

How to Prepare for Publicly Disclosing Your Enterprise's ESG Status

Preparing for the first round of ESG reporting mandates.

Agenda

Page	Topic
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5	Background
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44	Who Must File ESG Exposures
45	Where Will IFRS and SEC regulations apply?
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New ESG Mandates Starting in 2022

What is ESG?

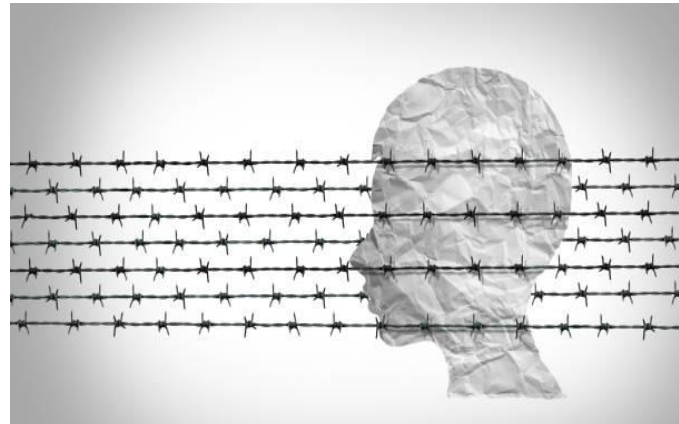
Environmental

- Water scarcity
- Energy efficiency
- Resource depletion
- Climate change
- Waste
- Pollution
- Deforestation



Social

- Human rights
- Modern slavery
- Gender and diversity
- Child labor
- Working conditions
- Employee relations
- Labor standards



Governance

- Bribery and corruption
- Executive pay
- Audit committee structure
- Tax strategy
- Board diversity and structure
- Political lobbying and donations



Which aspect of ESG will securities regulators address starting in 2022?

Environmental

- Water scarcity
- Energy efficiency
- Resource depletion
- Climate change
- Waste
- Pollution
- Deforestation



Social

- Human rights
- Modern slavery
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Climate Change: Same topic, but two different discussions

+ 1.5% C



**Prevent Increasing
Harm From Global
Warming**

- Famine
- Immigration
- Jobs
- Disasters
- Drought

* March 2022 Exposure Draft – Snapshot IFRS® Sustainability Disclosure Standards

Climate Change: Same topic, but two different discussions



**Prevent Increasing
Harm From Global
Warming**

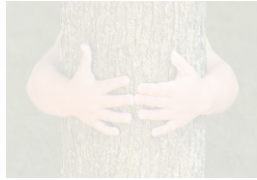


**Threats
to
Economies**

* March 2022 Exposure Draft – Snapshot IFRS® Sustainability Disclosure Standards

Climate Change: Today's discussion

+ 1.5% C



+ 2.0% C

- Famine
- Immigration
- Jobs
- Disasters
- Drought

Threats
to
Humans

Prevent Increasing
Chances of Capital
Markets Fraud

- Valuations
- Employment
- Disruptions
- Bankruptcies
- Recessions

* March 2022 Exposure Draft—Snapshot IFRS® Sustainability Disclosure Standards

Common characteristics shared by securities regulators around the world

1. All offers or sales of securities should be registered.
2. Investors should receive financial and other significant information about the securities being offered for public sale.
3. Investors should be protected from deceit, misrepresentations, and other fraud in the sale of securities.

Which new ESG mandates will securities regulators enact in 2022?



Section Summary: What new ESG mandates will arrive in 2022?

+ 1.5% C
Methane
Nitrous Oxide
+ 2.0% C
Global Warming
Green Washing
Greenhouse Gases
Hydrofluorocarbons
Perfluorocarbons



Environment, Social, Governance

- Environment will be the first ESG element to be regulated
- This ESG report is for businesspeople
- Securities laws protect against fraud
- ESG regulations will apply to thousands of companies around the world in 2022

CIO Recommendations

1. Create an ESG presentation for senior executives and board directors
2. Customize and deliver an ESG briefing for each senior executive, one executive at a time

How Did the World
Get Here?

