

DIGITAL CLIMATE ALLIANCE



June 17, 2022

The Honorable Gary Gensler
Chairman
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

Dear Chairman Gensler:

The [Digital Climate Alliance](#) (DCA) appreciates the opportunity to provide comments on the U.S. Securities and Exchange Commission's (SEC) proposed rule titled "The Enhancement and Standardization of Climate-Related Disclosures for Investors."

The DCA is a coalition of companies developing and utilizing digital technologies to reduce their environmental impacts and those of their customers. The Alliance's goal is to promote the role of digital technologies and tools to enable solving climate, water, and energy challenges.

As companies that have made sustainability a fundamental aspect of our business plans, we believe greater transparency and trust of our corporate climate actions and risks is important for maintaining fair and efficient markets. We applaud the SEC for addressing this issue. By defining what climate information is important for investors and standardizing how it is disclosed, this rule will protect investors, facilitate capital formation, and ensure financial markets continue to be worthy of the public's trust.

Many DCA members will be subject to this rule and all members will use the information disclosed. However, the DCA's comments will focus on the growing demand for carbon transparency and the importance of standardized environmental data.

Introduction

The signatories to the 2015 Paris Agreement committed to keeping global temperature rise under 2 degrees Celsius above pre-industrial levels, while seeking to achieve an aggressive target of 1.5 degrees Celsius. Achieving this will require cutting greenhouse gas emissions in half by 2030 and reaching net zero emissions by 2050.

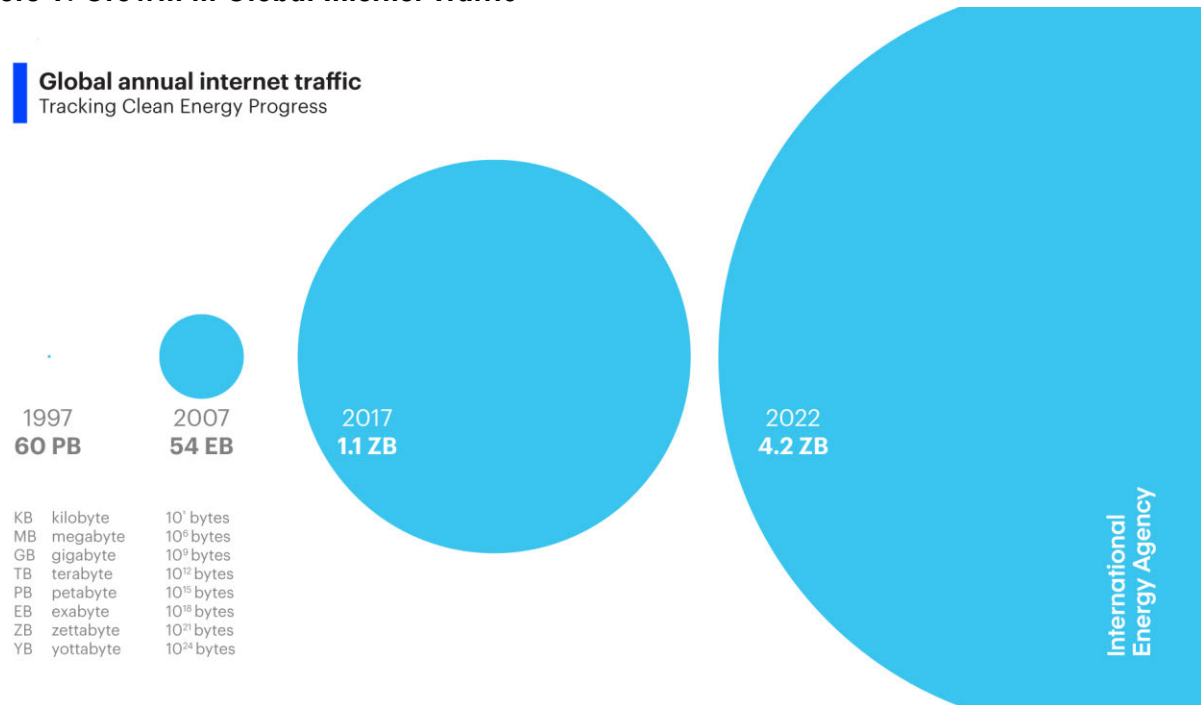
However, to date, progress has been constrained by political and economic considerations. Despite continued progress on the deployment of renewable energy, adoption of electric vehicles, and the development of carbon capture utilization and storage technologies—and most recently a flattening of global emissions in 2019—climate policy has nonetheless been insufficient to match the scale and urgency of the problem.

