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WEBINAR SERIES

SEC Proposal on Climate-Related Disclosures: Feedback

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Wednesday, July 27 | 1-2 p.m. EST

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Amy Ripepi

- Managing Director and co-founder, Financial Reporting Advisors, LLC (www.FinRA.com)
- Served as managing partner of Arthur Andersen's national technical group. Also led its SEC Practice group.
- Consults, speaks and writes on a numerous SEC and financial reporting topics.
- Authors the Wolters Kluwer bi-monthly *GAAP Update Service.*

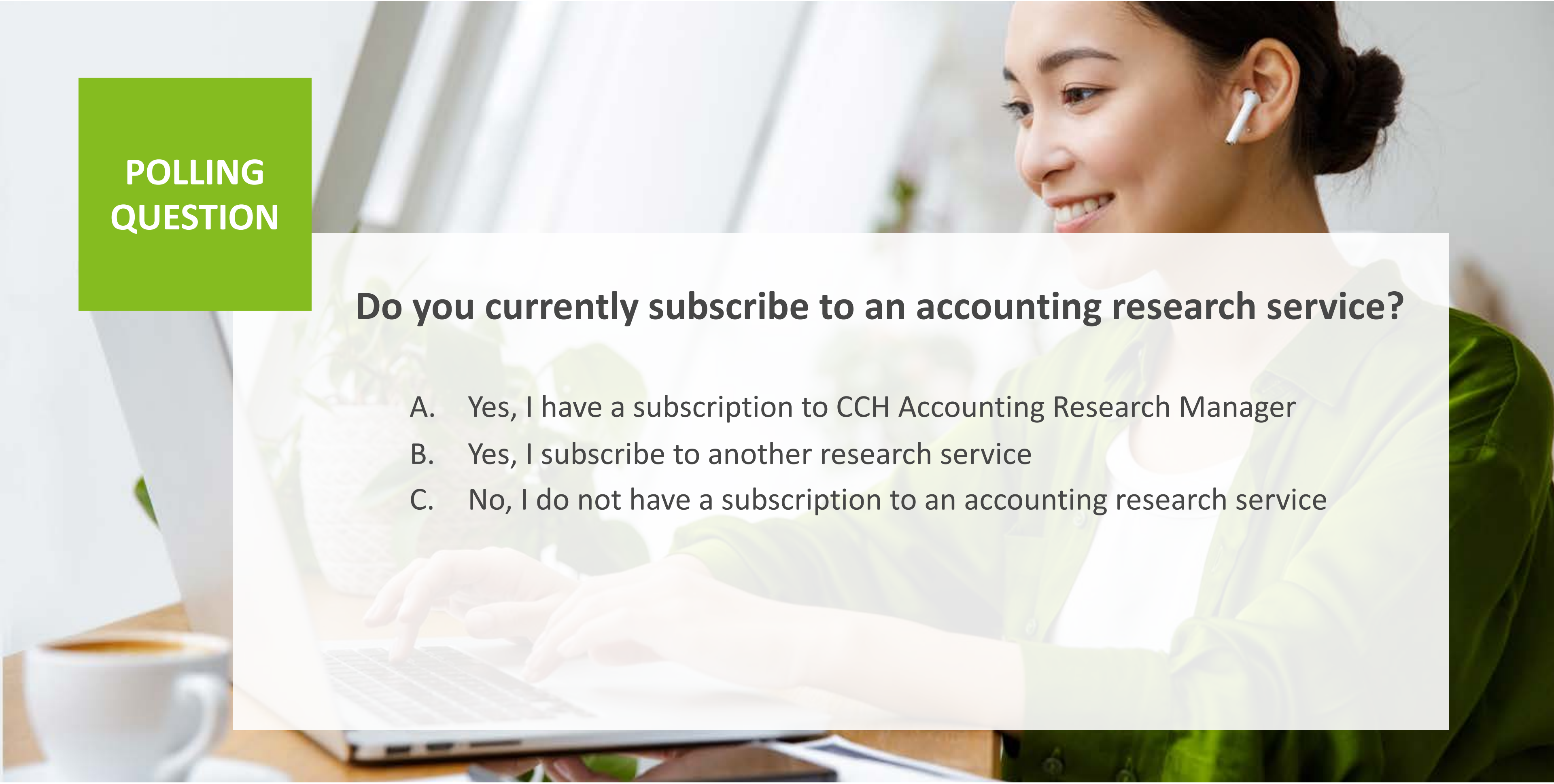
Highlights

SEC Climate-Related Disclosures Proposal: Feedback

- Overwhelming interest
- Business concerns about scope and cost
- Investor support but some concerns
- Numerous issues with financial metrics

Agenda

- **Proposed Disclosures**
- **Feedback**
- **Next Steps**
- **Additional Resources in CCH® Accounting Research Manager®**



POLLING QUESTION

Do you currently subscribe to an accounting research service?