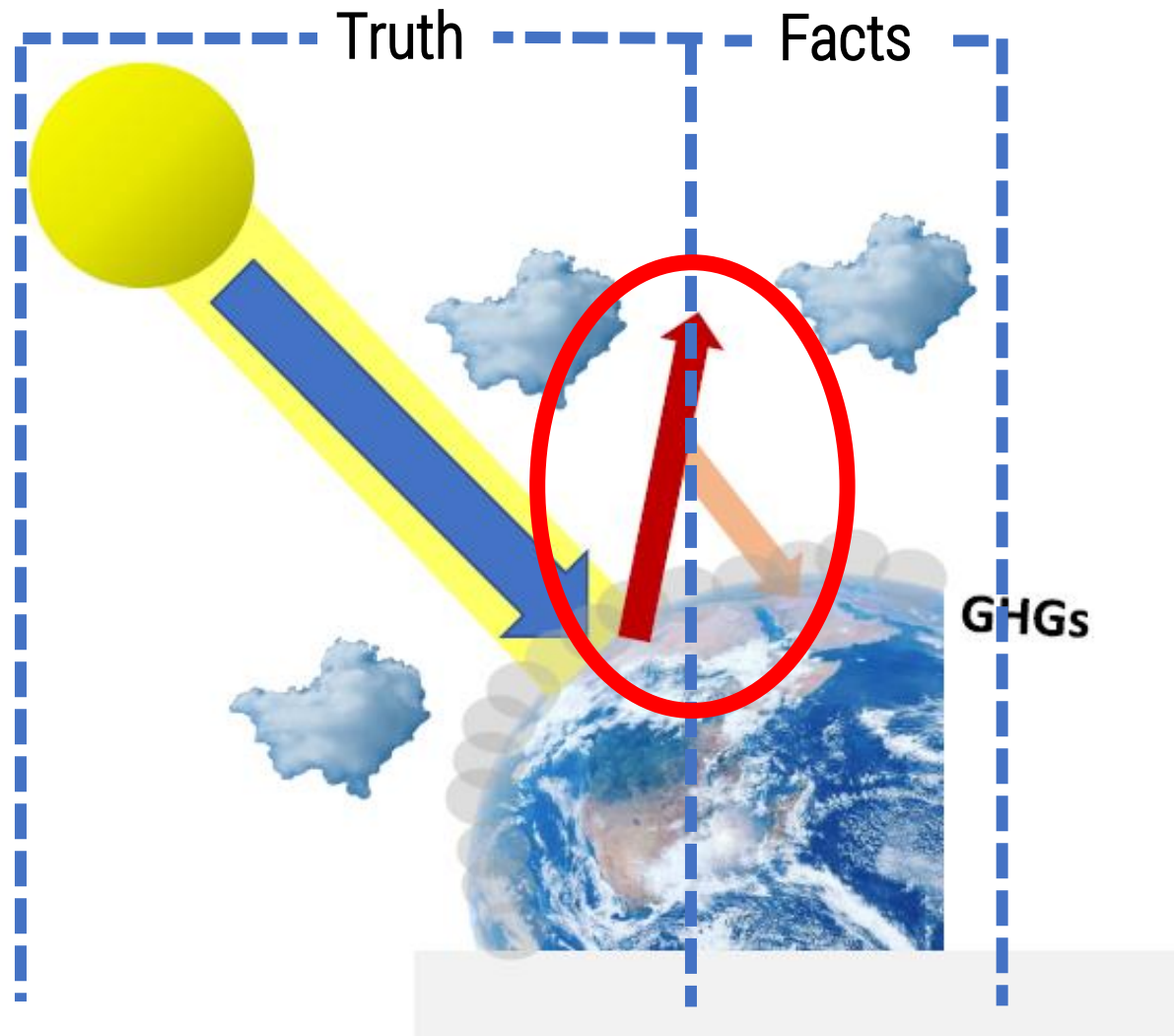
The Issue

Truth



The Issue

Facts = The Most Verifiable Version of Truth



Climate Change

Changes in surface temperature

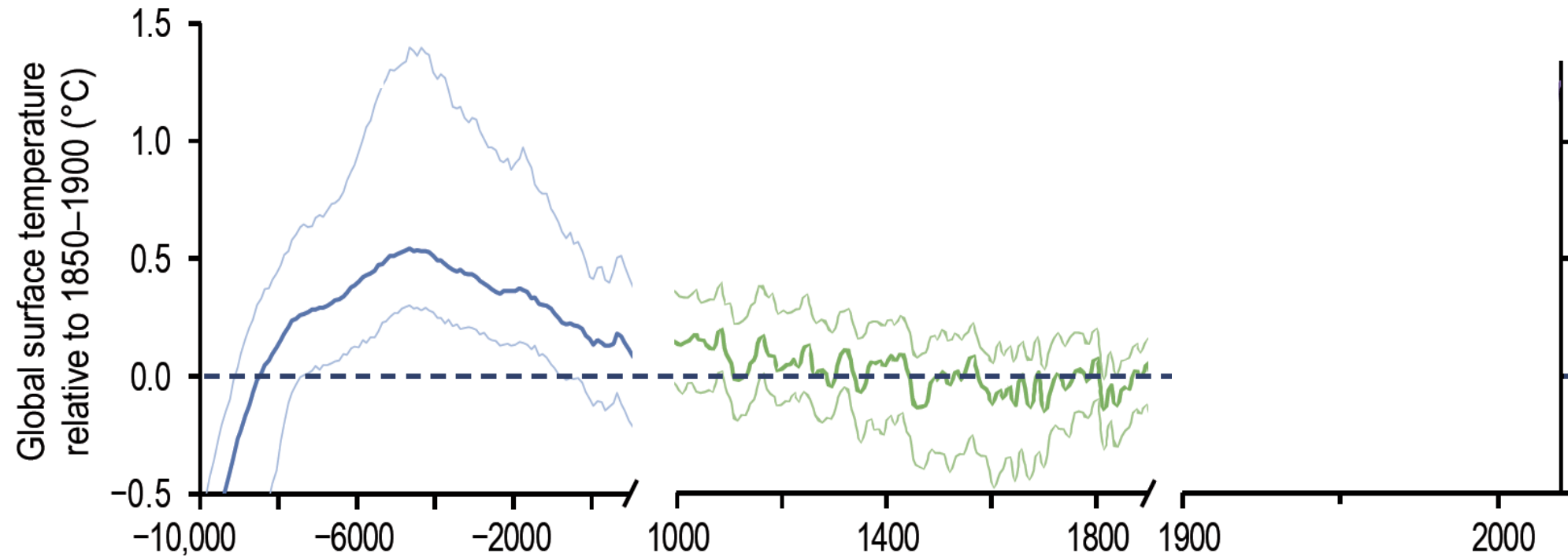
Climate Change

Changes in surface temperature

-10,000 -6000 -2000 1000 1400 1800 1900 2000

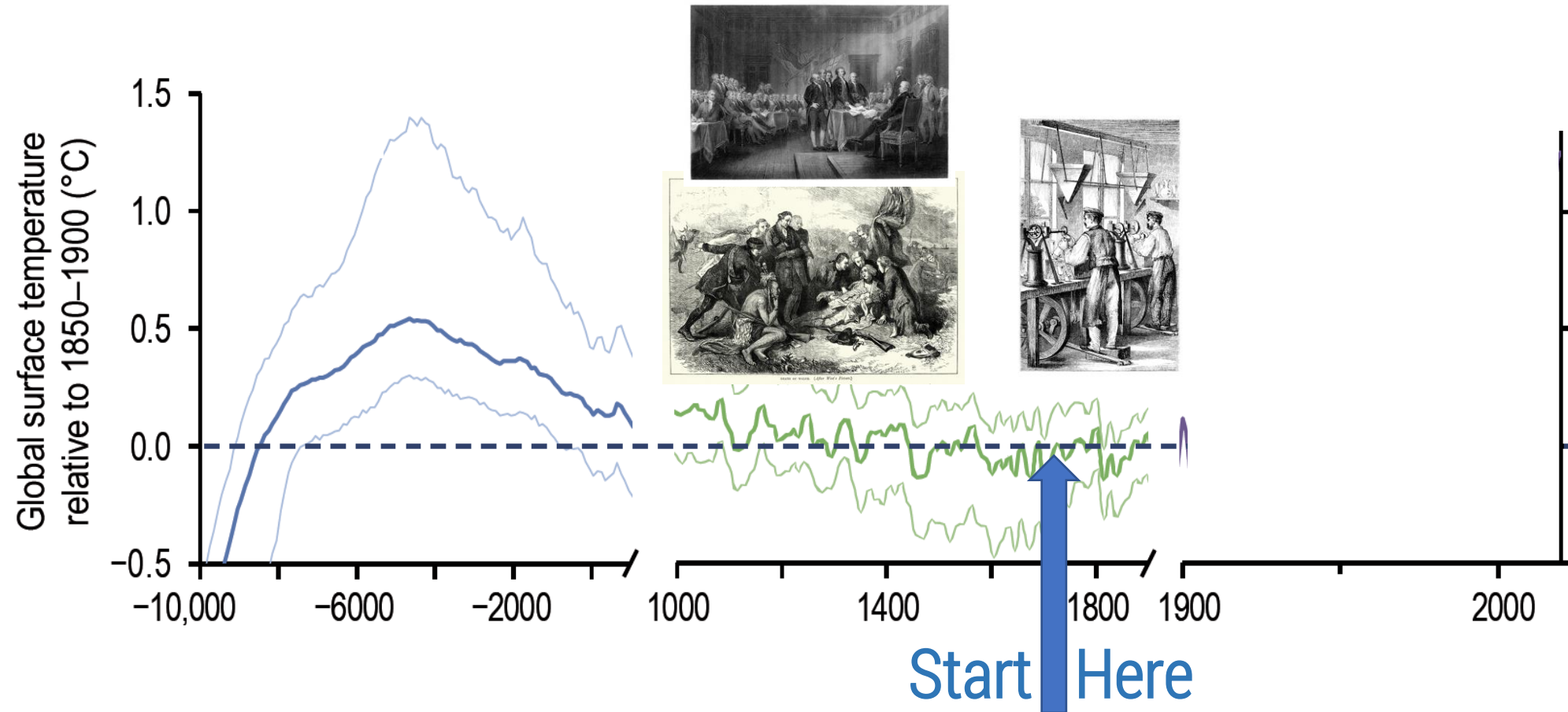
Climate Change

Changes in surface temperature



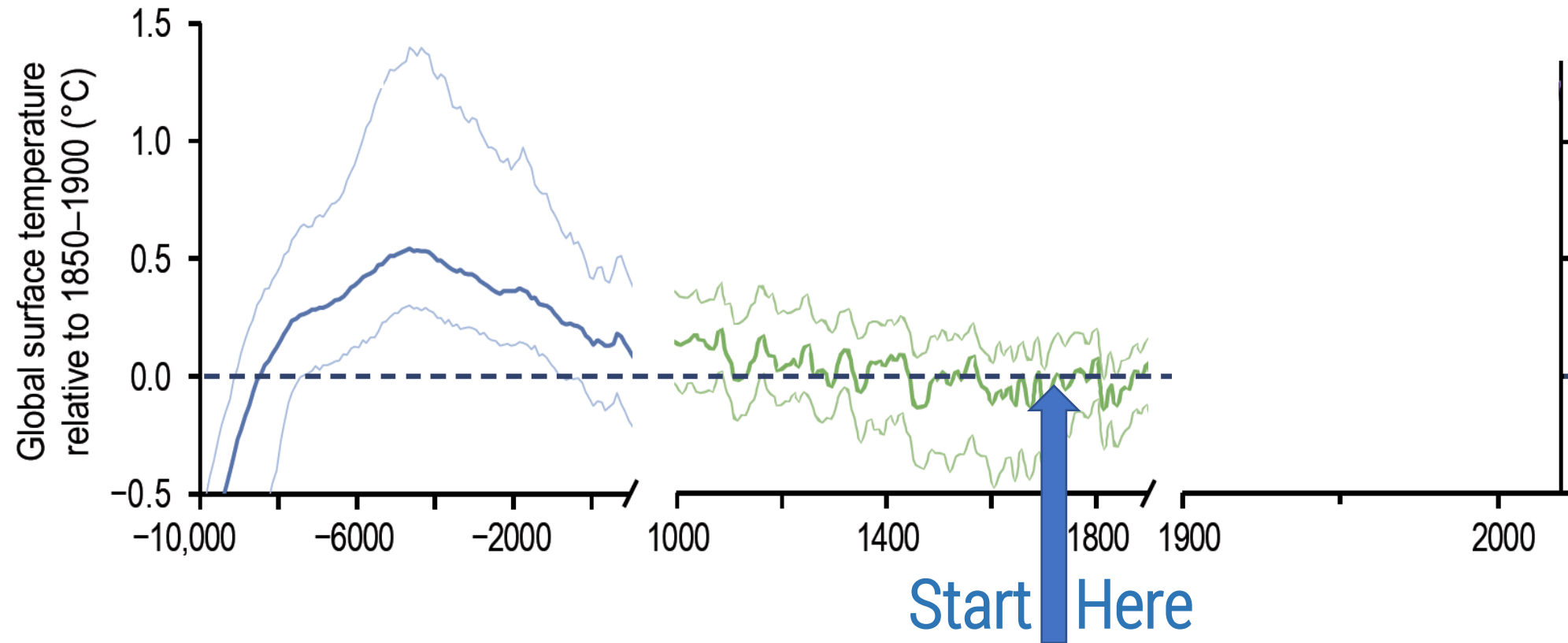
Climate Change

Changes in surface temperature



