

June 17, 2022

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

**RE: The Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22)**

Submitted via email: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Dear Chair Gensler,

[Schneider Electric](#), the global specialist in energy management and automation in more than 100 countries, with nearly 20,000 U.S. employees and thousands of U.S.-based clients and partners, is pleased to submit the following comments on the Securities and Exchange Commission's ("Commission") proposed rule, *The Enhancement and Standardization of Climate-related Disclosures for Investors* (File Number S7-10-22).

Schneider Electric [has been recognized](#) as one of the world's most sustainable companies. We understand that climate change is the most significant issue of our time, which is why, as a company, we are committed to achieving net zero emissions throughout our value chain by 2050.

We are also one of the world's leading advisors to other organizations on climate risk, greenhouse gas (GHG) management and disclosure, and energy efficiency and decarbonization solutions. As an advisor, we understand the challenges of and value in disclosing corporate emissions and climate-risk. We are strongly supportive of the Commission's proposal to mandate climate-related disclosures and applaud the Commission's proactive position on advancing transparency for the investor community on climate risks.

We also acknowledge that the proposed rule will impact our clients and our response reflects this awareness.

Schneider Electric appreciates the opportunity to share our comments.

**1. Schneider Electric recommends the Commission maintain its approach to standardizing climate-related disclosures, leaning on existing disclosure frameworks to reduce burden on registrants.**

The Commission is correct in its assessment that corporations, regulatory and disclosure agencies, and investors need *consistent, comparable, and reliable* sources of climate change-related data. The myriad of reporting frameworks today, paired with diverse and competing ranking and rating agencies, has diluted the ability for anyone to equitably compare and evaluate risks.

Climate change is a significant threat to U.S. business interests and the stability and resilience of our economic system. Mandating measurement and disclosure of climate-related risks, their financial implications, and the GHG emissions underpinning corporate activity is a means to drive standardization and, ultimately, actions that may slow or even arrest further climate damage. It is also the right thing to do to create an apples-to-apples comparative basis for investors of all sizes.

Furthermore, it cannot be ignored that inaccurate or misleading claims of environmental action are flourishing. So-called “greenwashing” undermines the credibility of the real work being undertaken by thousands of corporations to transform their companies for the better. A standardized expectation and framework for disclosures enhances and increases the credibility of corporate climate actions and inhibits bad actors from hiding from or misleading investors and the public.

We applaud the Commission for its incorporation of the Taskforce on Climate-related Financial Disclosures (TCFD) and Greenhouse Gas (GHG) Protocol frameworks for mandated disclosures in the proposed rule and encourage the Commission to reach parity with the GHG Protocol to the maximum extent possible to preserve corporate progress on emissions disclosures.

Both TCFD and the GHG Protocol are widely accepted, validated frameworks for evaluating and disclosing emissions and climate-related risks. The incorporation of these frameworks under the proposed rule both acknowledges the voluntary actions companies are already undertaking and simplifies the adoption of the new disclosures by aligning to existing frameworks.

Additionally, we encourage the Commission to set a multilateral working group between the different standard-setters (International Sustainability Standards Board (ISSB), the Commission, and the European Financial Reporting Advisory Group (EFRAG)) and the relevant jurisdictions to establish an efficient dialogue for enhanced compatibility between the various jurisdictional initiatives on sustainability disclosures.

For many companies, the reporting burden is significant. We encourage the Commission to seek to further align any progress under the adopted rule with existing frameworks to alleviate this burden and to move directionally toward universal reporting standards for emissions and climate risks and actions.

**2. Schneider Electric recommends the Commission maintain attestation requirements for Scope 1 and Scope 2 emissions along with the requirement that registrants disclose material Scope 3 emissions.**

We acknowledge that the inclusion of requirements in the proposed rule to mandate attestation for Scope 1 and Scope 2 emissions, and disclosure of Scope 3 emissions, will increase the burden on filers, but we believe both these requirements and their inclusion in the final rule are essential.

As the Commission has acknowledged, accurate information is at the root of this proposed rule. Today, too many companies are either not tracking or not disclosing emissions. Without attestation about the accuracy of disclosed emissions, there is too much opportunity for opacity or fraudulence. This further reinforces the value of the rule as a tool to increase credibility and level the playing field, placing all filers under a similar burden of quality assurance.

While the disclosure of Scope 1 and Scope 2 emissions is vital for investors’ understanding of climate-related risks on business operations and revenue, disclosure of Scope 3 emissions is also essential, as most emissions lie in this area for nearly all companies. Carbon Disclosure Project (CDP) has estimated that, on average, supply chain emissions alone can be more than 5.5 times greater than a corporations’ operational emissions.<sup>1</sup>

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<sup>1</sup> Climate Disclosure Project, *CDP Supply Chain: Changing the Chain* at 8 (2019) <https://www.cdp.net/en/research/global-reports/changing-the-chain>.

