Proposed SEC Rule to Enhance and Standardize Climate-related Disclosures for Investors

Sustainability Matters Webinar

June 15, 2022

BSR®

Agenda

1. Context and driving forces behind the proposed SEC rule (5 min)
2. Overview of the proposed SEC rule (10 min)
3. BSR's perspective (10 min)
4. Facilitated discussion: Company perspectives (20 min)
5. Q&A (15 min)

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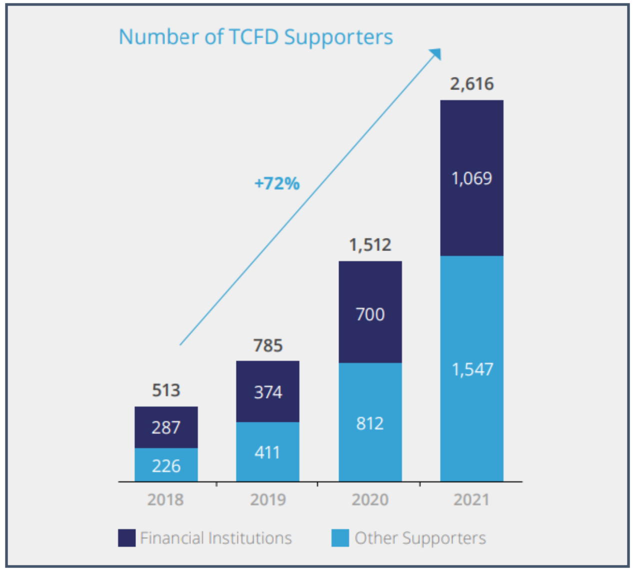
01

Context and Driving Forces Behind the Proposed SEC Rule

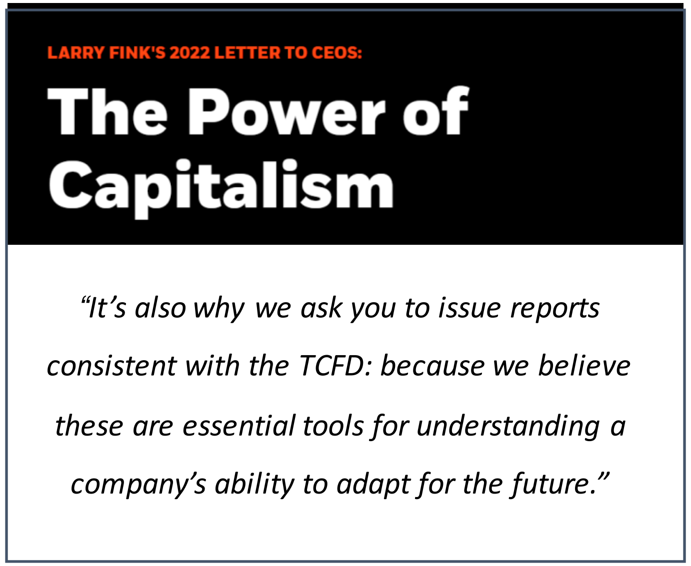
The Proposed Rule is Part of Global Movement

The proposed SEC climate-related disclosure rule is part of a global movement to improve and harmonize climate-related financial disclosures in ways that support informed investment decisions and drive ambitious action.