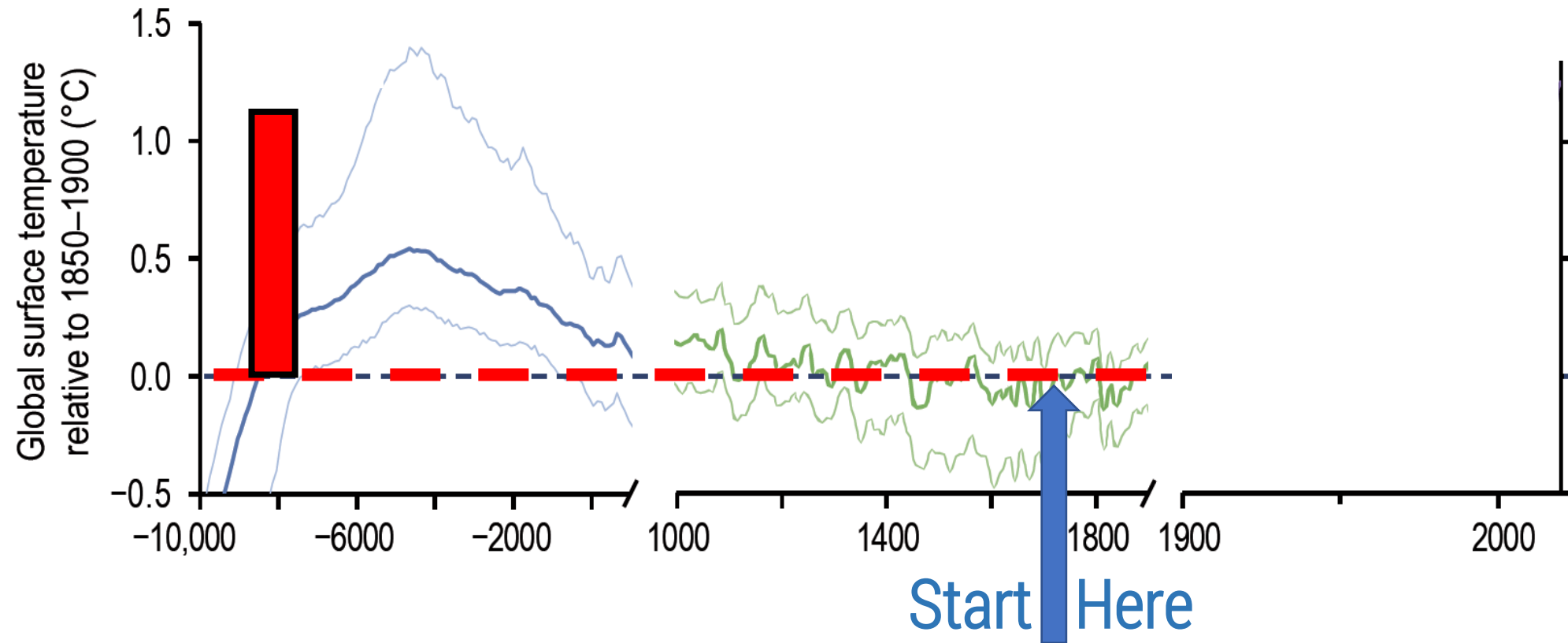
Climate Change

Changes in surface temperature



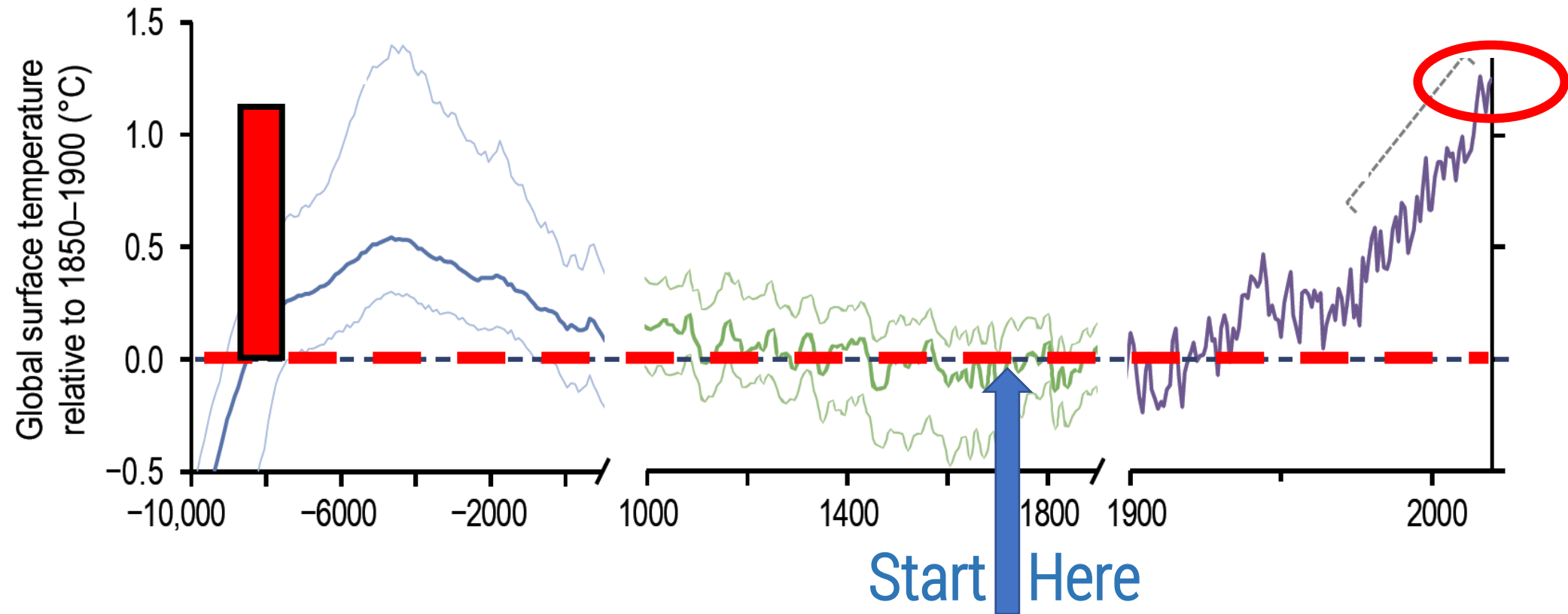
Climate Change

Changes in surface temperature



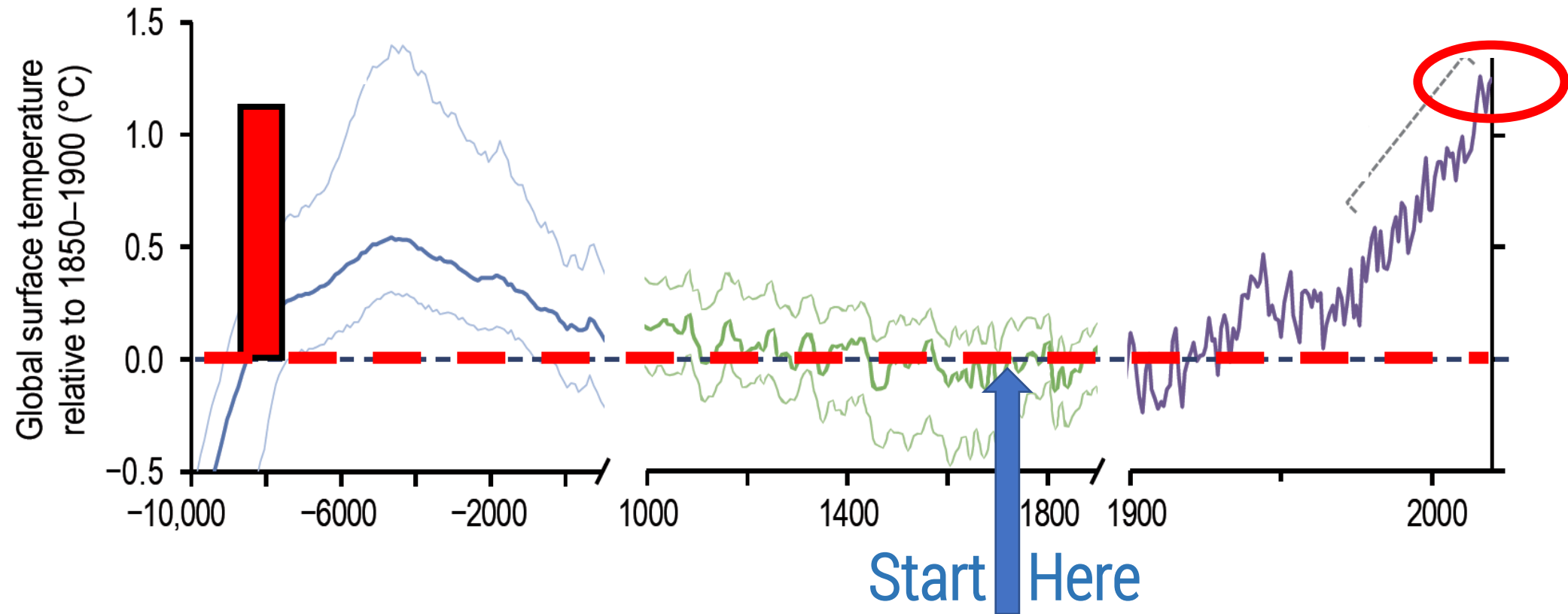
Climate Change

Changes in surface temperature



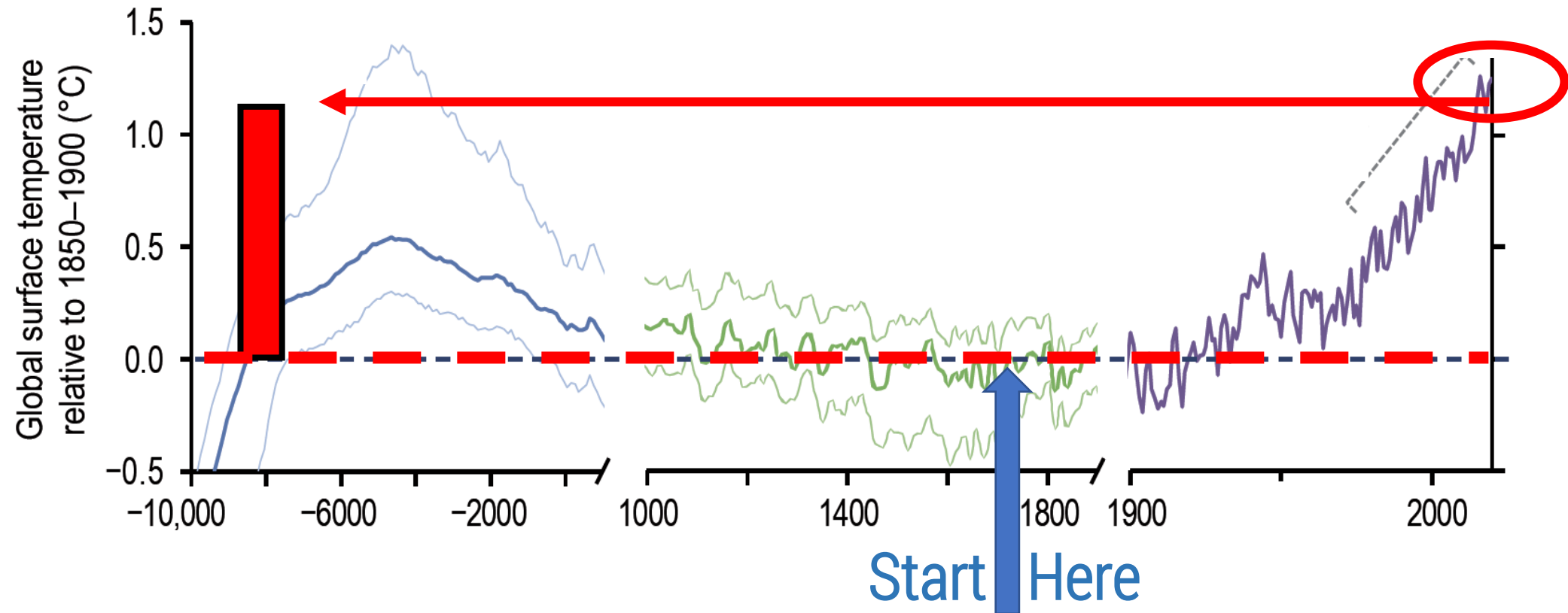
Climate Change

Changes in surface temperature



Climate Change

Changes in surface temperature



Source: IPCC, 2021: Summary for Policymakers. In: Climate Change 2021 Page 6

