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Making Sense of Global Climate-Related Reporting Regulations

Understanding today's global disclosure landscape on climate-related risk for corporations

By Chad Spitler, Founder and CEO, Third Economy, May 2023

The global regulatory landscape for corporate climate disclosures has seen major changes in the past few years. Though we're just halfway through 2023, there are hundreds of proposals and regulation shifts under consideration across the corporate landscape, from new rules in supply chain transparency, to corporate emissions disclosures, to methodology changes for funds marketing sustainable investments.

2022-2023 saw the proliferation of many new acronyms, including banner regulation proposals within the United States (the "SEC S-K"), the European Union (the "CSRD"), and the United Kingdom ("The Companies"). It's a time of transition for companies big and small who are trying to consider what long-term compliance might look like.

For corporate issuers, while these rulings may seem to touch different elements of the market, there are many commonalities that can be learned from and leveraged as you prepare your business for future regulation.

Read on for our analysis of seven global climate-related regulations to keep in mind for your business:

The Details

To inform our research, our team looked at 43 global regulations proposed within the last 6 years (2017-2023) that have either been enacted (and are now in mandatory compliance) or are currently being considered around climate-related risk disclosures for corporations.

This research represents regulations across 16 countries/governing bodies, with proposals across Europe (23), North America (5), Asia/Pacific (13) and the Middle East (1). Our research also included proposals related to financial institutions and investment managers specifically.

To summarize many of the consistently recurring themes, we selected seven of the top corporate legislations to analyze in greater detail for U.S.-based corporations.

The good news: many of today's global regulations draft off the largest, banner legislative proposals, such as the SEC S-K and CSRD, and compliance with these regulations would match other geographic jurisdictions. And, if your company completes a Task Force on Climate-Related Financial Disclosures ("TCFD") assessment, you're prepared for almost all of these (more on that below).

North America

UNITED STATES: Securities and Exchange Commission ("SEC") Regulation S-K

WHAT IS IT:

The SEC's 2022 proposal would amend the SEC's Regulation S-K, requiring public companies to include certain climate-related risks in financial disclosures and periodic reports, including information and metrics that are reasonably likely to have material impacts on its business or consolidated financial statements. Large filers and large accelerated filers would also be required to engage with an independent attestation provider to provide assurance on any Scope 1 and Scope 2 emissions filed.

APPLICABLE TO:

Large Accelerated Filer (Companies with a public float of $700 million or more)

- Scope 1 and 2 emissions and any relevant targets or goals – Fiscal Year 2023 (Filed in 2024)
- Scope 3 emissions – Fiscal Year 2024 (Filed in 2025)

Accelerated Filers and Non-Accelerated Filers (Companies with a public float $75 million to $700 million)

- Scope 1 and 2 emissions and any relevant targets or goals – Fiscal Year 2024 (Filed in 2025)
- Scope 3 emissions – Fiscal Year 2025 (Filed in 2026)

Small Reporting Company (Companies with a public float less than $75 million)

- Scope 1 and 2 emissions and any relevant targets or goals – Fiscal Year 2025 (Filed in 2026)
- Scope 3 emissions – N/A

DATE IN EFFECT:

Rolling – with filing starting in 2025 (using 2024 data), and assurance in 2025 for large accelerated filers and 2026 for non-accelerated filers.

CANADA: The Canadian Securities Administrators ("CSA")

WHAT IS IT:

The Canadian Securities Administrators' proposal on climate-related disclosure requirements would require corporate issuers to report upon climate-related risk using the TCFD framework. This would include reporting within the following four areas:

- *Governance* – board oversight of and management's role in assessing and managing climate-related risks and opportunities.
- *Strategy* – the short-, medium- and long-term climate-related risks and opportunities the issuer has identified and the impact on its business, strategy and financial planning, where such information is material.
- *Risk management* – how an issuer identifies, assesses and manages climate-related risks and how these processes are integrated into its overall risk management.
- *Metrics and targets* – the metrics and targets to assess and manage climate-related risks and opportunities, including Scope 1, Scope 2 and Scope 3 GHG emissions or reasons for not disclosing.

