March 31, 2023

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Supplemental Comments by the Sierra Club on Proposed Climate Risk Disclosure Rule (Release No. 33-11042, File No. S7-10-22)

The Sierra Club appreciates the opportunity to submit this supplemental comment on the Securities & Exchange Commission's proposed climate risk disclosure rule.[1] Our purpose is to highlight a new analysis of Scope 3 greenhouse gas emissions disclosure policy and practice by Madison Condon, Associate Professor at Boston University Law, to be published in UC Davis Law Review.

Professor Condon makes a compelling case for including a robust Scope 3 disclosure requirement in the climate risk disclosure rule. We summarize here some of her key points:

1. Multiple, specific "use cases" for Scope 3 emissions disclosures have emerged and are increasingly relied upon by investors and other market participants. Emissions estimates are used, for example, to evaluate:
    - Financial risks faced by companies due to lack of preparedness for the decarbonization of the economy (transition risk);
    - Performance by executives whose compensation is tied to emissions reductions;
    - Progress of efforts to drive emissions reductions within supply chains. "Many companies, including CVS, General Motors, Lenovo, and Jujitsu, have requirements that suppliers set and make progress on emissions targets;"

[1] Sierra Club's initial comments on the climate risk disclosure rule were submitted on June 16, 2022; previous supplemental comments were submitted on November 1, 2022, and February 8, 2023.

- Progress of efforts to drive emissions reductions by customers. For example, "Unilever is investigating ways to have the ice cream freezers they supply to retail stores run on renewable energy, even when the host store still runs on a dirty grid;"
- Progress on emissions reductions among companies in the portfolios of fund managers with so-called "climate-aligned" offerings;
- Progress on emissions reductions among companies included in generic, not explicitly climate-related, investment funds. For example, "on BlackRock's iShares platform, potential investors shopping for the right ETF can click a button to include a funds' Carbon Intensity expressed in terms of emissions per sales, alongside traditional metrics like expense ratio and net assets — this can be done for all funds, ESG or not;" and
- Internal carbon pricing. For example, "asset manager Barings adds a carbon price to all business travel expenses, employees booking a flight see an extra charge matched to the market price of the carbon." Other companies "actually collect the internal carbon fees from each corporate division and apply the funds to emissions reduction projects."

2. A significant concern among investors and academic experts is that–consistent with the common practice of firms using legal tools and accounting loopholes to escape disclosure of legal and financial risk–outsourcing of Scope 1 emissions will increase if Scope 3 emissions are excluded from a mandatory reporting regime. This would in turn distort investor evaluation of transition risk. For example, according to Condon, if only Scope 1 and 2 emissions were disclosed, Samsung's emissions intensity would appear to be 200 times higher than Apple's simply because of Apple's outsourcing of its manufacturing.
3. Scope 3 emissions disclosures are generally seen by investors and other market participants as insufficient *by themselves* to allow evaluation of firms' climate risk. This is due in significant part to the multiple use cases for emissions data and variability in accounting decisions and methods. However, investors use Scope 3 emissions data along with other data in their investment analysis, and data challenges have not led to the reduction in investors' demand for reasonable estimates of Scope 3 emissions.

Thank you for your consideration of these comments.

Sincerely,

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