Source: "[Local temperature variability during the Holocene period](#)," CC by SA

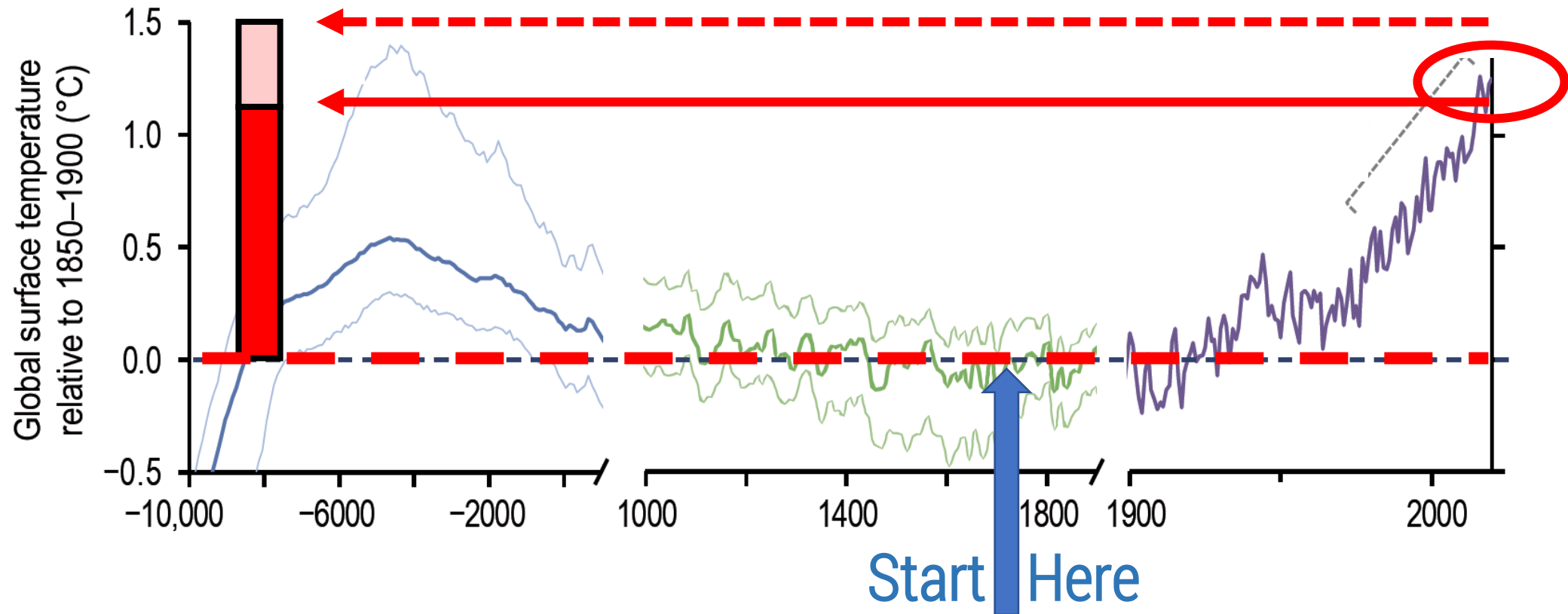
Response to existential threats/global imperatives

2015 Paris Agreement

“Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels...”

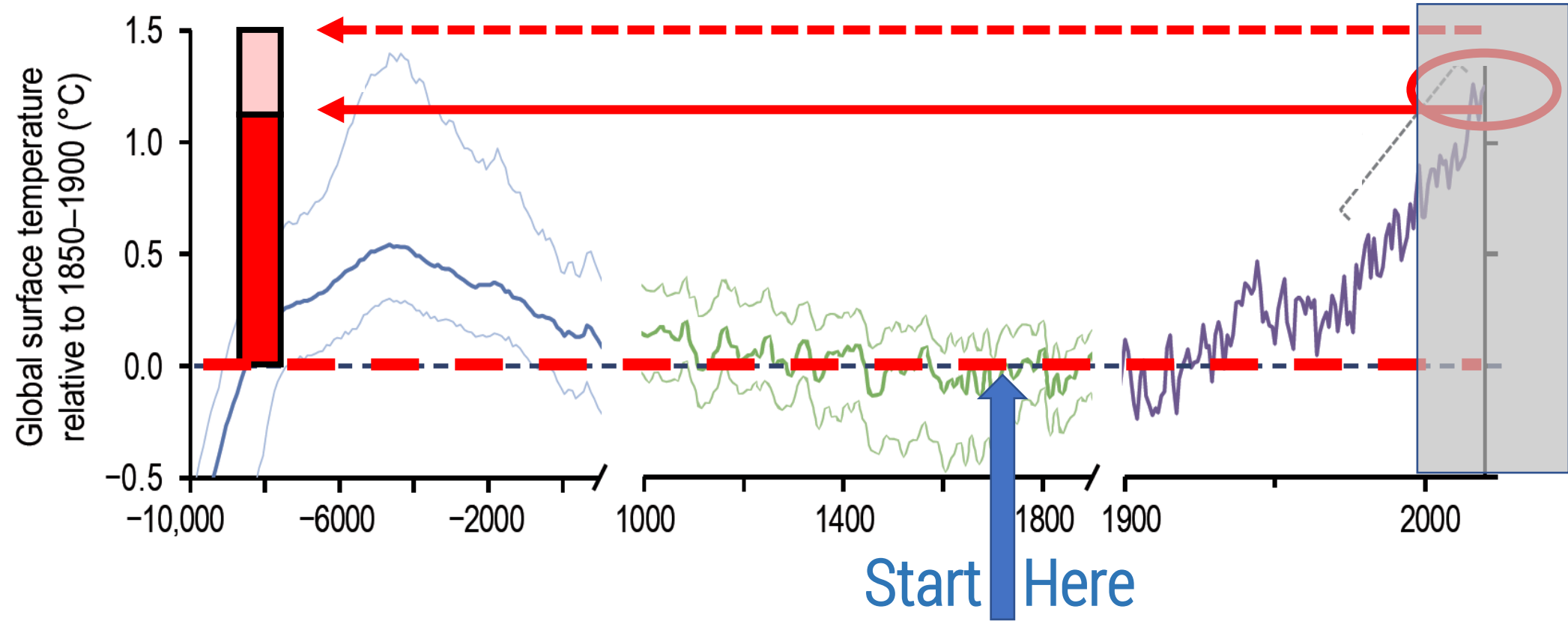
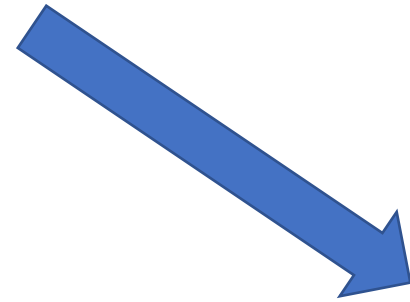
Climate Change

Changes in surface temperature



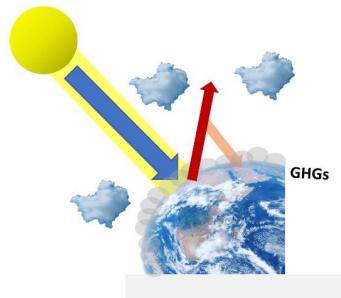
"Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels..."

