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The Increasing Demand for ESG Reporting: Why Should You Care?

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What is ESG?

- **Environment:** Conservation of Natural World
- **Social:** Consideration of People and Relationships
- **Governance:** Standards for Running a Company

Differing Considerations on ESG

Critical Considerations

Business Considerations

Supportive Considerations

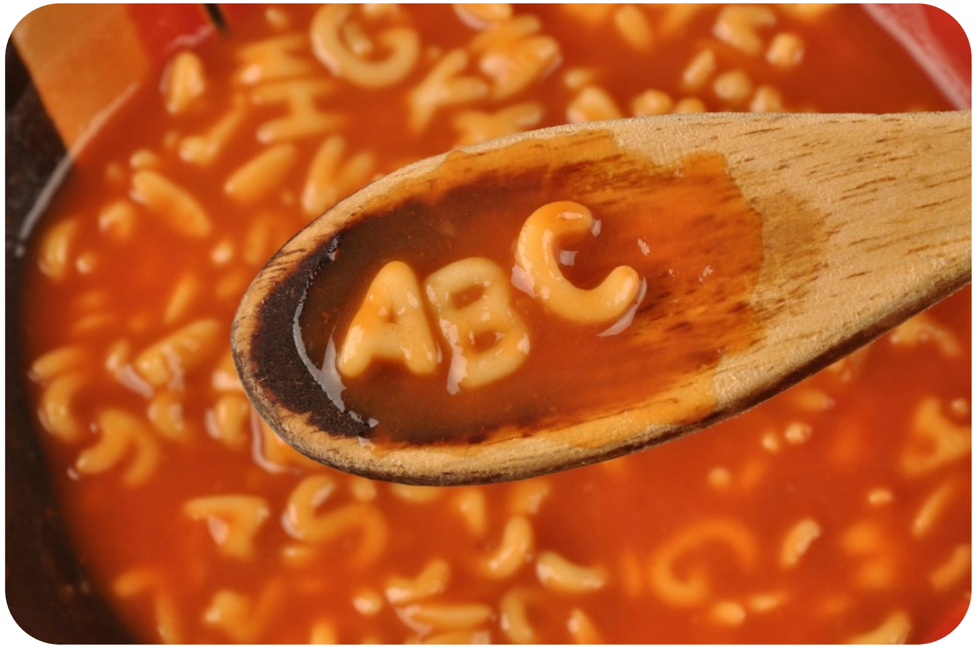
Business Preparedness Applicable Through All Considerations

Business Considerations

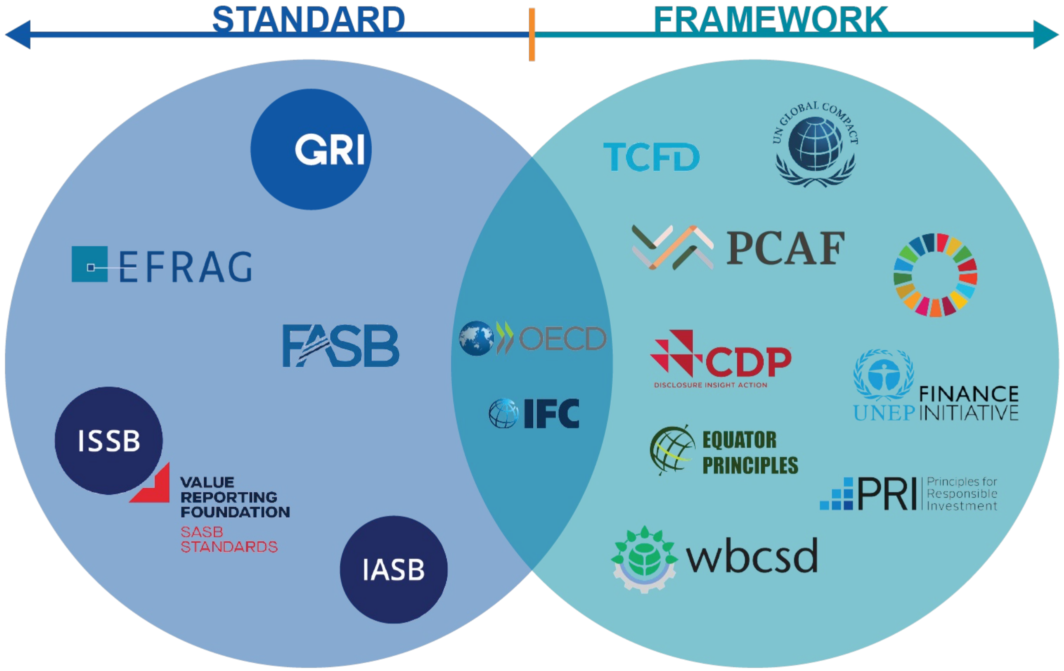
Frameworks and Standards around ESG are consolidating rapidly	Business preparation; longer lead-time for planning
Consumers and investors are moving forward already; Boards are responding	Better position your company to respond to customers, be a preferred provider, retain/attract talent
Provides a lens for Enterprise Risk Management (ERM)	Enhance ERM planning and supply chain resiliency
Government agencies are moving toward reporting[5] ; IPSASB developing climate-related disclosure standards	Increase ability to respond to business opportunities across sectors

Confusing Landscape

- **CDP**: Formerly Climate Disclosure Project and now just CDP
- **CDSB**: Climate Disclosure Standards Board
- **GRI**: Global Reporting Initiative
- **IIRC**: International Integrated Reporting Council
- **IASB**: International Accounting Standards Board
- **IFRS**: International Financial Reporting Standards
- **FASB**: Financial Accounting Standards Board
- **SASB**: Sustainability Accounting Standards Board
- **IOSCO:** International Organization of Securities Commissions
- **CSRD**: Corporate Sustainability Reporting Directive
- **VRF**: Value Reporting Foundation
- **EFRAG**: European Financial Reporting Advisory Group
- **SFDR**: Sustainability Finance Disclosure Regulation
- **TCFD**: Task Force on Climate-Related Financial Disclosures
- *…so many more*