APPLICABLE TO:

Canadian securities falling under the CSA.

DATE IN EFFECT:

The timeline for integration is still to be determined. The proposal for additional disclosure requirement was published in October 2021 with comment period ending February 2022.

Europe

EUROPEAN UNION ("EU"): The Corporate Sustainability Reporting Directive (CSRD)

WHAT IS IT:

The Corporate Sustainability Reporting Directive (CSRD) would amend the EU's existing Non-Financial Reporting Directive ("NFRD") to introduce more detailed climate reporting and more comprehensive requirements. The CSRD draws on the principle of "double materiality", requiring companies to disclose information on the way they operate and manage social and environmental challenges.

The CSRD requires companies (around 50,000 in 2023) to report in compliance with European Sustainability Reporting Standards ("ESRS"); the ESRS leverages TCFD recommendations and contains cross-cutting standards (general requirements and general disclosures) and topical standards (environment, social, and governance).

The reporting directive covers disclosure requirements related to climate change mitigation, climate change adaptation, energy and transition plans for climate change mitigation and climate-related targets.

APPLICABLE TO:

- *EU large public-interest companies* (whether they are listed or not) or listed SMEs.
- *Large companies exceeding two out of three of the following*:
  - Balance sheet (total assets): > EUR 20M
  - Net turnover: > EUR 40M
  - > 250 employees
- *For non-European companies*, the ruling applies to companies:
  - Generating a net turnover of EUR 150 million in the EU, and
  - Which have at least one subsidiary or branch in the EU exceeding thresholds

DATE IN EFFECT:

The CSRD was entered into force on January 5, 2023. Companies already subject to the NFRD will need to produce a report with 2024 data in 2025; for large companies not presently subject to the NFRD, they will need to report 2026 data in 2027; for listed SMEs, small, and non-complex credit institutions and captive insurance undertakings, in 2028 (with 2027 data), and in 2028 for non-EU undertakings.

GERMANY: Supply Chain Due Diligence Act

WHAT IS IT:

The objective of the Act is for German business to comply with due diligence obligations to improve compliance with human rights and material standards within supply chains. Companies will need to:

- Establish a risk management system and human rights impact assessment
- Define management systems and governance
- Establish robust policies and procedures (e.g., supplier code of conduct)
- Create preventative measures for any potential human rights violation
- Provide clear documentation on all activities disclosed annually and publicly
- Report on identified risks and how the company fulfils due diligence obligations

APPLICABLE TO:

Companies with head offices or branches in Germany with 1000 or more employees.

DATE IN EFFECT:

The Act will come into force on January 1, 2023, with extensions to the new law occurring January 1, 2024.

UNITED KINGDOM ("UK"): The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

WHAT IS IT:

The Companies Regulation 2022 amends prior regulation, requiring many large and/or publicly listed companies, and certain LLPs to incorporate TCFD-aligned climate disclosures in their annual non-financial reporting.

- The disclosures cover:
  - How climate change is addressed in corporate governance
  - Impacts on strategy
  - How climate-related risks and opportunities are managed
  - Performance measures and targets applied in managing these issues
- Additional considerations:
  - Companies are expected to report at the group level with the top UK Parent reporting within its Annual Report
  - The requirements are introduced on a comply or explain basis
  - These regulations could include potential overlap with FCA's TCFD disclosure requirements for asset managers/asset owners
- Where to disclose:
  - If applicable, companies should include these disclosures in their Non-Financial and Sustainability Information Statement in the Strategic Report
  - LLPs should include their disclosures in either the Energy and Carbon Report of their Directors' Report or in a Strategic Report

APPLICABLE TO:

- *UK companies with > 500 employees* and are either traded companies, banking companies or insurance companies
- *UK registered with securities admitted to AIM with > 500 employees*
- UK registered companies not included in categories above, which have *> 500 employees and > £500M in turnover*
- *Large LLPs (not traded or banking LLPs) that have > 500 employees and > £500M turnover*. Traded or banking LLPs which have > 500 employees

DATE IN EFFECT:

The regulation applies to the annual reports and accounts of companies and LLPs within scope for accounting periods, which start on or after April 6, 2022.