Please Note ...



Section Summary: How did the world get here?

Key
Issues
With



The “E”
In
ESG

“As climate change intensifies, more frequent and severe climate-related events [...] could trigger declines in asset values and economic activity...”

[Remarks by Secretary Janet L. Yellen at the Open Session of the Meeting of the Financial Stability Oversight Council, October 21, 2021](#)

“Climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C...”

[SPM Summary for Policymakers, IPCC, 2018](#), page 9

Since the Industrial Revolution, average global temperatures have risen 1.2°C.

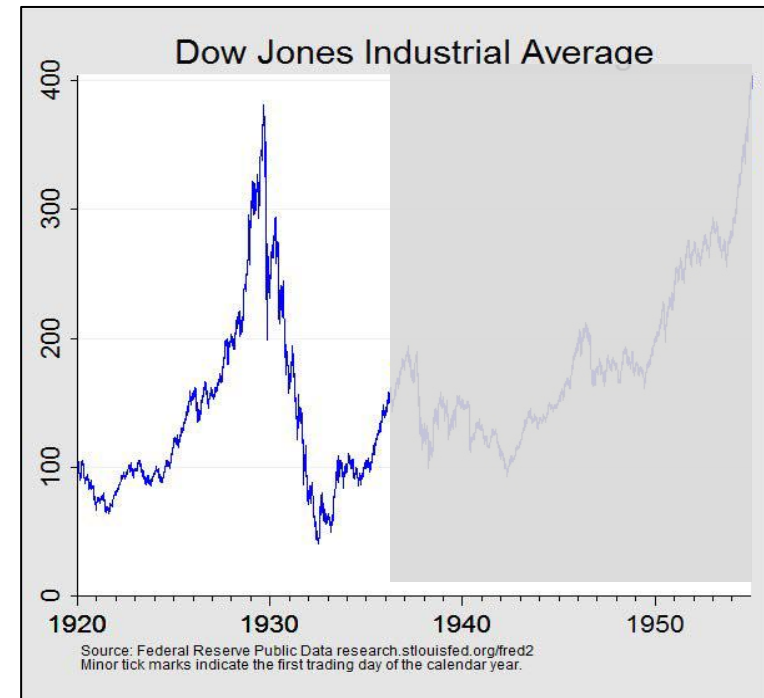
[Causes of Climate Change, EPA](#)

CIO Recommendation

3. Prepare new project prioritization program for 2022 and 2023

Climate Change to Securities Regulation?

The 1929 Stock Market Crash and new regulations for ESG mandates



Stock Market Crash of 1929

Foundation of future securities regulations

1934 STOCK EXCHANGE PRACTICES REPORT COMMITTEE ON BANKING AND CURRENCY

“Henceforth it is intended that corporations shall present a **truthful** face to the world, and that the evasions, suppressions, distortions, exaggerations, and misrepresentations practiced by some corporations with intent to cloak their operations and to present to the investing public a false or misleading appearance as to their financial condition shall be eliminated.”

ESG proponents and investors join forces

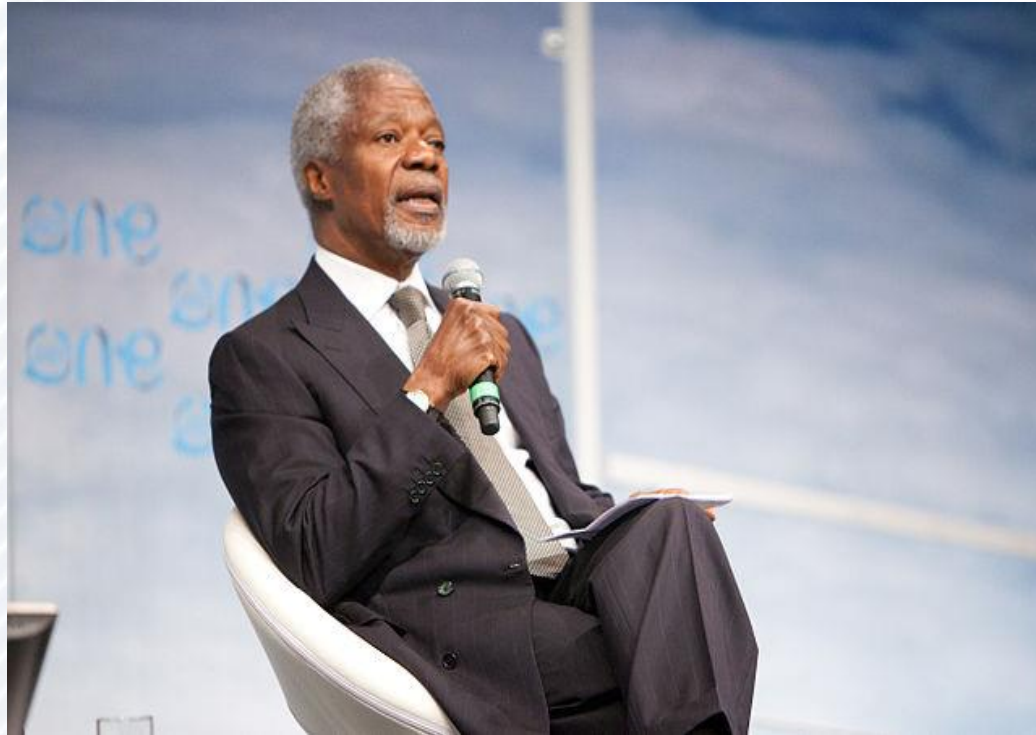


Image source: Jmquez, [Wikimedia Commons](#), "Kofi Annan at oyw"

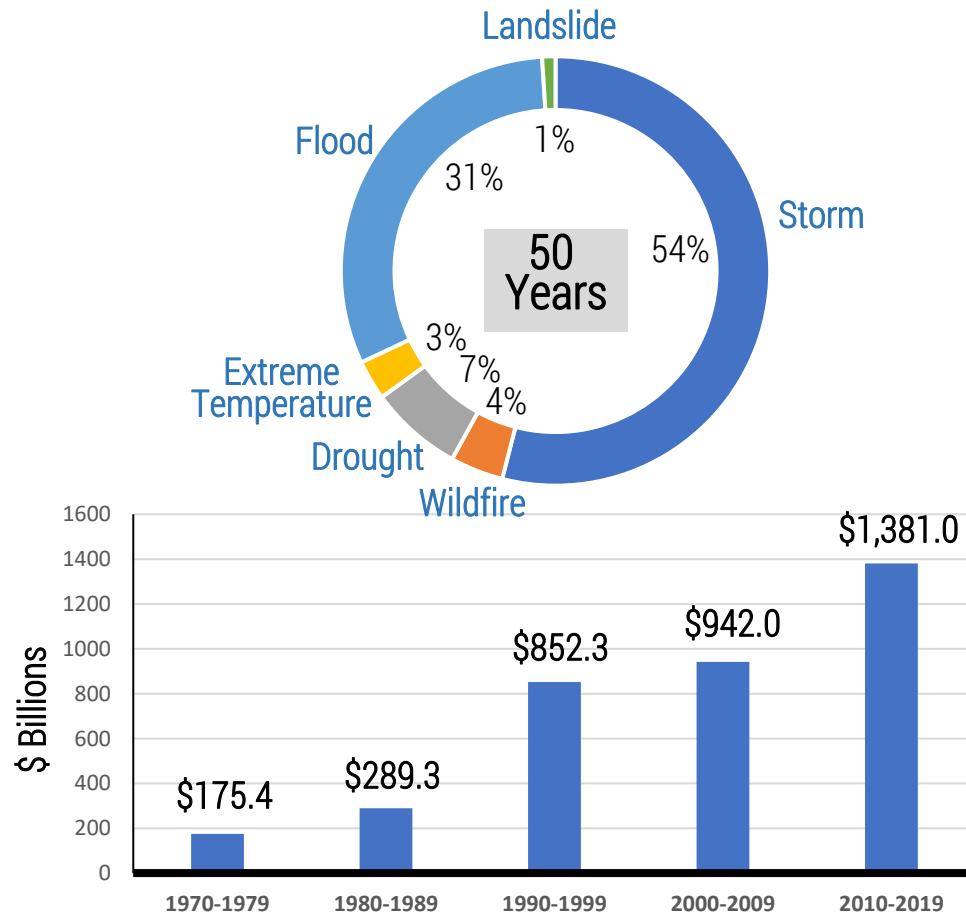
“Specifically, I call on you – individually through your firms, and collectively through your business associations – to embrace, support and enact a set of core values in the areas of

- human rights,
- labor standards, and
- environmental practices.”