From our work with some of the largest companies in the world and their supply chains, we recognize how difficult tracking and measuring Scope 3 emissions can be. However, we believe it to be both best practice, as outlined in the Science-based Targets Initiative Corporate Net Zero Standard (“Net Zero Standard”)<sup>2</sup>, and essential to fully disclose on Scope 3 emissions. Requiring that registrants with Scope 3 emissions reduction targets or goals disclose those emissions, when material, under the proposed rule will drive new discipline across industry on Scope 3 emissions management and improve transparency on climate risks and related disruptions.

**3. Schneider Electric supports the inclusion of data surrounding the location of climate-related disclosures in Regulation S-K and Regulation S-X.**

Today, as the Commission points out, there are few single systems of record for climate-related risk and financial disclosures or emissions data.

We support the inclusion of this data in Regulation S-K and Regulation S-X for several reasons:

- The disclosure is integrated with other disclosures and treated as material and substantial considerations for business performance
- Disclosures are standardized, allowing for the apples-to-apples comparison of data and risks across companies
- Investors and other interested parties can access a so-called “single source of truth,” rather than having to refer to many other sources of information, which may or may not be standardized

We believe, and acknowledge, that the Commission’s requirements may have material impact on how companies disclose and report information today. However, the carbon and climate disclosure landscape is ever-evolving. This requirement may, in fact, move us closer to a universal reporting standard.

**4. Schneider Electric cautions the Commission on setting strict time parameters for short-, medium-, and long-term risks and recommends the Commission provide greater clarity on the definition of materiality for disclosure purposes.**

The Commission’s proposal to mandate filings based on short-, medium-, and long-term material, physical, and transitional risks is appropriate. It is essential that companies themselves are weighing these impacts at appropriate time horizons and across geographies. The proposed rule will also encourage companies to undertake more significant analysis of materiality and risk within their organizations.

However, we believe it will be difficult for the Commission to enforce materiality in 1) defining short-, medium-, and long-term time horizons and in 2) comparing materiality from one organization to the next.

Climate science is evolving at such a rate that what was once considered long-term is now urgent. If the Commission is to specify time periods for short-, medium-, and long-term impacts, it must be prepared to adjust these requirements to align with prevailing science. This so-called “moving target” is already creating headwinds

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<sup>2</sup> Science Based Targets, *SBTI Corporate Net-Zero Standard* (2021), <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>.

for companies seeking to adopt best practices in decarbonization and has the potential to result in misaligned data.

Further, what is material to each organization may differ significantly. The Commission must provide enough maneuverability in the final rule for it to be widely applicable across industries. This may, perversely, make it difficult to provide apples-to-apples comparisons across industries, obfuscating the clarity investors are seeking. To overly constrain materiality, though, will make it difficult for organizations to comply.

Finally, the Commission must take steps to ensure material disclosures will not demand companies reveal competitive intelligence.

**5. Schneider Electric appreciates the Commission’s proposal requiring disclosure on registrants’ progress towards climate-related goals and encourages the Commission to continue protections of competitive intelligence in the final rule.**

Schneider applauds the Commission’s proposal requiring companies discuss how they intend to meet climate-related targets and goals, as these are useful and meaningful tools for investors. Further, we support the Commission’s inclusion of language to protect competitive intelligence of registrants through these disclosures and discretionary disclosures of potential climate-related opportunities.

Innovation is key to solving the most complex climate-related issues, and we appreciate the Commission’s dedication to preserving innovation in the proposed rule. Schneider Electric is committed to corporate innovation and has worked to develop new solutions that increase efficiency and lower emissions. With 200 partnerships, Schneider Electric works through our Innovation at the Edge program to invest in new ideas, emerging technologies, and business models that help meet our mission of bridging progress and sustainability for all.

To ensure innovation is protected as a critical tool in successful corporate climate action, we encourage the Commission to take steps to safeguard competitive intelligence to the maximum extent possible in the final rule.

**6. Schneider Electric recommends the final rule align renewable energy credits or certificates (RECs) and carbon offset use guidance with the GHG Protocol and appropriately separate the two decarbonization instruments to better reflect their role in emissions reductions.**

We are pleased to see the Commission address the use of valid market instruments for decarbonization, such as RECs and carbon offsets, in the proposed rule.

However, it is essential the final rule is clear on the appropriate use and disclosure of both RECs and offsets. This guidance should align with the GHG Protocol.

