ESG Reporting: what the SEC proposal on climate change disclosures means for business

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Agenda

1 Overview of the SEC proposal to mandate climate-related disclosures

2 Next steps for the SEC and organizations

3 Q&A

Learning objectives

- Provide context on the new SEC climate-related disclosures proposal for corporate reporting
- Discuss what the proposal means for organizations at any stage of environmental, social and governance (ESG) reporting
- Expectations for the comment period

Today's speakers

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Polling question 1

Which business function do you represent within your organization?

A.	Risk
B.	Finance
C.	Human Resources
D.	Legal
E.	Sustainability
F.	Other
G.	Not sure

Statements from the SEC

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SEC proposal on climate change disclosures

Why is the SEC proposing the disclosures, and why now?

Why is the SEC proposing the new disclosure rules?

- Many investors are seeking more information about the effects of climate-related risks on a company's business to inform their investment decision-making.
- Investors have expressed a need for more consistent, comparable and reliable information about how a registrant has addressed climate-related risks when conducting its operations and developing its business strategy and financial plan.
- The SEC said the proposed disclosures are fundamental to investors' understanding of the nature of a registrant's business and prospects and, therefore, should be presented together with other disclosures about the registrant's business and its financial condition.
- Proposed rules would affect all registrants, including:
  - Smaller reporting companies (SRCs), emerging growth companies and foreign private issuers
  - Companies entering the US capital markets for the first time by initial public offering
  - Acquisition targets of public companies in a Form S-4

Highlights of the proposed rules

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Proposal on climate-related disclosures

Components of the new rules

Disclosures outside the audited financial statements

- Narrative disclosures about climate-related risks, their impact and how the company manages them
- Quantitative disclosures about greenhouse gas (GHG) emissions

Disclosures in the audited financial statements

- Climate-related impacts of events and transition activities on each financial statement line item
- Aggregate amount of climate-related costs both expensed and capitalized
- Climate-related impacts on estimates and assumptions used to prepare financial statements

Disclosure location considerations

- All information would be subject to disclosure controls and procedures (DCPs)
- Financial statement disclosures would be subject to internal control over financial reporting (ICFR)

Assurance

- Scope 1 and 2 emissions, first subject to limited assurance and later reasonable assurance for all but non-accelerated filers and SRCs

Timeline of transition for all issuers

- Dependent on a registrant's filer status and would be phased in, beginning with fiscal year 2023

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Narrative disclosures

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SEC proposal and the Task Force on Climate-related Financial Disclosures (TFCD)

- The SEC's proposed climate-related disclosure framework is modeled in part on the TCFD's recommendations.
- TCFD requires capabilities to be embedded into an organization's risk framework and strategic decision-making.
- The TCFD recommendations approach climate-related financial disclosure through the lens of financial materiality and focus on the financial impact of climate-related risks and opportunities on an organization, rather than the impact of an organization on the environment.
- The recommendations center on four thematic areas of how organizations operate. These thematic areas interlink and inform one another.

1 **Governance:** The organization's governance around climate-related risks and opportunities

2 **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning

3 **Risk management:** The processes used by the organization to identify, assess and manage climate-related risks

4 **Metrics and targets:** The metrics and targets used by the organization to assess and manage relevant climate-related risks and opportunities

Source: "Final Report: Recommendations of the TCFD on Climate-related Financial Disclosures," TCFD, June 2017.

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Governance disclosure

- The oversight and governance by the board and management of climate-related risks, the risk management process and the registrant's response
- Describe the board of director's oversight of climate-related risks and opportunities, **if applicable**, including disclosing the following:
  - Which board members or committees are responsible for managing climate-related risks and their expertise
  - The frequency and manner of board discussions and whether climate-related risks are part of the entity's business strategy, risk management and financial oversight
  - Whether and how the board sets climate-related targets or goals, including how it oversees progress against those targets or goals
- Describe management's role in assessing and managing climate-related risks and opportunities, **if applicable**, including the following:
  - Whether certain management positions or committees are responsible, and if so, their identity and relevant expertise
  - The process by which management is informed about and monitors climate-related risks
  - Whether and how frequently such positions or committees report to the board

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Disclosure regarding climate-related impacts on strategy, business model and outlook