* Address at World Economic Forum 1999

Global economic losses 1970-2019

WW Recorded Economic Losses in US\$ billion
Total 1970-2019 = US\$ 3.6 trillion



In the past 50 years:

- 50% of all recorded disasters,
- 45% of related deaths, and
- 74% of related economic losses

were due to weather, climate and water hazards.

United Nations SDGs: Targets by 2030



1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure

10. Reduced Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals

Can we avoid climate change caused business, social, and economic disruptions?



What outcomes are sought from the new, proposed ESG regulations?

“The disclosure of this (ESG) information would provide

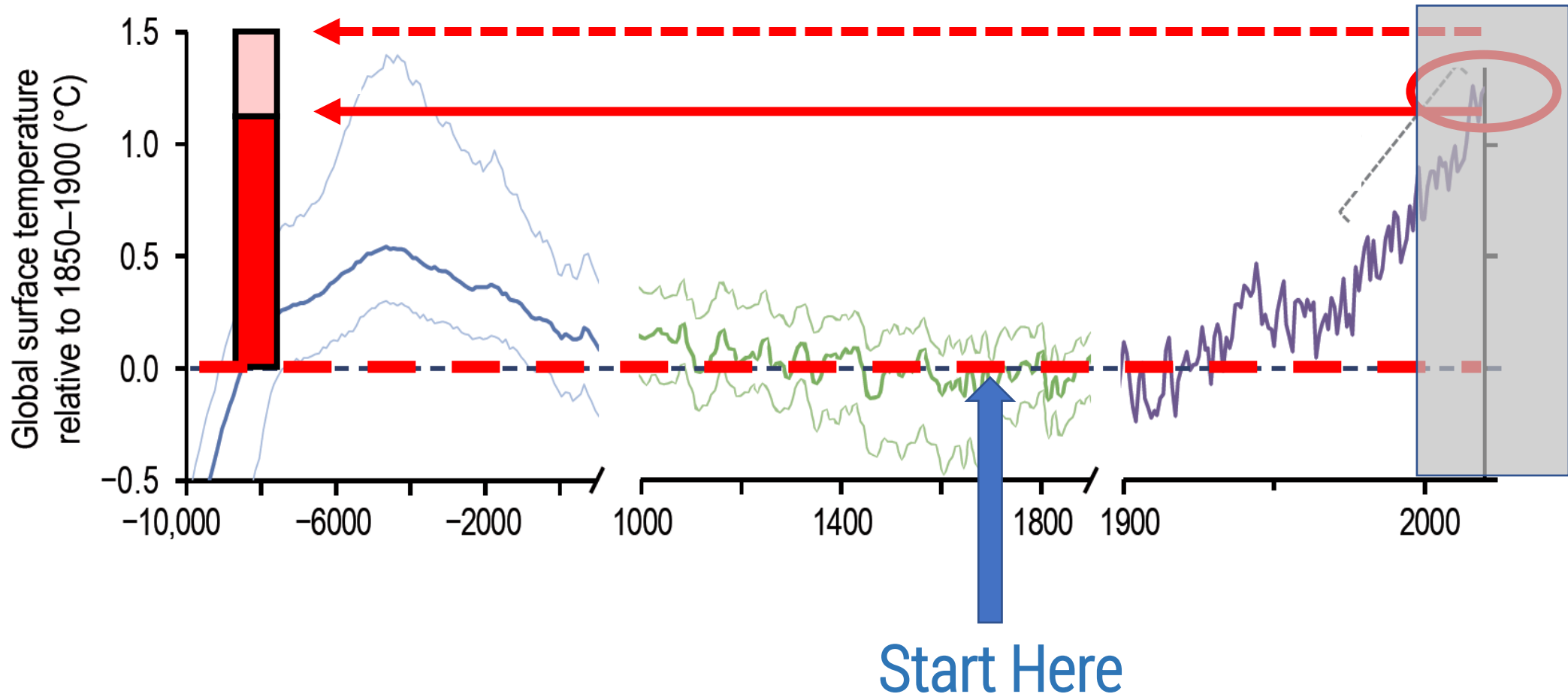
- consistent,
- comparable,
- reliable—and therefore
- decision-useful—information

to investors to enable them to make informed judgments about the impact of climate-related risks on current and potential investments.”

Source: [The Enhancement and Standardization of Climate-Related Disclosures for Investors, SEC](#)

Please Note ...

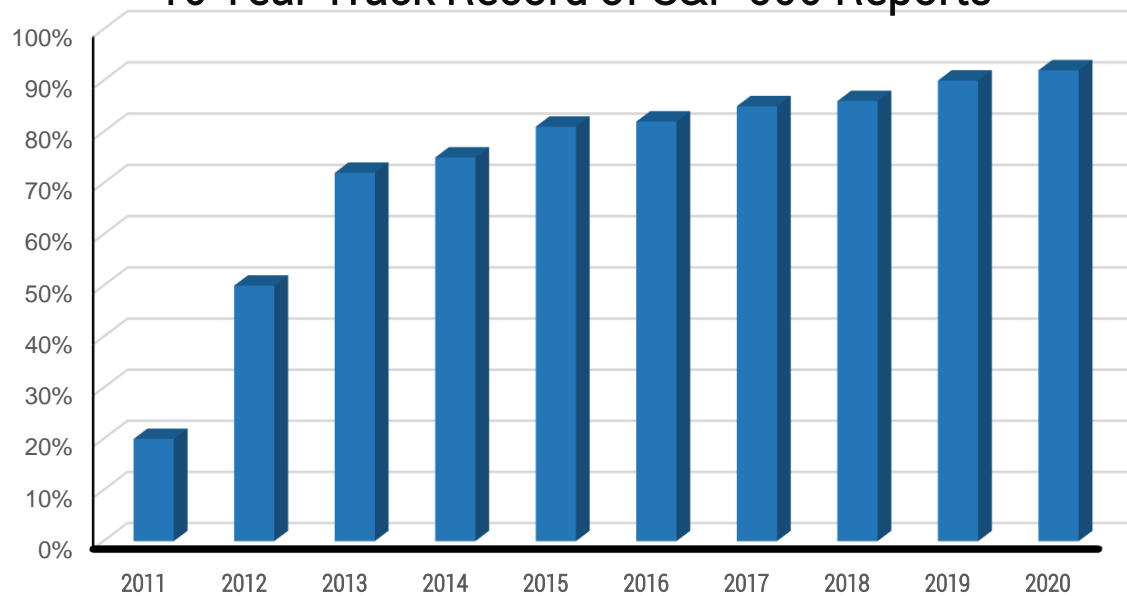
Take a closer look



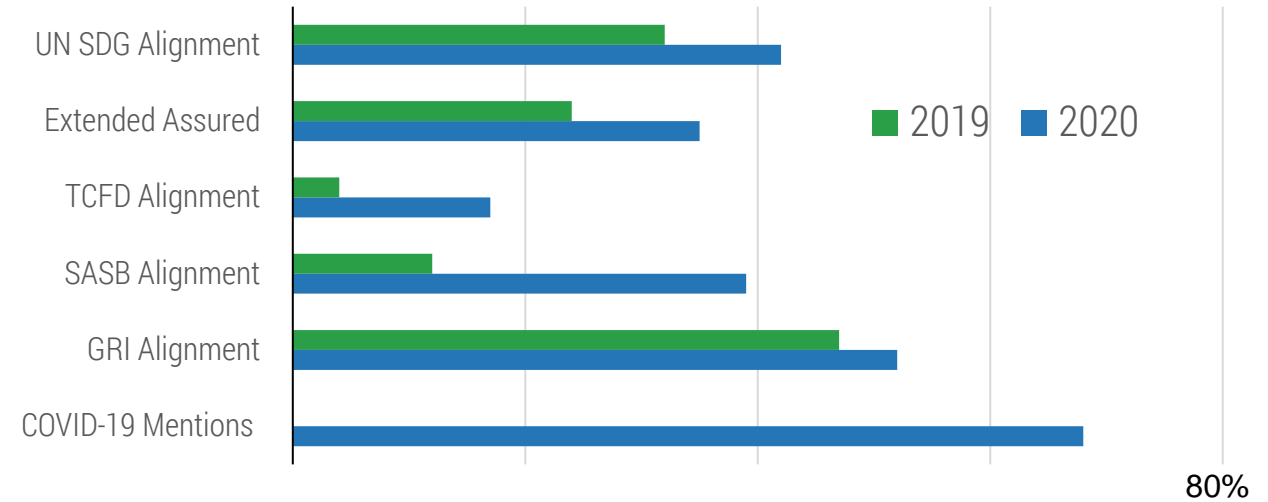
“...existing disclosures of climate-related risks do not adequately protect investors.”



