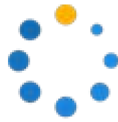
American Bankers Association

California
CREDIT UNION LEAGUE



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June 21, 2023
The Honorable Scott Wiener
Member, California State Senate
1021 O St., Ste 8620

RE: <u>Opposition to Senate Bill 253 (Wiener): Climate Corporate Data Accountability Act</u>

We are writing to express concern regarding the inclusion of financed emissions, particularly Scope 3 financed emissions, in the disclosure requirements contemplated in SB 253, the Climate Corporate Data Accountability Act, as well as to highlight the high potential for conflict between the bill and climate disclosure regimes currently pending at the federal and international level. As currently drafted, SB 253 creates a corporate disclosure regime designed to provide emissions information to the general public. The bill would require U.S. companies doing business in California to disclose annually audited amounts of Scope 1, 2, and 3 greenhouse gas emissions (GHGs) in accordance with the Greenhouse Gas Protocol (GHG Protocol). We are concerned that the inclusion of financed emissions data is counterproductive to the stated goals of the legislation. For emissions information to be useful to the public and actionable to policymakers, it must be clear, consistent, and easy to interpret. The information reported from the disclosure of Scope 3 financed emissions will not meet that standard without agreed-upon methodologies for calculating emissions.

Under SB 253, companies would be required to measure not only the GHGs of their own operations (included within classifications known as “Scope 1” and “Scope 2”) but also GHGs that result from the “value chains” of their products and services (“Scope 3”). Scope 3 GHGs measure emissions from suppliers and customers, including those emissions generated by how individual consumers obtain, use, and dispose of their products. Scope 3 guidance also measures “financed emissions” of certain companies through their investment and lending activities. Reported GHGs of banking institutions would therefore include not only the Scope 1, 2, and 3 GHGs of their own operations but also a portion of Scope 1, 2, and 3 emissions of each borrower or company in their loan portfolios.

Banks and other financial services institutions are uniquely positioned as intermediaries in our economy – financing everything from the corner store to the city government to the multi-national corporation. Consequently, requiring banks to calculate and report their “financed emissions” would sweep in a tremendous amount of duplicative information. The GHG Protocol acknowledges that significant double counting will occur based on where the borrower exists

within a value chain – be it a supplier, a customer, or the ultimate consumer. While SB 253 proposes to limit the disclosure requirement to reporting entities with more than $1 billion in annual revenue, bank customers could find it costly and challenging to supply detailed and reliable value chain information to their lenders, especially without an accepted standardized calculation methodology. In addition to large corporations, information from consumers, small businesses, municipal entities, and federal agencies will be needed. Without a standardized calculation methodology, reporting will depend primarily on untimely, inconsistent, and unreliable practices and estimates from this diverse set of entities.

Further, the Scope 3 financed emissions reported by banks and other financial services institutions are likely to reflect little other than the asset size of the entity. Larger entities will appear to have greater emissions because they report the entire value chain information from more or larger customers. Smaller entities will appear to have lower GHG emissions only because they serve fewer customers. If the goal of the legislation is to identify high GHG emitters, Scope 3 financed emissions will only muddy the water. Indeed, many banks and financial services institutions are working with their customers to assist in climate transition efforts, and aggregated financed emissions amounts may distort that positive work.

Certain stakeholders believe that the Scope 3 estimation process can quickly be performed by using public databases of emission factors often used by companies in estimating GHGs. This is false. There are hundreds of possible data sources for GHG emissions, which vary by industry sector and all with different starting points and levels of granularity and accuracy. Methodologies for these emission factor estimates are only just being developed for limited sectors and even where methodologies have been developed, they are not universally accepted by all banks or other businesses. Further, sustainability-related auditing standards have yet to be proposed, putting into question the extent of detailed documentation needed to develop and support this information. Therefore, it will take several years before reliance on such factors can be achieved, and due to expected improvements in energy technologies, some question whether such factors will ever provide reliable information on a timely basis. As a result, at this stage, Scope 3 financed emission disclosures could be subject to incomplete reporting and inconsistent application, yielding inaccurate and potentially misleading results. Relying on those results could produce ineffective or even counterproductive policy decisions, undermining the stated purpose of SB 253 to create a comprehensive and actionable view of corporate pollution in California.

That outcome is made more likely given that SB 253 differs from but is being considered at the same time as the Security Exchange Commission (SEC) proposal to require GHG disclosures to help investors assess climate-related risk. In addition, significant efforts are underway internationally through the International Sustainability Standards Board (ISSB) of the International Financial Reporting Standards Foundation (IFRS) – to which the SEC is contributing – to create detailed, global climate disclosure requirements that are consistent and interoperable

for public companies. The initial ISSB standards are scheduled to take effect in January 2024, and the SEC standards could be effective shortly thereafter. It remains unclear how the SEC and ISSB standards will or will not conflict with or duplicate requirements. We strongly recommend that any California requirements align with, or be compatible with, federal standards or other international standards incorporated by U.S. authorities.

The GHG Protocol can potentially be a useful tool for companies to aid their work toward specific targets related to their climate footprints. Because agreed-upon methodologies do not yet exist, accurate and actionable public reporting will be difficult and expensive, and the inclusion of financed emissions in the reporting requirements will make it difficult for consumers and policymakers to identify more useful and actionable data.

Consequently, we urge you to exclude Scope 3 financed emissions from the bill until agreed-upon methodologies for calculating Scope 3 emissions are established. As currently drafted, we must respectfully oppose SB 253 and urge California legislators not to pass the bill at this time.

Sincerely,

California Bankers Association
American Bankers Association
Bank Policy Institute
California Credit Union League
Credit Union National Association
Insured Retirement Institute
Securities Industry and Financial Markets Association

Cc: All Members, Assembly Committee on Natural Resources
Lawrence Lingbloom, Chief Consultant, Assembly Committee on Natural Resources
Casey Dunn, Consultant, Assembly Republican Caucus

MC:ec