- How any climate-related risks identified by the registrant have had or are reasonably likely to have a material impact on its business and consolidated financial statements over the short, medium or long term should be disclosed.
  - The SEC did not define a specific range of years for the time horizons to allow flexibility for a registrant to select the time horizons that are most appropriate, but the registrant would be required to describe how it defines these time horizons.
  - Both current and forward-looking disclosures are required, including how any resources are being used to mitigate climate-related risks.
- **If** the registrant uses scenario analysis to assess the resilience of its business strategy to climate-related risks, disclosure would have to include a description of the scenarios used, as well as the parameters, assumptions, analytical choices and projected principal financial impacts.
- **If** a registrant uses an internal carbon price, disclosure must include information about the price and how it is set.

Risk management disclosure

- The registrant's processes for identifying, assessing, and managing climate-related risks and whether any such processes are integrated into the registrant's overall risk management system or processes

- **If** the registrant has adopted a transition plan as part of its climate-related risk management strategy, a description of the plan, including the relevant metrics and targets used to identify and manage any physical and transition risks

Polling question 2

How would you describe your organization's climate reporting?

A.	Full climate reporting, either included in annual reporting or separately published
B.	Some climate reporting information included on our website
C.	No climate reporting
D.	Other
E.	Not sure

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Quantitative disclosures outside audited financial statements

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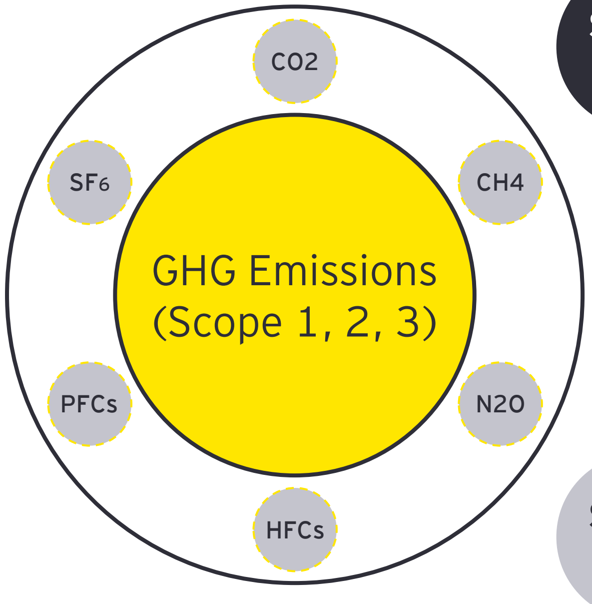
GHG emissions (Scope 1, 2, 3)

GHG emissions[1] means direct and indirect emissions of greenhouse gases expressed in metric tons of carbon dioxide equivalent (CO2e).



Scope 1
Scope 1 emissions are **direct** GHG emissions from operations that are owned or controlled by a registrant.

Scope 2
Scope 2 emissions are **indirect** GHG emissions from the generation of purchased or acquired electricity, steam, heat or cooling that is consumed by operations owned or controlled by a registrant.

Scope 3
Scope 3 emissions are all **indirect** GHG emissions not otherwise included in a registrant's Scope 2 emissions, which occur in the upstream and downstream activities of a registrant's value chain.

[1] Greenhouse gases means carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), nitrogen trifluoride (NF3), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulfur hexafluoride (SF6).

Quantitative disclosures outside financial statements

- GHG disclosures:
  - The registrant's Scope 1 and Scope 2 GHG emissions, separately disclosed, expressed both by disaggregated constituent greenhouse gases and in the aggregate, and in absolute terms, not including offsets, and in terms of intensity (per unit of economic value or production)
  - Scope 3, **if** material, or **if** the registrant has set a GHG emissions target or goal that includes Scope 3 emissions, in absolute terms, not including offsets, and in terms of intensity
    - Materiality would be assessed using the Supreme Court's reasonable investor standard, considering both quantitative and qualitative factors.
    - The proposal provides examples for registrants to consider regarding materiality.
  - Required to be presented for all years reported in the financial statements
    - Disclosure would include emissions for all entities that it consolidates or that are accounted for as equity method investees in the financial statements.
  - Additional disclosure would be required **if** the registrant has publicly set climate-related targets or goals, including progress toward those targets or goals and how the registrant intends to meet them.