10 Year Track Record of S&P 500 Reports



Voluntary ESG Disclosure Reports Issued by Russell 1000 Companies & the Standards They Used



Source: 2021 S&P 500@ + RUSSELL 1000@, Governance & Accountability Institute

Why will company executives be required to disclose climate information?

Examples of “E” concerns from regulators

1. Appropriate labeling and disclosure of ESG products.
2. Ensuring consistency, comparability, and quality of core metrics in reporting frameworks.
3. Promoting the transparency and comparability of scoring and weighting methodologies of established ESG ratings providers.
4. Improving transparency, international consistency and comparability, alignment with materiality, and clarity in fund strategies.
5. Evidence of ESG ratings bias against SMEs for some providers.



Section Summary: Why securities regulators are involved with ESG

Many securities regulators have the authority to...

CIO Recommendation

4. Prepare IT budget for ESG needs now!

An overview of this year's ESG mandates

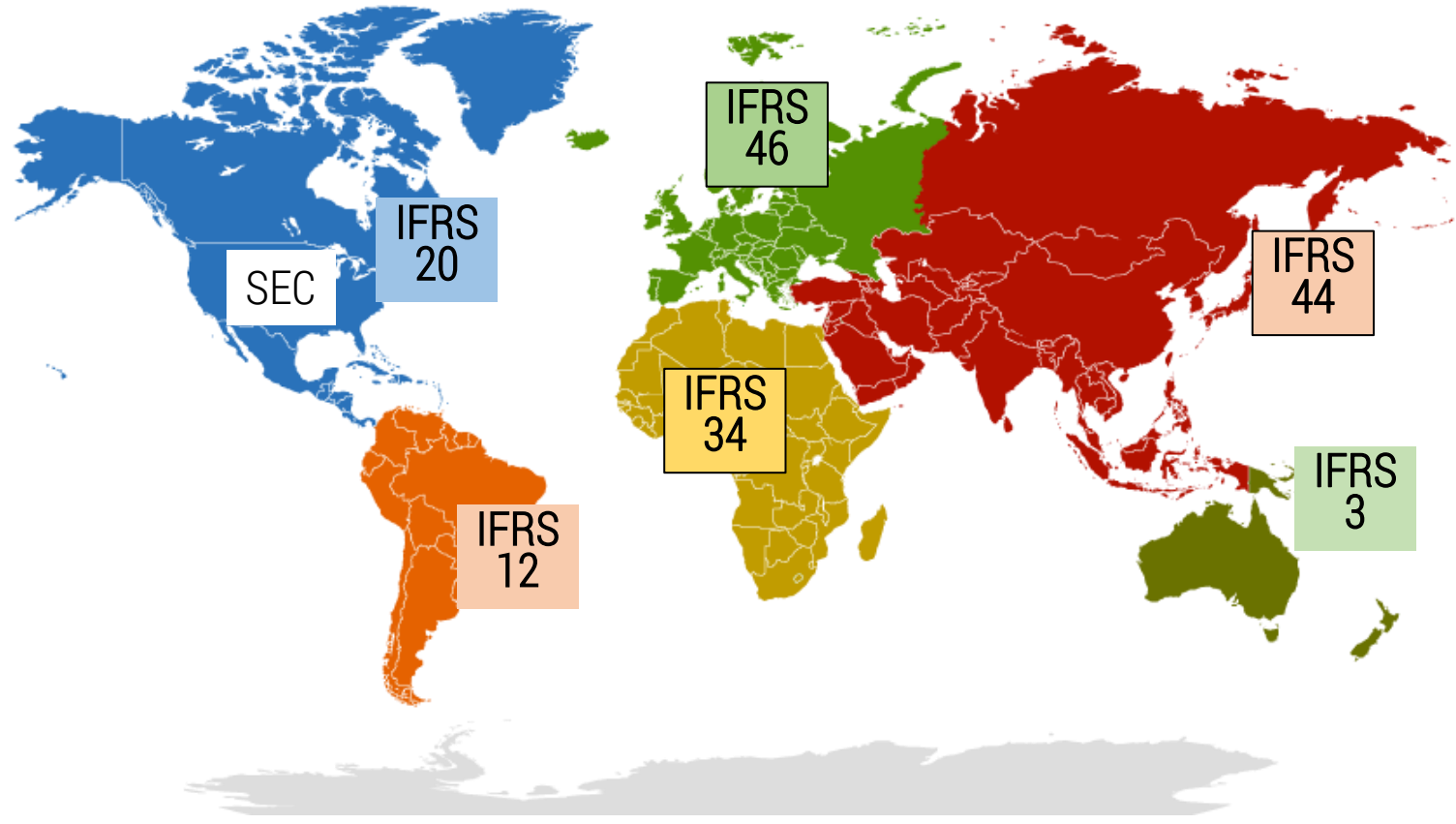
Q. Targets for ESG Disclosures? A. Securities Registrants

Regulatory Terms

- **Securities:** Investment instruments such as a stock or bond
- “In general, all *securities offered in the United States must be registered with the SEC ... ”
- **Registrant:** Issuer of securities for which a registration statement is filed
- **A registration statement** is an SEC filing making required disclosures in connection with the registration of a security, a securities offering or an investment company under federal securities laws.

Source: [What is a registration statement?, SEC](#)

Where will IFRS and SEC mandates apply?



Who uses IFRS Accounting Standards?

New Valuations = Financial + ESG Disclosures

See New Section:
“Climate-Related Disclosure”



“...we are proposing to require a registrant to include climate-related disclosure in ... registration statements and ... annual reports in a separately captioned **‘Climate-Related Disclosure’** section and in the financial statements.”

**Which “type” of information must
be provided to regulators?**

Qualitative disclosures for regulators

To help ensure that management considers the dynamic nature of climate-related risks, we are proposing to require a registrant to discuss its assessment of the materiality of climate-related risks over the short, medium, and long term.

Climate-Related Risks



Qualitative disclosures regulators want



The Enhancement and Standardization of Climate-Related Disclosures for Investors

Qualitative disclosures: Board Governance



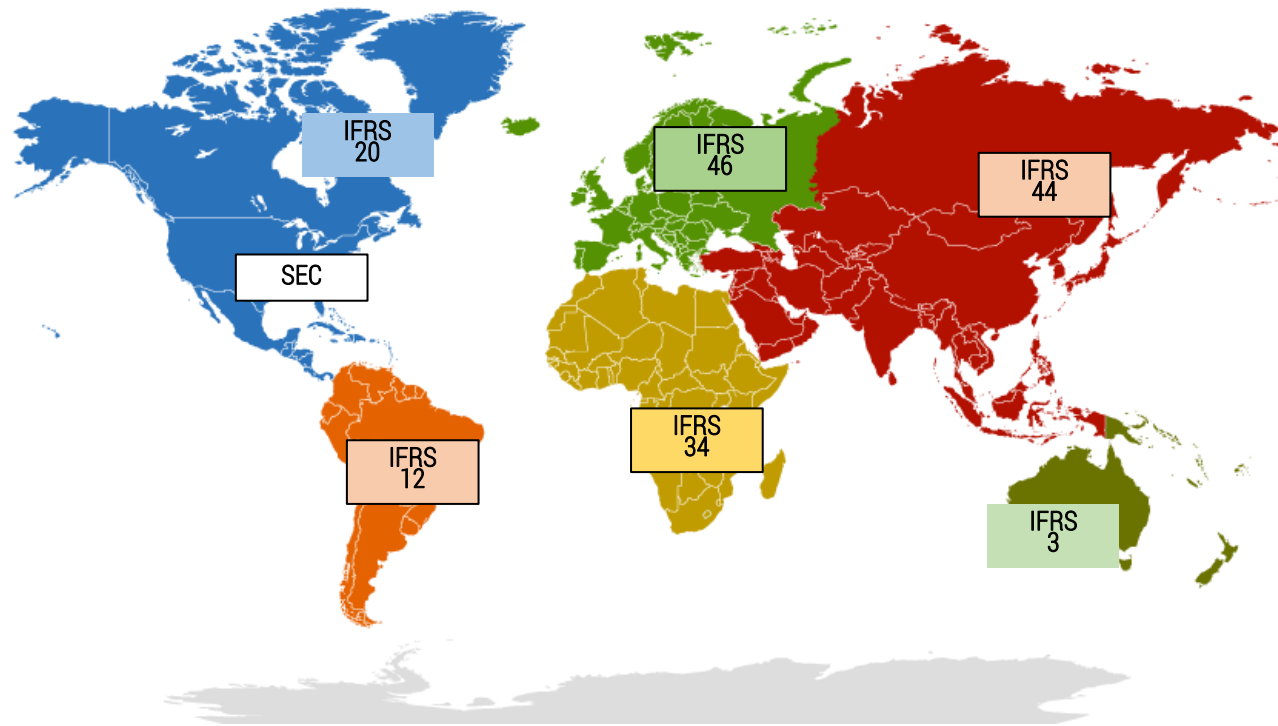
The Enhancement and Standardization of Climate-Related Disclosures for Investors