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B. Yes, I subscribe to another research service
C. No, I do not have a subscription to an accounting research service

Proposed Disclosures

Overview of proposed disclosures

- Climate-related risks
  - Governance
  - Risk management
  - Strategy
  - Targets
- Greenhouse Gas (GHG) emissions
- Climate-related expenditures

Climate-related disclosures in SEC filings

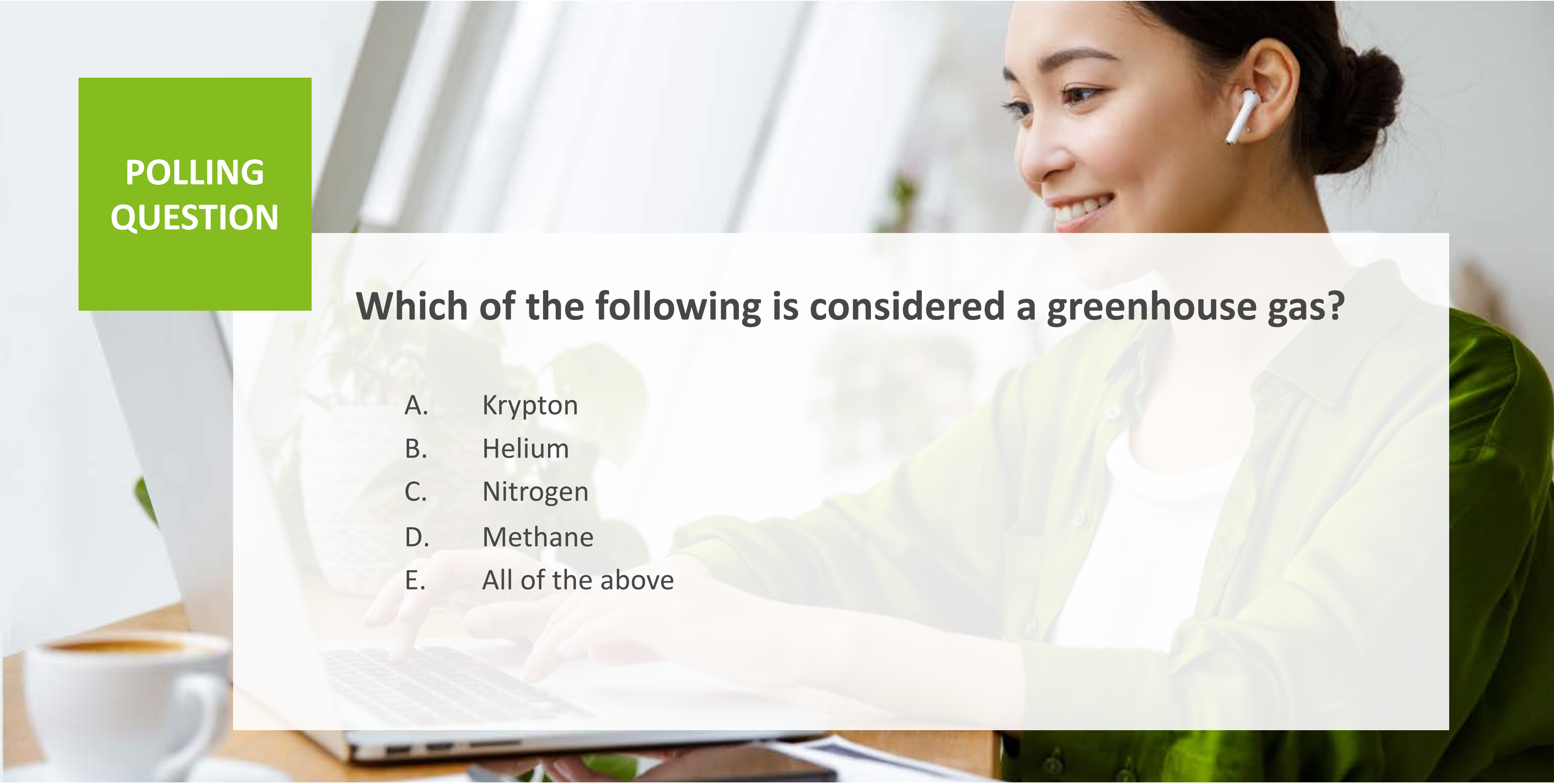
- Who?
  - Public companies (domestic and foreign)
  - No exemptions other than asset-backed issuers
- Where?
  - Registration statements and annual reports
- What?
  - Governance, including Board committees and Board member expert
  - Physical and transition risks that are reasonably likely to have material impact over short/med/long term
  - Risk management, including processes and transition plans
  - Strategy and analytical tools, such as scenario analysis