The EU and other jurisdictions outside the US are mandating climate disclosure



2600+ organizations support similar disclosures

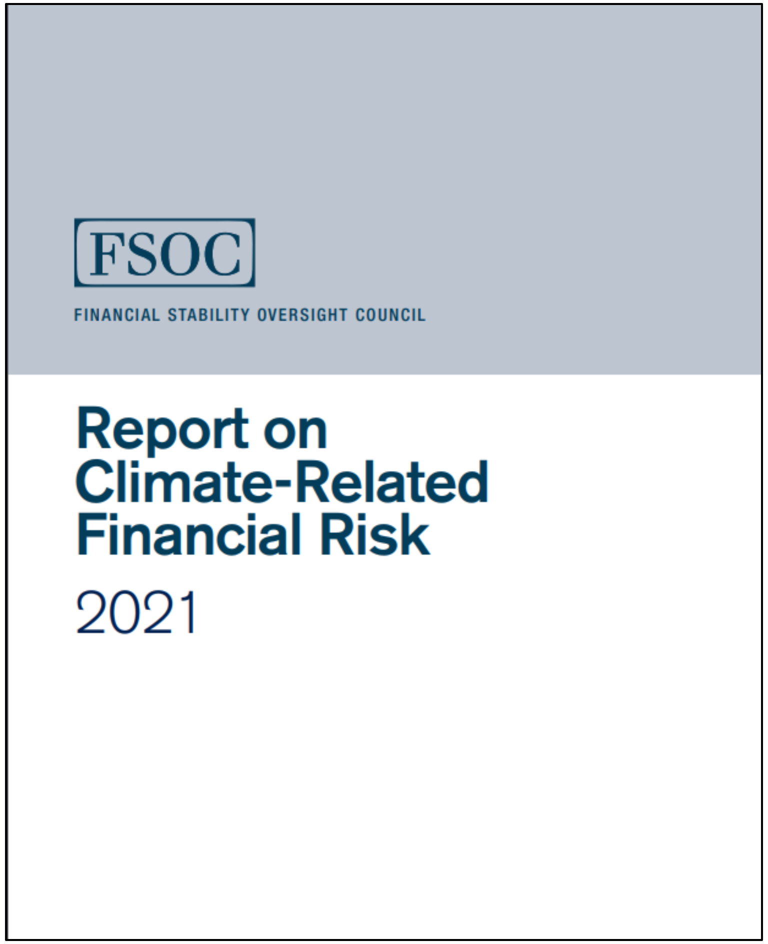


The world's largest asset managers are demanding them

US Financial Regulators Consider Climate Change a Financial Risk

In October 2021, The Financial Stability Oversight Council (FSOC) and its member agencies identified climate change as an emerging and increasing threat to U.S. financial stability.

- In the Report on Climate-Related Financial Risk, member agencies endorsed the recommendations of the TCFD and acknowledged how GHG emissions leads to great exposure to transition risks.
- The FSOC report recommended member agencies to:
  - Assess climate-related financial risks to financial stability
  - **Enhance climate-related disclosures**
  - Enhance actionable climate-related data to allow better risk measurement by regulators and in the private sector
  - Build capacity and expertise to ensure that climate-related financial risks are identified and managed
- Nine member agencies form part of the FSOC, including the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, Treasury Department, and Securities and Exchange Commission, among others.


FSOC
FINANCIAL STABILITY OVERSIGHT COUNCIL
Report on Climate-Related Financial Risk
2021

02

Overview of the Proposed SEC Rule

SEC Draft Climate Disclosure Rule | Overview

- On March 21st, 2022, the SEC voted to issue a draft **rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors**
- The rule will require domestic and foreign registrants to include the following climate-related information in financial filings:
  - “Climate-related **risks and their actual or likely material impacts** on the registrant’s business, strategy, and outlook;
  - The registrant’s **governance** of climate-related risks and relevant risk **management processes**;
  - The registrant’s GHG emissions, which, for accelerated (>$75m) and large accelerated filers (>$700m) and with respect to certain emissions, would be **subject to assurance**;
  - Certain climate-related **financial statement metrics** and related disclosures in a note to its audited financial statements; and
  - Information about climate-related **targets and goals, and transition plan,** if any”
- The draft rule includes a proposal to add a **subpart on Regulation S-K**, requiring disclosure of climate-related information, and a proposal to add a **new article to Regulation S-X**, requiring auditing of certain metrics and related disclosure
- The information included in the rule **aligns with the TCFD recommendations and GHG Protocol** and references are made to other existing voluntary standards

SECURITIES AND EXCHANGE COMMISSION
17 CFR 210, 229, 232, 239, and 249

[Release Nos. 33-11042; 34-94478; File No. S7-10-22]

RIN 3235-AM87

The Enhancement and Standardization of Climate-Related Disclosures for Investors

AGENCY: Securities and Exchange Commission

ACTION: Proposed rule.