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Concurrently, the rise of the internet and digitalization has been the biggest driver of economy-wide, systems change in our lifetime, resulting in transformational change in social relationships, global connectivity, science, communications, politics, and governance. Real-time access to the internet, broadband, and mobile devices increased exponentially in each of the past four decades (see Figure 1). In the U.S., smartphone adoption has surpassed 80 percent.¹ As recently as the early 2000s, the world's largest companies represented a diversity of industries; however, today all the world's largest companies are focused on information and communications technology.

Figure 1: Growth in Global Internet Traffic



Source: International Energy Agency

Together, these trends have the potential to usher in a new era of carbon transparency—an era with the potential to transform sustainability and climate policy, driving change from the bottom up, with consumers playing a more significant role in meeting their energy needs and driving goals around cost, sustainability, and efficiency.

In general, the speed of digitalization, like climate change itself, is outpacing the federal government's response. However, if digitalization can be appropriately harnessed and governed, it has enormous potential to drive climate policy and reduce emissions not just within one sector, but across sectors; accelerate not only technology performance but market innovation at scale; and redefine the role of the federal government in achieving policy goals—both emissions reduction and economic competitiveness.

The Growing Demand for Carbon Transparency

¹ Pew Research Center. (2021). *Mobile Fact Sheet* [Fact Sheet]. Retrieved June 17, 2022, from <https://www.pewresearch.org/internet/fact-sheet/mobile/>

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Currently, there is no clear and consistent way for the market to differentiate and value corporate climate action, yet the process of assessing environmental, social, and governance (ESG) performance is central to identifying high-impact opportunities for climate action and business growth. An aggregate of more than 2,000 empirical studies related to ESG and financial performance gave evidence that ESG investing establishes long-term strategic benefits to firms. In terms of mainstreaming ESG into conventional financial portfolios, researchers from MIT Sloan found that “an estimated \$30 trillion of assets are invested worldwide that rely in some way on ESG information, a figure that has grown 34% since 2016.”²

Demand for sustainable asset classes has created a “hyper-competitive landscape for ESG rating systems”³ and resulted in a multitude of different, competing standards that make it difficult for investors to make apples-to-apples comparisons. In addition, methodologies behind various standards are often considered proprietary, which both stymies corporations attempting to improve their performance as well as investors seeking to make informed investments.

This overall lack of uniformity often results in a company carrying vastly divergent ratings from different rating agencies simultaneously, with biases in favor of larger companies and companies with headquarters in certain geographies, such as Europe. With no auditing process to verify reported data, investors are left to trust information that is subjective and difficult to authenticate.

Some companies and governments are seeking to assess the carbon impacts of various products and certify low-carbon and/or more sustainable industrial products and materials. However, global markets cannot currently access timely and accurate information about the environmental impacts associated with industrial commodities. This disconnection limits investment consistent with the scale and pace required to meet science-based climate targets and sustainable development goals.

The new corporate ESG/carbon landscape is responding to the demand for more transparent, granular, and actionable emissions information by regulators, companies, and investors. In the DCA's view, a complete emissions profile would include two data components: the technical component (i.e., what is being measured) and the contextual component (i.e., how the measurement is used in a regulatory or investment context). Therefore, the search for more – and better quality – data is complementary to the need for contextualized emissions data and a digital infrastructure to support it.

The Importance of Standardized Environmental Data

The lack of standardization in ESG/carbon reporting protocols is hindering the market's ability to mobilize and deploy investment to meet the financial capital needs necessary for a net-zero economy transition. Today, some methods for measuring, reporting, and verifying emissions are not transparent and trustworthy. Furthermore, emissions data is not contextualized in consistent ways that enable transactability in markets. Given these structural challenges, the market cannot prioritize carbon transparency, traceability, and verification of emissions.

² Mayor, T. (2019, August 26). *Why ESG ratings vary so widely (and what you can do about it)*. Retrieved June 8, 2022, from <https://mitsloan.mit.edu/ideas-made-to-matter/why-esg-ratings-vary-so-widely-and-what-you-can-do-about-it>

³ Almono, M., Hunter, L., Parsons, B., Wetstone, G. (2019). *ESG 2.0: How to Improve ESG Scoring to Better reflect Renewable Energy use and Investment*. Retrieved June 8, 2022, from https://acore.org/wp-content/uploads/2019/09/ACORE_ESG-2.0_Sept-2019.pdf

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Therefore, how will we get to the moment when investors, shareholders, and regulatory bodies benefit from clear, comparable, verified information on corporate action and its impact on emissions reductions?

Digitally measured and verified sustainability data is key. It can automate tracking and verification of emissions, avoid green washing, and prevent double counting. Without transparent, digitally verified data there is no harmonization of corporate sustainability actions.