Climate-related disclosures in SEC filings *(cont'd)*

- What (continued)?
  - Targets and goals set internally or imposed by regulation (e.g. net zero by 2030)
  - GHG emissions metrics
    - Scope 1 and Scope 2 required regardless of materiality
    - Scope 3 if material *or* if company has set a target that includes Scope 3
    - Assurance report on Scope 1 and 2 for accelerated and large accelerated filers
  - Climate-related financial effects in notes to financial statements
    - Costs and financial impacts related to severe weather events, transition activities
    - Disclose if > 1% of line item
    - Covered by audit opinion and ICFR

Some terminology

- Climate-related risks
  - Actual or potential negative impacts of climate-related conditions and events on financial statements, business operations or value chains, as a whole.
- Greenhouse gas (GHG) emissions
  - Gases that trap heat in the atmosphere, thus making the earth warmer. Includes carbon dioxide, methane, nitrous oxide, various fluorinated gases.
  - Scope 1 - Direct emissions from sources controlled/owned by company (e.g. your factory)
  - Scope 2 - Indirect emissions from purchase of electricity, heat, cooling; result from company's energy use (e.g. your factory's electricity usage)
  - Scope 3 - Emissions that are both upstream and downstream of company's activities (e.g. customer's use of your products/your business travel on commercial airlines)
- Transition plan/Transition activities
  - Strategy and implementation plan/activities to reduce climate-related risks



POLLING QUESTION

Which of the following is considered a greenhouse gas?

A. Krypton
B. Helium
C. Nitrogen
D. Methane
E. All of the above

Feedback

Feedback

- More than 14,000 comments in total!
  - By comparison, concept release on 10-Qs and earnings releases received 70 comments
- Comments very diverse
- Looked at sample of letters from business and investors
  - Focus is on issues relevant to accounting/finance professionals
- Based on those letters, common themes address:
  - Rulemaking
  - Materiality
  - GHG emissions
  - Climate-related expenditures
  - Assurance

Feedback: Constituents

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Who wrote comments?

- Approximately 4,000 unique letters
- Individual investors ≈ 3,000 letters
- Remainder from:
  - Corporate sector
  - Institutional investors
  - Accountants and lawyers
  - Special interest groups
  - Think tanks
  - Politicians
  - Other, e.g. stock exchanges, accreditation groups

Feedback: Rulemaking

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Views on rulemaking by SEC

- Headlines don’t tell the whole story
- Corporate community largely supports rulemaking

  “Standard reporting practices not only provide more comparable disclosures for investors, but also provide registrants with overall cost savings in the long-term.”

  - But support for rules comes with caveats:
    - “principles-based approach guided by materiality”
    - “well-crafted rule that allows companies to report on the risks that they view as most important”
    - “rules that strike an appropriate balance”
- Investor community definitely supports rulemaking

  “Climate risk is investment risk.”

Feedback: Materiality

Views on materiality

- Proposed rules are too granular; not grounded in longstanding definition of materiality
  - Material means “a substantial likelihood that the … fact would have been viewed by the reasonable investor as having altered the ‘total mix’ of information available.”
- Corporate sector
  - “Prescriptive rules” ….. “Unduly burdensome” … “Do not allow for flexibility to provide meaningful disclosures”
- Investors
  - Some agree. Goal is meaningful information to investors without overwhelming them or “worse, obscuring their focus from more significant disclosures.”