SUMMARY: The Securities and Exchange Commission (“Commission”) is proposing for public comment amendments to its rules under the Securities Act of 1933 (“Securities Act”) and Securities Exchange Act of 1934 (“Exchange Act”) that would require registrants to provide certain climate-related information in their registration statements and annual reports. The proposed rules would require information about a registrant’s climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition. The required information about climate-related risks would also include disclosure of a registrant’s greenhouse gas emissions, which have become a commonly used metric to assess a registrant’s exposure to such risks. In addition, under the proposed rules, certain climate-related financial metrics would be required in a registrant’s audited financial statements.

DATES: Comments should be received on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER OR MAY 20, 2022 (WHICH IS 60 DAYS AFTER ISSUANCE), WHICHEVER PERIOD IS LONGER].

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s internet comment form (https://www.sec.gov/rules/submitcomments.htm).

SEC Draft Climate Disclosure Rule | Strategy, Business Model, and Outlook

- The proposed rule would require registrants to disclose **material climate risks with impact** on business or consolidated financial statements
  - Must include short, medium and long-term risks.
  - The SEC does not propose definitions of “short” “medium” and “long” term, and leaves it to the company to define and describe in order to allow flexibility for companies’ specific circumstances
- Describe **<u>if and how</u> the registrant has considered potential impacts** of climate risks on business strategy, financial planning and capital allocation
  - Current and forward-looking impacts, including time horizon of each impact
  - How elements of the disclosure (e.g., financial metrics, GHG emissions, and targets) relate to business model and strategy
  - The role of offsets and renewable energy credits (RECs), <u>if applicable</u> (i.e., if the registrant uses them as part of its net emissions reduction strategy or if linked to a climate target or goal)
- Describe **<u>if and how</u> climate risks have affected or are reasonable likely to affect** consolidated financial statements

SEC Draft Climate Disclosure Rule | Risk Management and Governance

Risk Management

- Registrants would disclose their **processes** for identifying, assessing and managing climate risks and opportunities. Including if:
  - Process if **integrated into overall risk management** or not
  - If a **separate board committee oversees** handling climate risks and if it engages other committees in the process
- Registrants would also disclose how they:
  - Determine **materiality** of risks and **relative importance** of each risk
  - Considers current **regulatory requirements** and **preference changes** in markets
  - <u>If applicable</u>, decides whether to **mitigate, accepts or adapt** to a risk; **prioritize** amongst risks; determine **how to mitigate** risks

Governance

- Registrants would disclose **oversight and governance** of climate risk management process and response governance by **board and management**
- **Board-related** disclosure would include: members and committee responsible (including climate-related expertise of those involved), processes and frequency of discussions, how the board or committee considers these topics as part of business strategy, how the board sets and oversees climate targets or goals, including interim ones.
- **Management-related** disclosure would include: if management is responsible for assessing and managing climate risks, experience of position holders, processes to be informed and monitor climate risks, frequency of report to the board.

SEC Draft Climate Disclosure Rule | Scenario Analysis and Carbon Pricing

Business Resilience and Scenario Analysis

- Describe **how resilient the registrant's business strategy** is to potential future changes in climate risks
- Describe **analytical tools used** to identify and assess climate risks that may impact the business and consolidated financial statements. If the registrant uses **scenario analysis**, disclose:
  - Scenarios considered
  - Parameters, assumptions, and analytical choices
  - Projected principal financial impacts on business strategy under each scenario - qualitative and quantitative information

Internal Carbon Pricing

- Registrants would disclose **if and how internal carbon pricing is used**. For each carbon price (if more than one) registrants should include:
  - Price per metric ton of CO_2e
  - Total price and how it is estimated to change over time, *if applicable*
  - Boundary of carbon price if different than GHG organizational boundary
  - Rationale for selecting the carbon price

Liability Safe Harbor

- **Forward-looking safe harbor** would apply to scenario analysis and to internal carbon pricing