Quantitative disclosures in audited financial statements

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Financial impact metrics

- Financial impact metrics:
  - Proposal would amend Regulation S-X to require a registrant to include disaggregated information about the impact of climate-related conditions and events, and transition activities, on the consolidated financial statements included in the relevant filing, unless the aggregate impact on an absolute basis is less than 1% of the total line item for the relevant fiscal year.

Financial statement line-item	Financial statement balance (from consolidated financial statements)	Impact of Events A and B	Impact of Event C	Impact of Transition Activity D	Absolute value of impacts	Percentage impact
Cost of revenue	$10,000,000	-$300,000	+$70,000	+$90,000	$460,000	4.6%

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Expenditure metrics

- Expenditure metrics:
  - Registrants would be required to disclose the aggregate amount of climate-related costs incurred that are both expensed and capitalized, unless the aggregate is less than 1%.

Expenditure category	Current fiscal year balances (from consolidated financial statements)*	Event D	Activity E	Event F	Percentage impact
Capitalized costs (total expenditure incurred during the year that was capitalized)	$8,000,000	$200,000	$100,000		3.85%
Expense (total expenditure incurred during the year that was expensed)	$3,000,000			$25,000	0.8%

Climate impacts on financial estimates and assumptions

- Financial estimates and assumptions:
  - The proposed rules would require a registrant to disclose whether the estimates and assumptions used to produce the consolidated financial statements were impacted by exposures to risks and uncertainties associated with, or known impacts from, climate-related events.
    - Including identified physical risks and severe weather events and other natural conditions
  - A qualitative description of how the estimates and assumptions were impacted by a potential transition or the registrant's disclosed climate-related targets would also be required.

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Polling question 3

Which department or function of your organization would you expect to be impacted the most by the SEC proposal?

A.	Risk
B.	Finance
C.	Human Resources
D.	Legal
E.	Sustainability
F.	Other
G.	Not sure

Disclosure location considerations

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Proposal on climate-related disclosures
Disclosure location implications

- All disclosures would be included in registration statements and annual reports and the registrant would need to have appropriate DCPs over the information.
- Disclosures inside the audited financial statements would be subject to audit as part of the financial statement audit and within the scope of the registrant's ICFR.
- All proposed disclosures would be subject to Sarbanes-Oxley Sections 302 and 906 certifications.
- Liability would be the same as other annual report disclosures with a safe harbor for Scope 3 emissions disclosures.
- Both narrative and quantitative climate-related disclosures would be electronically tagged in Inline XBRL.

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Proposal on climate-related disclosures
Assurance

- Scope 1 and Scope 2 emissions would first be subject to limited assurance and later reasonable assurance.
- Assurance providers would need to be independent and have significant experience in measuring, analyzing, reporting or attesting to GHG emissions.
- Registrant would make disclosures about whether:
  - The provider has a license from a licensing or accreditation body
  - The engagement is subject to an oversight inspection program
  - The provider is subject to record-keeping requirements for the engagement
- SEC did not specify attestation standards that would need to be used but did provide criteria for standards that would be acceptable.
- Obtaining voluntary assurance on GHG emissions also would trigger disclosure about the provider, the engagement and any relationships that might impair independence.

Next steps for the SEC and organizations

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Phase-in periods and accommodations for proposed disclosures

Registrant type	Compliance date		
	All disclosures, except for Scope 3	**Scope 3 GHG emission disclosures**	**Assurance on Scope 1 and 2 emission disclosures**
Large accelerated filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Limited Assurance – 2024 Reasonable assurance - 2026
Accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Limited Assurance – 2025 Reasonable assurance - 2027
Non-accelerated filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Exempt
Smaller reporting company	Fiscal year 2025 (filed in 2026	Exempt	Exempt

Source: 33-11042-fact-sheet.pdf (sec.gov)

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Next steps for the SEC and organizations
Providing feedback to the SEC

- The SEC invites comments on proposed rules and will consider the public's input as it determines next steps.
- What to consider when providing feedback to the SEC:
  - Submit only information that you wish to make available publicly
  - Decide whether the response should be individual feedback, part of an organization, or both
  - Format and theme of letter:
    - Answer specific questions posed by the SEC in the proposal
    - Only provide views on matters of interest
- The comment period will remain open for 30 days after publication in the Federal Register, or 20 May 2022, whichever is later.