Feedback: Climate-Related Risks

Views on climate-related risks

Proposed: governance, risks, strategy, transition plans, targets

- Corporate views
  - Too prescriptive
  - Discourages transition plans and scenario analysis
  - Physical risk by zip code too granular
  - Need clarity on “short/medium/long term”
- Investor views
  - Mostly positive, though some also find the rules overly prescriptive
  - Some agree that rules might discourage transition plans/scenario analysis. Others say those are “singularly important.”

Feedback: Greenhouse Gas (GHG) Emissions

Views on GHG emissions data

Proposed: Scope 1 and Scope 2 for all. Scope 3 in certain cases. Disaggregated by gas.

- Scope 1 and Scope 2 common themes
  - Generally support
  - Organizational boundaries a concern
    - Leased airplane example
    - Equity method/VIE example
- Scope 3 common themes
  - No common theme. Views are all over the map.
  - Some want voluntary only. Some want more targeted requirement. Some want only material gases or material categories. Argument is that data is “difficult to verify” and requirement is “premature.”
  - But some (corporate and investor) want mandatory disclosure.

Feedback: Climate-Related Expenditures

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Climate-Related Financial Effects — Examples

	Severe Weather or Other Natural Condition	Transition Activity
Financial Impact	$5mm impairment charge for asset damaged by severe weather	$400K increase to interest expense driven by climate-linked bond
Expenditure	$750K cost to move asset to less risky location	$1mm asset purchase to reduce GHG emissions

Views on climate-related financial effects

- Corporate views
  - Strongly object
  - 1% threshold burdensome and leads to meaningless data

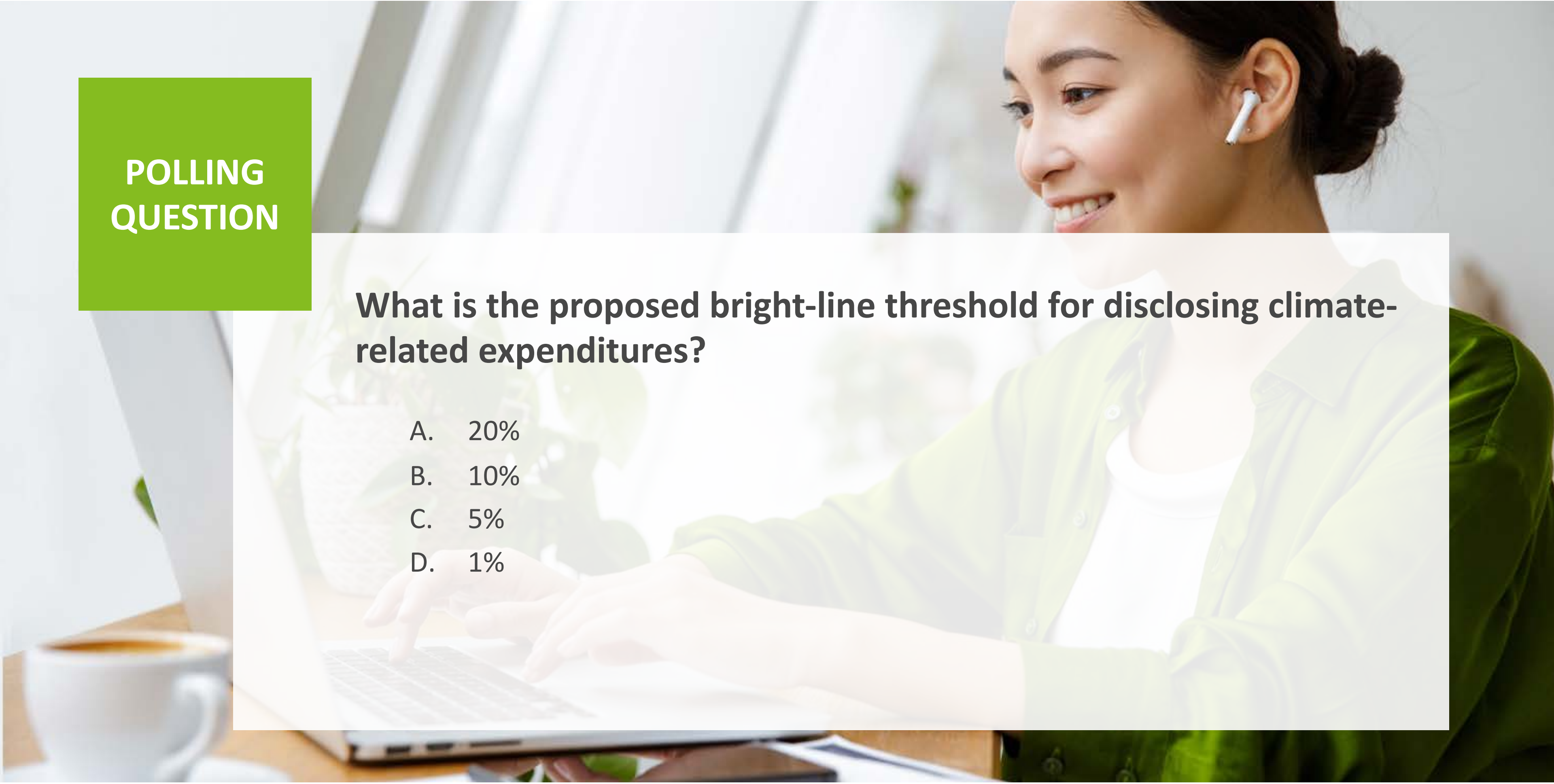
    "….places a disproportionate lens on impacts related to climate above all other material impacts to a company and its financial statements"
  - Definitions and measures highly judgmental with numerous allocations and estimates