SEC Draft Climate Disclosure Rule | GHG Emissions Disclosure

Emissions Disclosure

- **Scope 1 and 2 emissions disclosure** is required of **all companies** with phased compliance.
- **Scope 3 disclosure *would be*** required of all registrants, except for small reporting companies.
  - Disclosure will be **required if material or if registrant has set a target** that includes scope 3 emissions;
  - Includes "financed emissions"* for registrants in the financial sector;
  - Includes **safe harbor from liability**;
  - **Aligned with the GHG Protocol:** includes 15 upstream and downstream activity categories. Registrants must disclose which categories are included, the total for each category if "significant", and the data sources used to calculate emissions.
- Disclosure of **absolute emissions**, disaggregated by GHG and aggregated as CO_2e, and **GHG intensity**, in metric tons of CO_2 per unit of total revenue and per unit of production relevant to industry. Separate scope 3 emissions.
- **Disclosures would exclude** impact of purchased and generated **carbon offsets**.
- Registrants would need to describe **methodology, significant inputs and assumptions** used to calculate GHG emissions.

* GHG emissions from lending or investment activities

SEC Draft Climate Disclosure Rule | Assurance Requirements, Emissions

- Large accelerated and accelerated filers will be required to **submit an attestation report** from a third-party service provider **for their scope 1 and 2 emissions**.
  - Phased assurance for large accelerated and accelerated filers, starting with limited assurance and building towards reasonable assurance.
  - The attestation provider does not need to be Big 4.
- **Scope 3 emissions disclosures are not subject** to assurance.

The SEC provides guidance on assurance on providers and expectation on expertise, report standards, etc. (Section II.H.; Pages 215-266, proposed rule)

2. GHG Emissions Attestation Provider Requirements

The proposed rules would require the GHG emissions attestation report required by proposed Item 1505(a) for accelerated filers and large accelerated filers to be prepared and signed by a GHG emissions attestation provider.[608] The proposed rules would define a GHG emissions attestation provider to mean a person or a firm that has all of the following characteristics:

- Is an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions. Significant experience means having sufficient competence and capabilities necessary to:
  - perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
  - enable the service provider to issue reports that are appropriate under the circumstances.[609]
- Is independent with respect to the registrant, and any of its affiliates,[610] for whom it is providing the attestation report, during the attestation and professional engagement period.[611]

SEC Draft Climate Disclosure Rule | Targets, Goals, and Transitions Plans

Targets and Goals

- Registrants would disclose **targets or goals**, <u>if they have set any</u>.
- Targets and goals may be related to GHG emissions or other climate-related issues, such as energy use, ecosystem restoration, or revenue from low-carbon products.
- If a registrant has set a target or goal, it must disclose:
  - **About the target or goal:** Scope of activities and emissions, units of measurement (absolute or intensity), timeline for achieving target or goal, baseline period or emissions, and interim targets
  - **On progress:** how the registrant intends to meet the target or goal, data to show progress, and yearly updates

Transition Plans

- Registrants would disclose **transitions plans**, <u>if they have adopted any</u>.
- If a registrant has adopted a transition plan, it must disclose:
  - **About the transition plan**: description of the plan, metrics and targets used, mitigation or adaptation to risks, and opportunities, if applicable.
  - **On progress**: update each fiscal year.
- Transition plans are covered by existing safe harbor for forward-looking statements.

SEC Draft Climate Disclosure Rule | Note to the Financial Statements

- Registrants would be required to disclose the **impact of physical and transition risks in financial statements**. The impact of opportunities would be optional.
- Registrants would be required to disclose line-item impacts, unless the aggregate impact on an absolute basis is <1% of the total line item.
- Disclosures would include **financial estimates and assumptions** used.
- **Negative and positive impacts** would need to be disclosed separately.
- Climate-related financial disclosures would be **reasonably assured** as with other content of the financial statement.

