to be as effective as possible in producing quality, investment-useful information, there are a number of ways in which the Proposed Rule could be further strengthened:

1. **Require rapid decarbonization scenario** (Question 30, Question 81)

Given uncertainty in the path and timing of the transition to a low-carbon economy, scenario analysis is a means for reporting issuers to test the resilience of their strategy over the short, medium and long term. It is not meant to be predictive, but to help stress-test the issuer's corporate strategy.

There is value to investors knowing whether a company has undertaken scenario analysis or stress testing. Where a company has undertaken such analysis, disclosure with respect to the scenarios used, parameters tested, and key assumptions made should be disclosed as it provides investors with significant insight into the rigor with which climate related risks and opportunities have been integrated into the company's oversight mechanisms, strategy and operations. Issuers should also disclose how their strategy has or might change to address potential risks and opportunities revealed by the scenario analyses or stress tests.

We recognize that climate scenario analysis (and the inherent stress testing) is still in its early stages and there is work to do to improve the comparability and consistency of data to ensure decision usefulness for investors, however we also recognize that data and methodologies are evolving rapidly.

Although the Proposed Rule asks companies to report on strategies and scenarios used, **we favour a *requirement* for issuers to report on scenario analysis, and to assess its risk management, strategies and financial statements against at least one *rapid* decarbonization scenario contemplating limiting warming to 1.5 °C (such as IPCC 1.5° or IEA Net Zero), with limited to no overshoot**. If disclosure is provided, it should include sufficient transparency on the scenarios used, parameters tested, and key assumptions made for investors to understand the rigor behind the analysis.

2. **Mandate Scope 3 emissions disclosure** (Questions 98-100)

Scope 3 GHG emissions are a critical aspect of understanding climate-related risks and opportunities, as highlighted by the TCFD. A growing body of research shows that in certain sectors, Scope 3 GHG emissions can account for several times the impact of a company's Scope 1 and Scope 2 GHG emissions. As a result, **Scope 3 disclosure should be required, without a separate materiality assessment**.

¹ [IPCC, 2022: Summary for Policymakers](#). In: *Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926.001

If the SEC believes a phased-in approach is necessary to allow certain sectors to more accurately measure certain types of emissions, we recommend that the Proposed Policy first require disclosure of the most relevant Scope 3 category for most “high-risk” issuers as outlined in the GHG Protocols, Category 11 – Use of Sold Products,² specifically that direct use-phase emissions be required in the first instance, and indirect use-phase emissions may be phased in at a later date.

The GHG Protocols provide the following division between ‘direct use-phase emissions’ and ‘indirect use-phase emissions’:

Table [11.1] Emissions from use of sold products

Type of Emissions	Product Type	Examples
Direct use-phase emissions (required)	Products that directly consume energy (fuels or electricity) during use	Automobiles, aircraft, engines, motors, power plants, buildings, appliances, electronics, lighting, data centers, web-based software
	Fuels and feedstocks	Petroleum products, natural gas, coal, biofuels, and crude oil
	Greenhouse gases and products that contain or form greenhouse gases that are emitted during use	CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ , refrigeration and air-conditioning equipment, industrial gases, fire extinguishers, fertilizers
Indirect use-phase emissions (optional)	Products that indirectly consume energy (fuels or electricity) during use	Apparel (requires washing and drying), food (requires cooking and refrigeration), pots and pans (require heating), and soaps and detergents (require heated water)

Source: Table 5.8 from the *Scope 3 Standard*.

We do not recommend allowing issuers to exclude Scope 3 emissions from mandated disclosures. Should the SEC determine that this might be allowed on a “comply or explain” basis, however, we suggest that an issuer be required to produce an independent third-party verification as to why Scope 3 disclosures are not possible in a given year.

Should the Commission maintain its proposed approach of only requiring companies to disclose Scope 3 emissions if deemed material, it should as a minimum, also provide guidance regarding how companies are to determine materiality of their Scope 3 emissions.

3. **Mandate the GHG Protocol’s Corporate Accounting and Reporting Standard** (Question 115)

The use of the GHG Protocol should be mandated, with no substitutes. A core objective of mandatory climate-related disclosure is to provide comparable data. As such, it is in the best interests of all actors to utilize a consistent, and mandated, standard.

The GHG Protocol is the most widely used methodology and other methodologies build on the GHG Protocol Scope 3 accounting rules. For example, the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard for the Financial Industry uses the GHG Protocol in its methodology. As PCAF is emerging as the central standard used by

² From: https://ghgprotocol.org/sites/default/files/standards_supporting/Chapter11.pdf

the financial sector to assess its financed emissions, aligning mandatory reporting requirements with the GHG Protocol will provide important consistency.

4. Consider social aspects of transition risks and plans (Questions 9, 42-46, 48-49)

The transition to a low-carbon economy represents both significant opportunities and risks for affected workers, communities, and other stakeholders. Policymakers and investors are increasingly turning their attention to *just transition* considerations in an effort to address these social impacts and ensure that the transition doesn't come at the expense of people and human rights.

With this in mind, **the Proposed Rule's definition of climate-related transition risks should be broadened to include considerations related to social impacts of the company's actual and planned climate transition activities.** This should include any significant impacts to workers (and related social dialogue), Indigenous Peoples and local communities, and human rights in the company's supply chains.

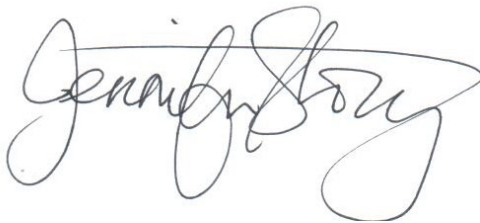
5. Require disclosure on policy & lobbying alignment (Questions 9, 42-46, 48-49)

Disclosures on climate-related risks, impacts on business strategy, and transition plans and commitments should include disclosure of policy alignment, i.e., whether the company's positions in direct and indirect lobbying and public communications are aligned with its own climate-related commitments and strategies, and with internationally recognized climate goals, including the Paris Agreement and a 1.5°C pathway.

Such alignment is of paramount importance to long-term, globally diversified investors like ourselves, as we increasingly understand not just company and industry risk stemming from climate change, but the very real and disruptive systemic risks that diversification will not address.

We thank you for the opportunity to comment on the Proposed Policy.

Regards,

A handwritten signature in black ink, appearing to read "Jennifer Story". The signature is fluid and cursive, with a large loop at the end.

Jennifer Story
Associate Director, Climate Advocacy
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On behalf of the University Network for Investor Engagement