The DCA considered options to integrate digitalization into the ongoing efforts to improve sustainability reporting both from the investor and regulatory perspective. We see **transparency, trust, and transactability** as a unifying framework of modernizing and digitalizing sustainability action. The concept of the “**3Ts**” (i.e., transparency, trust, and transactability) is described below:

- **Transparency** enables innovation in business models, technologies, and operational processes, and with growing interest in the market to redefine what is seen as environmental performance of various products and services, the data found across the supply chain needs to be visible and clear to the consumer or viewer.
- **Trust** in the data that is collected and made visible is integral to reduce the number of assumptions and misinformation that may surround the results. Keeping the integrity and reliability of the information gathered across a supply chain, will help gather higher interest in investment and support needed to expand the reach of products and services.
- **Transactability** opens a plethora of opportunities for customers and companies after the transparency and trustworthiness of data is met, allowing stakeholders to benefit ever more so from their investment decisions – including in electric vehicles, clean energy sources, optimized buildings, and other carbon neutral commodities. Additionally, it gives data the ability to be compared across sectors and regions, so that the environmental attribute of a product or commodity is made transactable in the market and leveraged into transactable market-based solutions.

We believe that federal regulatory regimes need to start deploying the 3Ts approach in their permitting and evaluation processes, and companies will need this kind of process to meet investor, shareholder, regulatory, and societal demands.

Below are principles the DCA developed to guide policymakers on standardization of ESG/carbon reporting.

Data Harmonization Principles

Accurate and timely. Reporting entities should strive to report their emissions accurately and in a timely manner.

Transparent. Methods should be accessible and understandable to users of the information.

Credible. Calculations should be subject to an independent audit/third-party verifier to ensure validity and reliability.

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Standardized. Accounting methods should be consistent for the purpose of drawing comparisons and harmonized with existing, widely recognized (e.g., international) standards.

Directly measured. Standardized direct measurements – where data collection is reasonable and practicable – should be preferred over indirect calculations.

Inter-compatible data architecture. The data systems used to exchange information on emissions should be compatible, thereby maximizing the ability of users to access and process the information.

Comprehensive. Initiatives should capture all relevant and significant contributing factors (i.e., life cycle analysis). In certain circumstances, this may encompass emissions that are avoided or saved, as well as scope 1, 2, and 3 emissions.

Efficient. Methods should be guided by pragmatism, recognizing an exhaustive accounting may be neither cost-effective nor provide additional meaningful information. Reporting should not require information that is either immaterial or duplicative.

Utility. The reporting methods should be fit for purpose for users (e.g., policymakers, investors, and other stakeholders), meaning that the information includes the relevant emissions and is provided in a user-friendly format.

Implemented on realistic timelines. Regulatory timelines should allow for a realistic schedule for implementation and account for uncertainty in the data as businesses, many of which are currently developing their methods and controls for reporting emissions, improve implementation of their emissions accounting procedures.

Specific Comments

Our purpose in submitting this comment is to identify the overarching principles that should guide the SEC in developing this rule and related policies. Although our members may individually support or have concerns with specific requirements, we generally have not taken positions in this letter. However, we do wish to express concern with the bright-line threshold to disclose financial impacts on a line item in excess of 1 percent as it conflicts with the above-stated “Data Harmonization Principles”. Specifically, we believe that this requirement will produce information that is not material for many companies—making it both inefficient and lacking utility. The content required in the proposed rule represents a large body of information which currently does not sit discreetly in a ledger and therefore will be challenging for registrants to collect. If material events occur, companies are already required to provide disclosure. The materiality should be based on existing definitions of materiality at the event rather than the individual financial line-item level.

Conclusion

Without this effort by the SEC, the future of carbon transparency will be decidedly murky. But companies and investors can close the gap that exists between intention (e.g., goals to meet climate commitments) and action (e.g., executing pursuant to those commitments) by replacing inconsistent ESG systems with transparent systems that use real, verified data. With the right policy and governance framework, transforming data transparency and uniformity into data contextualization can accelerate the complex yet critical task of industrial decarbonization.

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About the Digital Climate Alliance:

Established in 2020, the Digital Climate Alliance is a coalition of companies developing and utilizing digital technologies and tools to reduce the environmental impacts of their operations and those of their customers. The Alliance aims to promote digital technologies and data-driven tools that will accelerate solutions targeting the impacts of climate change, water access and stress, and decarbonizing energy systems that impact economic development, business growth, social well-being, and ecosystem health.

As the pace of digital transformation accelerates across every sector of the U.S. and global economy, companies are increasingly leveraging an array of digital tools and platforms to optimize business efficiencies, drive sustainable outcomes, and reduce climate impacts. The Digital Climate Alliance members are building and utilizing digital solutions to improve efficiency and reduce the environmental impacts - or "footprint" - of their companies, products, and services. They are also using their digital "handprint" to enable their customers and supply chains to meet their own climate action and sustainability goals.