> To provide additional clarity, the proposed rule would include the following examples of disclosures that may be required to reflect the impact of the severe weather events and other natural conditions on each line item of the registrant's consolidated financial statements (*e.g.*, line items of the consolidated income statement, balance sheet, or cash flow statement):[353]
>
> - Changes to revenue or costs from disruptions to business operations or supply chains;
> - Impairment charges and changes to the carrying amount of assets (such as inventory, intangibles, and property, plant and equipment) due to the assets being exposed to severe weather, flooding, drought, wildfires, extreme temperatures, and sea level rise;
> - Changes to loss contingencies or reserves (such as environmental reserves or loan loss allowances) due to impact from severe weather events; and
> - Changes to total expected insured losses due to flooding or wildfire patterns.[354]
>
> With respect to the financial impacts of transition activities, the proposed rule would include the following examples of potential impacts:
>
> - Changes to revenue or cost due to new emissions pricing or regulations resulting in the loss of a sales contract;

The SEC provides examples of physical and transitions risks and how these would be disclosed in financial statements (Section II.F.; Pages 110-146, proposed rule)

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SEC Draft Climate Disclosure Rule | Phased-In Filing Requirements

The draft rules include a phase-in period for registrants, with a compliance period dependent in their status.

Disclosure Requirement	Filing Year (Fiscal Year Covered)				
	2024 (FY23)	2025 (FY24)	2026 (FY25)	2027 (FY26)	2028 (FY27)
All proposed disclosure; Scope 1 & 2 emissions	Large Accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company
Scope 3 emissions		Large Accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer
Limited assurance for scope 1 and 2 emissions		Large Accelerated Filer	Large Accelerated Filer, Accelerated Filer	Accelerated Filer	
Reasonable assurance scope 1 and 2 emissions				Large Accelerated Filer	Large Accelerated Filer, Accelerated Filer
Audited financial statement notes	Large Accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company	Large Accelerated Filer, Accelerated Filer, Non-accelerated Filer, Small Reporting Company

Large Accelerated Filer — Accelerated Filer — Non-accelerated Filer — Small Reporting Company

Most BSR members

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03

BSR's Perspective

The SEC's Request for Comment

The proposal will be open for public comment until June 17, 2022. The SEC encourages companies to provide their input.

Conformed to Federal Register version

SECURITIES AND EXCHANGE COMMISSION

17 CFR 210, 229, 232, 239, and 249

[Release Nos. 33-11042; 34-94478; File No. S7-10-22]

RIN 3235-AM87

The Enhancement and Standardization of Climate-Related Disclosures for Investors

AGENCY: Securities and

ACTION: Proposed rule.

SUMMARY: The Securiti

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Securities Exchange Act of

higher transition risks to companies). These could enhance the reliability and usefulness of the scenario analysis for investors.

Request for Comment

19. Should we require a registrant to describe the actual and potential impacts of its material climate-related risks on its strategy, business model, and outlook, as proposed? Should we require a registrant to disclose impacts from climate-related risks on, or any resulting significant changes made to, its business operations, including the types and locations of its operations, as proposed?

20. Should we require a registrant to disclose climate-related impacts on, or any resulting significant changes made to, its products or services, supply chain or value chain, activities to

In the proposed rule, the SEC has included ~200 questions, which are found at the end of each section. The SEC has asked for detailed comments in answer to these questions but welcomes broader, high-level feedback as well.

BSR's POV on the Proposed SEC Climate-related Disclosure Rule (1 of 5)

In support of the SEC's current efforts to respond to market demand for comprehensive climate-related financial disclosures, BSR responded to the latest public consultation on climate-related disclosure and encouraged the Commission to publish a final rule that:

1

Includes disclosure requirements that are fundamental for effective climate-related decision making, and should therefore be reported without exception.

A final rule should be just as comprehensive as the proposed rule by requiring:

a. The **disclosure of scope 1, 2, and 3 emissions**

b. Assurance of scope 1 and 2 emissions disclosures

c. Governance metrics, including those that show board-level involvement

d. Climate-related disclosures **located in financial filings**, as climate risk represents financial risk

BSR's POV on the Proposed SEC Climate-related Disclosure Rule (2 of 5)

In support of the SEC's current efforts to respond to market demand for comprehensive climate-related financial disclosures, BSR responded to the latest public consultation on climate-related disclosure and encouraged the Commission to publish a final rule that:

2

Balances prescriptiveness and flexibility, and provides clear guidance to report preparers.