UNITED KINGDOM: The Streamlined Energy and Carbon Report (SECR)

WHAT IS IT:

Mandatory for large businesses, including charitable companies, SECR asks companies to report annually on their energy and carbon emissions as well as any efficiency measures taken throughout the year. This includes:

- Scope 1, 2 and 3 emissions, a TCFD alignment and any public transition or targets
- SECR requirements differ according to company size and categorization (see below)

APPLICABLE TO:

- Company Categories:
  - *UK incorporated listed companies*: Report on annual GHG Emissions and energy consumed from their purchase of energy (gas, electricity) for their own use; report proportion of energy consumed relates to emissions in the UK and UK offshore areas; describe principal measures taken to increase their energy efficiency.
  - *Large UK incorporated unlisted companies*: Report on annual GHG Emissions and energy consumed in the UK arising from their activities relating to the combustion of fuel for transport or the combustion of gas; report on the purchase of electricity for their own use; describe actions taken to increase energy efficiency.
  - *Large UK incorporated LLPs*: Prepare a report equivalent to the directors' report for each financial year, including figure on energy consumptions and energy efficiency measures.

DATE IN EFFECT:

Already in effect, as of April 1, 2020.

Asia-Pacific

AUSTRALIA: Australian Accounting Standards Board (AASB)/International Accounting Standards Board (IASB) Making Materiality Judgements Practice Statement 2

WHAT IS IT:

The AASB guidance on materiality assessments reinforces that report preparers, assurers and auditors must approach climate change-related issues with the same degree of rigor as any other financial variable. A failure to do so may leave corporations and their directors increasingly exposed to claims for breach of duty and/or misleading disclosure under the Corporations Act.

Included in the financial statement are:

- Whether investors could reasonably expect that emerging risks, including climate-related risks, could affect the amounts and disclosures reported in the financial statements and have indicated the importance of such information to their decision making; and
- What disclosures about the impact of climate-related risks and other emerging risks on the assumptions made in preparing the financial statements are material to the financial statements in light of the guidance in APS/PS 2, as summarized in the decision tree on the following page.

APPLICABLE TO:

All reporting entities under the Australian Accounting Standards Board, including non-profit entities.

DATE IN EFFECT:

As of 2019.

Strategies for Compliance

The great news is that across all of these regulations, most of the requirements can be met by completing a TCFD assessment. While TCFD is not a regulation, as of January 2022, over 3,000 organizations from 92 countries supported the framework and most national regulations related to climate-related disclosure are inspired or aligned with the TCFD recommendations.

The TCFD disclosure recommendations (published in 2017) are based around four core themes:

1. *Governance* – Disclose the organization's governance around climate-related risks and opportunities
2. *Strategy* – Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material
3. *Risk management* – Disclose how the organization identifies, assesses and manages climate-related risks
4. *Metrics and targets* – Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

These thematic areas are also supported by eleven recommended disclosures that provide more granular detail. Completing a TCFD alignment is a great way to ensure your business is ready for any coming regulation shift.

Additionally, we recommend preparing internally to set up the processes needed to support a comprehensive reporting environment:

- First, establishing a formalized oversight of climate risk is a great first step, to get the team aligned on how the work will get done in the coming years.
- Second, expanding your GHG emissions calculations and data controls will allow your business to appropriately measure impact for accurate reporting.
- Next, companies can complete a climate risk management process (including scenario analysis, as needed), to see where existing risks and opportunities lie across the business.
- And finally, map out your goals – this is a great time to evaluate where you see your corporate climate strategy evolving over the coming years and setting targets as your team sees fit.

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