Qualitative disclosures: Management Governance



The Enhancement and Standardization of Climate-Related Disclosures for Investors

Section summary: Qualitative Narratives



CIO Recommendation

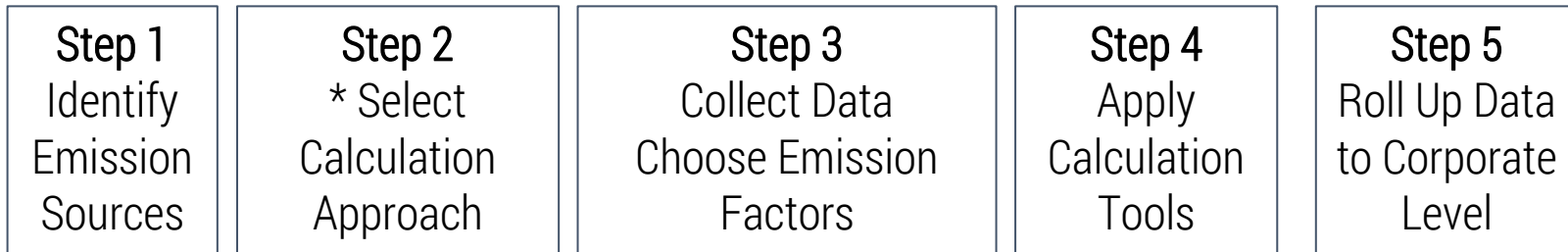
5. Review current and emerging products for ESG reporting

Quantifying emissions: **Scope 1**

Registrant's Locations



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



- Stationary
- Mobile
- Manufacturing
- Fugitive

- Direct Method or
- Emission Factor

- Natural Gas
- Coal or Coke
- Crude Oil
- Kerosene

- Origin of Tool
- Source (Step 1)
- Sector

1. Carbon Dioxide ("CO₂")

5. Hydrofluorocarbons ("HFCs")

2. Methane ("CH₄")

6. Perfluorocarbons ("PFCs")

3. Nitrous Oxide ("N₂O")

4. Nitrogen Trifluoride ("NF₃")

7. Sulfur Hexafluoride ("SF₆")

* "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard – Revised Edition, Chapter 6, Pages 40 to 47.

Quantifying emissions: **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

Registrant's
Power Utilities



Scope 2

1. Carbon Dioxide ("CO₂")

5. Hydrofluorocarbons ("HFCs")

2. Methane ("CH₄")

6. Perfluorocarbons ("PFCs")

3. Nitrous Oxide ("N₂O")

4. Nitrogen Trifluoride ("NF₃")

7. Sulfur Hexafluoride ("SF₆")

Quantifying emissions: **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. Carbon Dioxide ("CO₂")

5. Hydrofluorocarbons ("HFCs")

2. Methane ("CH₄")

6. Perfluorocarbons ("PFCs")

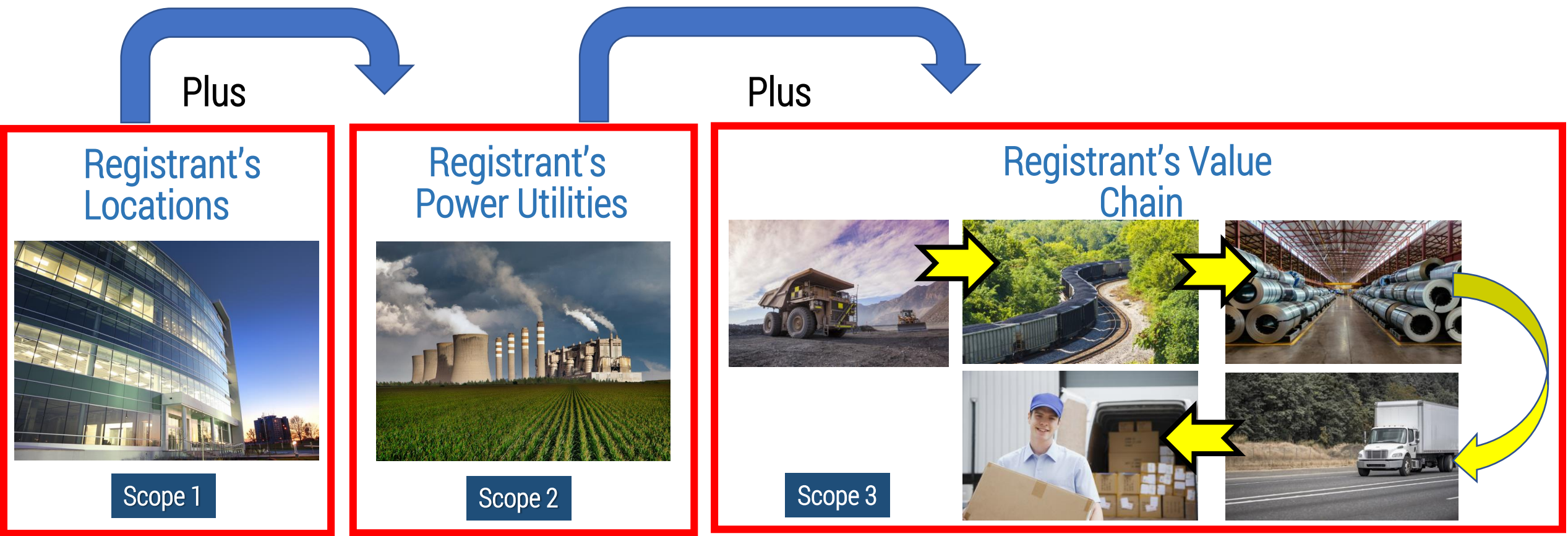
3. Nitrous Oxide ("N₂O")

4. Nitrogen Trifluoride ("NF₃")

7. Sulfur Hexafluoride ("SF₆")

Quantifying *GHG emissions

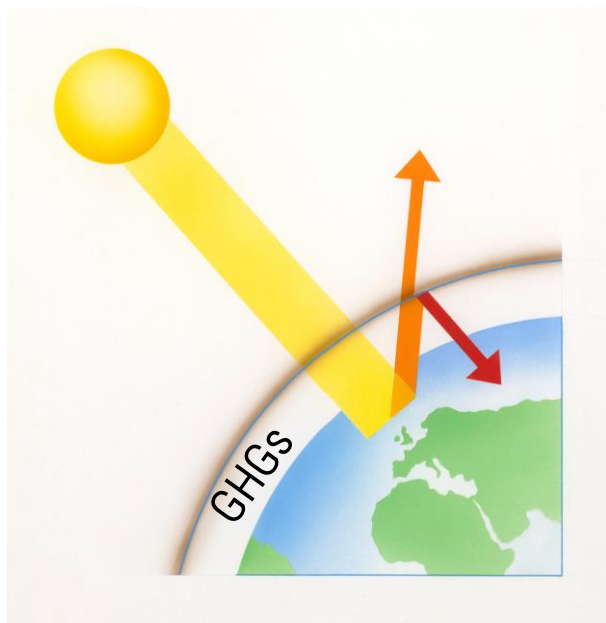
“The required information about climate-related risks would also include disclosure of a registrant’s (7) * **Greenhouse Gas (GHG)** emissions, which have become a commonly used metric to assess a registrant’s exposure to such risks.”



- 1. Carbon Dioxide ("CO2")
- 2. Methane ("CH4")
- 3. Nitrous Oxide ("N2O")
- 4. Nitrogen Trifluoride ("NF3")
- 5. Hydrofluorocarbons ("HFCs")
- 6. Perfluorocarbons ("PFCs")
- 7. Sulfur Hexafluoride ("SF6")

Source: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Section summary: Quantitative Details



The Seven Greenhouse Gasses

1. Carbon Dioxide ("CO₂")
2. Methane ("CH₄")
3. Nitrous Oxide ("N₂O")
4. Nitrogen Trifluoride ("NF₃")
5. Hydrofluorocarbons ("HFCs")
6. Perfluorocarbons ("PFCs")
7. Sulfur Hexafluoride ("SF₆")

CIO Recommendation

6. Determine staff readiness to assess, select, and use ESG software, products, and services

Important dates

Type of Filer	Capture Information	Fiscal Year	Must Be Filed
* Large Accelerated Filers	2022-2023	2023	2024
** Accelerated Filers	2024	2024	2025
*** Small Reporting Companies	2025	2025	2026

Companies with

- * a public float of \$700 million or more
- ** a public float of \$75 million to \$700 million
- *** a public float of less than \$250 million, or annual revenues less than \$100 million, if they also have either
 - ✓ no public float
 - ✓ or a public float of less than \$700 million

Sources: [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#)

[Public Float, Thomson Reuters Practical Law](#)

Note: Proposed Scope 3 disclosure requirements would have 1 additional year to comply with those requirements.

CIO Recommendation

7. Recommend the CIO should “Own the ‘E’”

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