The SEC can achieve such a balance by providing greater clarity on elements of the proposed rule that are open to interpretation, such as:

a. A **clear methodology for measuring and disclosing scope 3 emissions**, including clarity on acceptable estimates

b. Guidance and **resources to perform climate scenario analysis**

c. Where applicable, a **clear definition of materiality**, particularly in aspects of the rule where materiality triggers disclosure

d. Encourage the use of **guidance on industry-specific disclosure** available from the Sustainability Advisory Standards Board (SASB) and the International Sustainability Standards Board's (ISSB) Climate Exposure Draft

BSR’s POV on the Proposed SEC Climate-related Disclosure Rule (3 of 5)

In support of the SEC’s current efforts to respond to market demand for comprehensive climate-related financial disclosures, BSR responded to the latest public consultation on climate-related disclosure and encouraged the Commission to publish a final rule that:

3

Provides additional accommodations for preparers.

BSR supports accommodations for preparers contained in the proposed rule, such as phase-in periods for scope 3 emissions disclosure and levels of assurance. The following measures would provide greater flexibility:

a. **Decoupling scope 3 emissions disclosures from fiscal year-bound reporting** period by allowing an extended period of acceptable estimates to validate data, if needed by a registrant

b. **Clarifying expectations related to re-baselining of goals and targets**, among other topics, in line with globally-accepted methodologies, such as the GHG Protocol.

BSR's POV on the Proposed SEC Climate-related Disclosure Rule (4 of 5)

In support of the SEC's current efforts to respond to market demand for comprehensive climate-related financial disclosures, BSR responded to the latest public consultation on climate-related disclosure and encouraged the Commission to publish a final rule that:

4

Supports the growing trend in the business community of ambitious voluntary commitments by taking a "comply or explain" approach for conditional disclosures.

BSR believes it is important for these requirements to encourage (rather than dissuade) reporters to take ambitious voluntary climate action. Some provisions of the proposed rule may disincentivize new climate action and target-setting by requiring disclosure only if the company has a plan or target in place.

The SEC can **adopt a "comply or explain" approach for conditional disclosures** where companies would either disclose their approach or explain why they do not have one.

The SEC can **provide guidance on reasonable explanations**, such as commercial confidentiality, legal prohibitions, the unavailability of information, and steps being taken towards greater disclosure in the future.

We also emphasize the importance of providing companies with a **strong liability shield** or "safe harbor" for certain disclosures where uncertainty is inherent in the information being reported.

BSR's POV on the Proposed SEC Climate-related Disclosure Rule (5 of 5)

In support of the SEC's current efforts to respond to market demand for comprehensive climate-related financial disclosures, BSR responded to the latest public consultation on climate-related disclosure and encouraged the Commission to publish a final rule that:

5

Is harmonized with relevant global reporting standards and requirements from other jurisdictions.

The SEC has taken an important step by building its proposed climate-related disclosure rule upon the broadly accepted TCFD and GHG Protocol frameworks.

The SEC's joining **the Sustainability Standards Advisory Forum will be crucial** to achieving interoperability and comparability with the ISSB's Climate-related Disclosure Standard and ESG reporting requirements from other jurisdictions.

BSR believes that the SEC should **allow the use of alternative reporting provisions** that are harmonized with criteria developed by the International Sustainability Standards Board (ISSB)

The option of disclosing climate-related information against such alternative reporting provisions should be **extended to all registrants.**

04

Company Perspectives

Today's Guests

We are joined by guest speakers from Etsy, Mercer International, and Meta.

Ajay Sureka

Global Technical Accounting Director

Etsy

Amanda Gardiner

Head, Sustainability Innovation & Engagement

Meta

Bill Adams

Vice President, Sustainability & Innovation

Mercer International

05

Q&A

Thank you

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