- RECs and offsets should not be conflated, as they are not the same mechanism, nor do they equally represent emissions reductions.
- RECs are the widely accepted methodology to track and trade renewable electricity (“green power”). All organizations that seek to use renewable electricity in any form – sourced from the grid, from the use of onsite technologies, or via utility-scale procurement – must also own an equivalent volume of RECs to make claim to the environmental attributes of the green power. Increasingly, organizations are procuring both

green power and RECs simultaneously. In these instances, the REC supply itself is dependent upon the performance of the renewable asset rather than market prices. It is important to disclose the risks of this supply, especially if organizations rely solely on so-called “unbundled” RECs, but being clear about the use of RECs, per the GHG Protocol, in the final rule is critical.

- Carbon offsets may be used to address all other emissions under Scope 1, 2, and 3. When credible and valid, they provide a foundational pillar for organizations seeking to decarbonize. However, it is not best practice under the Net Zero Standard for offsets to be used to the exclusion of other operational decarbonization mechanisms. Indeed, it is risky to do so. We recommend that the Commission contemplate the inclusion of validity and verification standards for offset use alongside other offset risk disclosures.

**7. Schneider Electric recommends the Commission provide additional guidance to registrants on the timing of inventory preparation and data estimation thresholds.**

We recommend that the final rule provide clearer guidance to filers about material difference in GHG emissions figures and when companies’ estimated data will require validation. The proposed disclosure timing will require filers to estimate Q4 emissions data, and guidance must be provided on what will trigger a restatement of estimated data should primary data vary substantially once calculated.

Companies already expend significant resources annually measuring and quantifying emissions inventories; we recommend that filers not be subject to restating emissions data multiple times in a year as this will add to the previously described reporting burden.

The final rule should clarify if there is a threshold for the volume of estimated data that can be used in the calculation of the emissions inventory. Some companies, based on when they receive data from utility providers, may need to estimate more than 30 percent of their inventory to meet the proposed timeline. We recommend that a simple and straightforward remedy be provided for companies in this situation.

**8. Schneider Electric strongly recommends the Commission recognize the utilization of the operational control approach to quantifying emissions inventory in the final rule, encouraging timely implementation, appropriately identify a company’s own emissions, and reduce the compliance burden on registrants.**

Most companies who voluntarily disclose their emissions today use the operational control consolidation approach to quantify their emissions inventory. As a result, we encourage that the final rule allows companies to continue using this approach.

Companies use the operational control consolidation approach because, in many cases, companies lease the buildings in which they operate, or lease the spaces they own. This is significant when clarifying either operational or financial control over emissions scope.

Using a financial control approach as described in the proposed rule may not reflect the emissions from a company’s primary activities in many cases, and, in effect, the emissions associated with the operations of their business will shift from Scope 1 / 2 to Scope 3. The result is that the Scope 1 and 2 emissions associated with a company’s main activities would not cover the same boundary as a company’s financial statements.

Operational control allows companies to report on the emissions of their activities that most closely align with those assets in their financial reporting. The use of financial control has the potential to transfer the reporting of emissions to the company that is the legal owner of the physical space the company uses instead of the filer itself.

Requiring the use of financial control would put an immense burden on companies, who would need to redefine the methodologies for their emissions accounting and recalculate their baseline emissions for any relevant historical periods, and for any publicly stated targets for which they are monitoring performance.

As such, we recommend that companies be free to use the approach - either financial or operational control - they deem most appropriate for their sector and business model.

**9. Schneider Electric recommends the Commission require the results of scenario analyses and other emerging tools be furnished to the Commission to protect adoption of such tools.**

Schneider Electric recommends limiting liability associated with the use of climate risk scenario analysis and other analytical tools as companies are beginning to adopt these resources to better understand the impact climate-related risks may have on their business. The time horizons for such tools are often decades out from when they are used (i.e., 2040-2050). As such, if the Commission wants disclosure on scenario analysis and other emerging tools results, it should ensure those results are not subject to an audit for risk of chilling the adoption of these tools by companies seeking to meet climate targets.

We further recommend the Commission separate disclosures of scenario analyses and other emerging tool results from the filings at issue in the proposed rule to ensure the adoption of these resources does not become too prescriptive. Specifically, we recommend that any results from such tools be furnished with the Commission rather than filed to protect adoption and decrease liability concerns.

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Schneider Electric appreciates the opportunity to participate in the comment period on *The Enhancement and Standardization of Climate-Related Disclosures for Investors* proposal. Please contact Jeannie Salo at [REDACTED] for any questions related to this submission.