    "…risks confusion among investors who may equate the level of detail with a level of precision that is not consistent with the nature of the disclosures"
- Investor views
  - Generally support disclosure but some agree

    " …for the time being, the SEC should dispense with this rule in favor of a more principles-based approach for reporting any financial statement metrics"

Views on climate-related financial effects

- Some of the operational issues raised:
  - How should the severity of a hurricane (or other weather event) be assessed?
  - What triggers disclosure for the financial effects of other natural conditions that chronic, such as a rise in sea level or a rise in temperature?
  - If financial impact should include "changes to revenues," how is that measured?
  - Is routine replacement of old vehicles a transition activity?
  - If a hurricane damages a warehouse and a new one is built that uses renewable energy is that a severe weather event or a transition activity or both?
  - If a vehicle fleet is converted from gas to electric, is the cost of the transition activity the cost of the fleet? The incremental cost (gas vehicles vs electric)? The cost less the fuel differential? The depreciation?



POLLING QUESTION

What is the proposed bright-line threshold for disclosing climate-related expenditures?

A. 20%
B. 10%
C. 5%
D. 1%

Feedback: Assurance
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Views on assurance reports

Proposed: Reports on Scope 1 and 2 emissions and on climate-related expenditures

- Corporate views
  - Generally do not support
  - Estimates by SEC significantly understate cost
- Investor views
  - Generally support
  - Some would accept limited assurance on emissions, some want assurance on all companies, some want assurance on all emissions
  - One suggests deferral of any requirement

Other

- Longer timeline for phase-in of new rules
- No comparative data at time of implementation
- Decouple climate data deadline from 10-K deadline
- Furnish, rather than file
- Exempt BDCs, REITs
- More exceptions/exemptions for smaller companies

Next Steps

No crystal ball, but…

- Last seminar

“Fully expect significant pushback as well as significant support”

- This seminar

“Expect many changes, but also expect new rules”

Basis for prediction?

- Option 1 – Issue rule as is.
  - Feedback suggests this is highly unlikely.
- Option 2 – Issue no rule.
  - Boilerplate disclosures more than 12 years after interpretive release makes this equally unlikely.
- Option 3 – Make changes and issue a rule.
  - Most likely outcome
  - Prediction regarding nature of changes ...
  - Prediction regarding timing of final rule ...

Additional Information in CCH® Accounting Research Manager®

Matt Seegmiller, Wolters Kluwer

Wolters Kluwer

Matt Seegmiller

Matt Seegmiller is a Sales and Business Development Manager for CCH® Accounting Research Manager® at Wolters Kluwer. He works with both CPA firms and Corporations sharing best practices to ensure they are utilizing CCH Accounting Research Manager to its fullest.

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POLLING QUESTION

Would you like a more in-depth demo of the tools and content available on CCH Accounting Research Manager?

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B. No

Thank you for attending

SEC Proposal: Feedback on Climate-Related Disclosures

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