Polling question 4

Will your organization or industry organization you are affiliated with send a comment letter response to the SEC's Request for Information for the climate proposals?

A.	Yes
B.	No
C.	Not sure

Q&A

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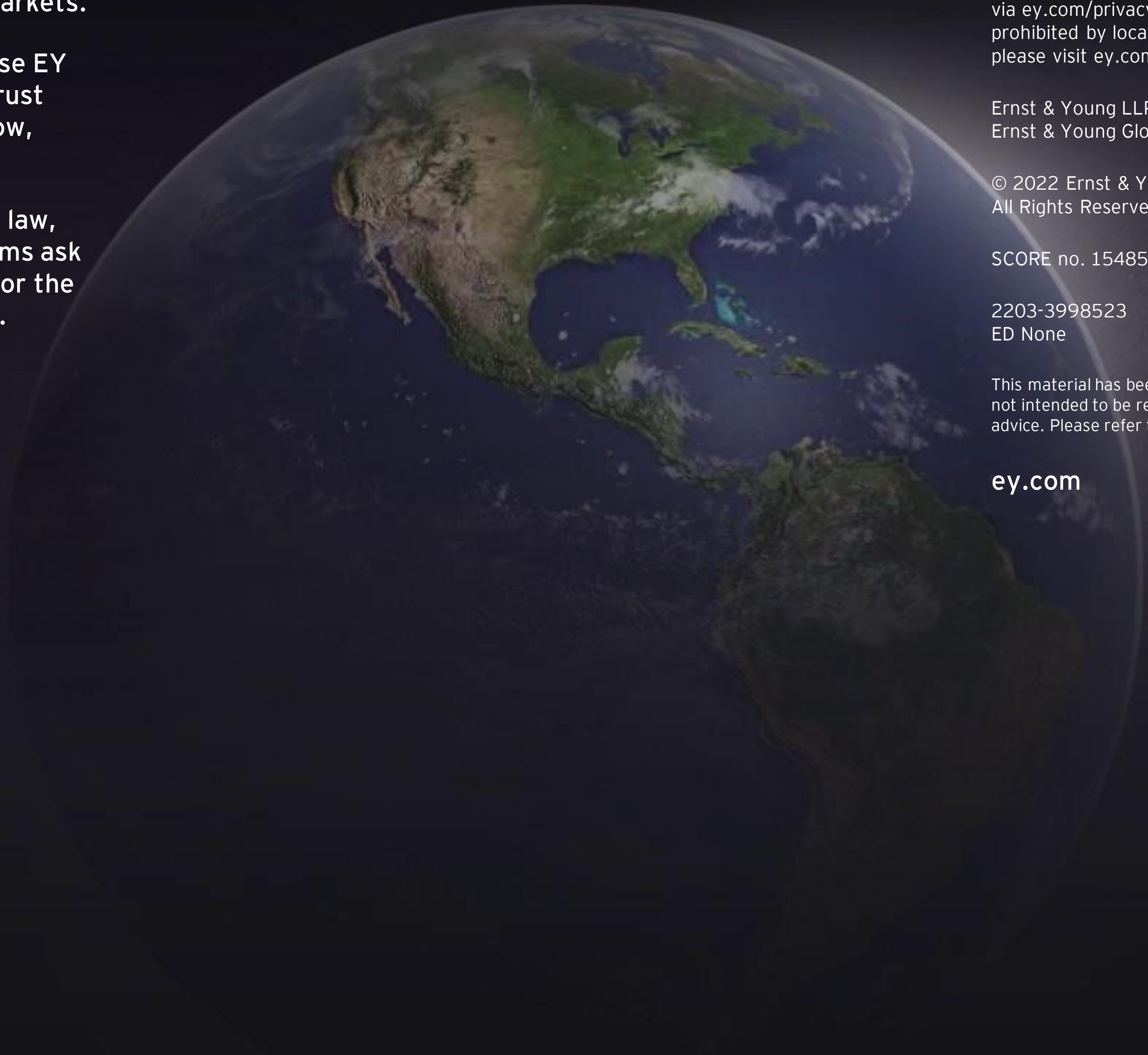

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