Current ESG Global Standards Landscape



RANKERS & RATERS

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MSCI
S&P Dow Jones Indices
A Division of S&P Global
FitchRatings
S&P Global
MORNINGSTAR
EPI Environmental Performance Index
REFINITIV
FTSE Russell
ISS
RepRisk
Due diligence on ESG and business conduct
GGEI
Alliance for Corporate Transparency
Calvert
An Eaton Vance Company
Moody's
GLOBAL100
GRESB
CSRHUB

What to Focus On

1. Securities and Exchange Commission (SEC) Climate Change Disclosure Rule
   - *Finalized regulation – compliance required*

2. International Financial Reporting Standards (IFRS) and its International Sustainability Standards Board (ISSB)
   - *Consolidated Standard – could be mandated*

3. Corporate Sustainability Reporting Directive (CSRD)
   - *Standards that are regulated in the EU*

4. Committee of Sponsoring Organizations to the Treadway Commission (COSO)
   - *Supplemental guidance related to Internal Audit controls for sustainability published in 2023*

5. California Climate Legislation:

   SB-253 and SB-261

SEC Climate Change Disclosure Rule

The What:

- March 6, 2024, the SEC issued a final rule[1] to standardize the way publicly-traded companies make climate-related disclosures.
- The rule requires US publicly-traded companies to disclose annually how climate-related risks are assessed, measured and managed.
- Includes disclosure of greenhouse gas emissions (GHGs).

The Why:

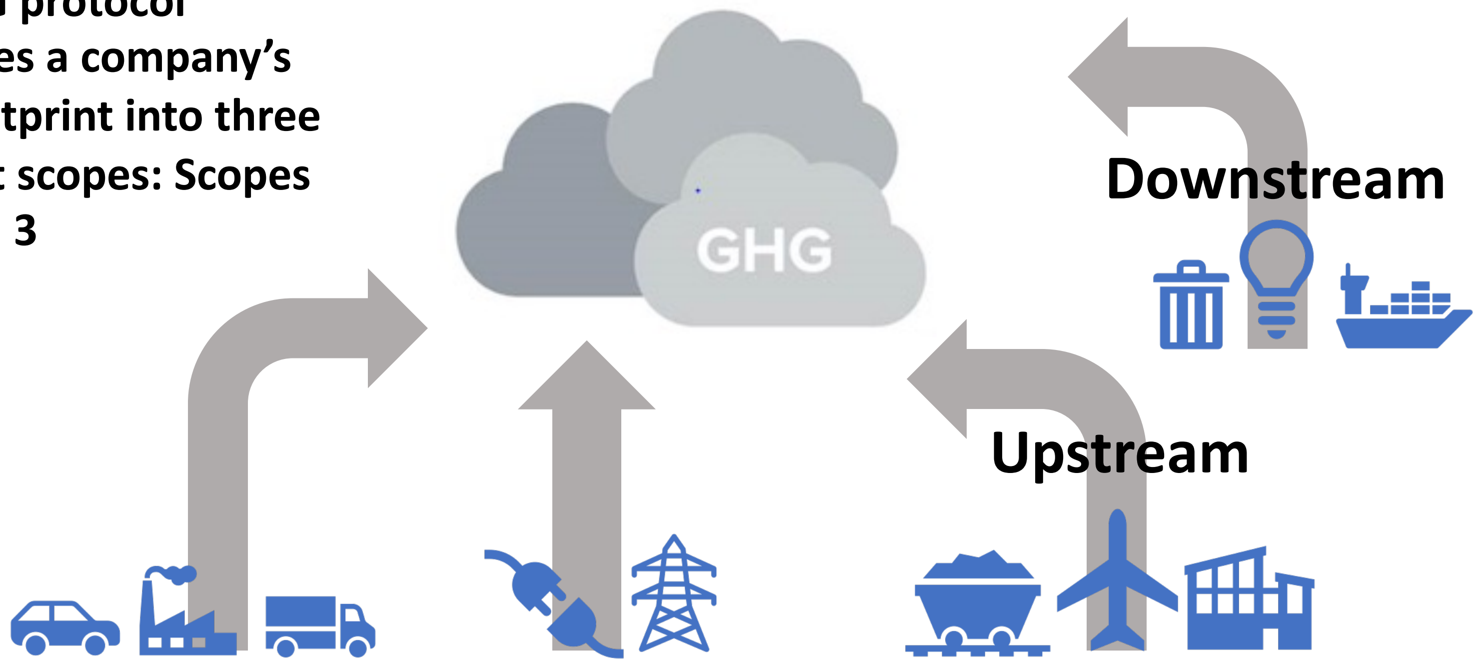
- Investors are seeking clear and accurate information related to climate-related risks to inform investment decisions for a business.
- Provides for consistent, standardized data that can be relied upon.

(1) chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.sec.gov/files/33-11275-fact-sheet.pdf

Three Scopes of GHG Emissions

Scope 3 emissions can account for 65% to 95% of emissions

The GHG protocol categories a company's GHG footprint into three different scopes: Scopes 1, 2, and 3



Upstream Sources	Downstream Sources
Purchased Goods	Investments
Capital Goods	Franchises
Fuel & Energy	Leased Assets
Transportation	End-of-life Allotting
Waste from Ops	Use of Sold Goods
Business Travel	Transportation
Commuting	Processing Goods
Leased Assets	

Scope 1

Emissions are direct emissions from owned or controlled sources.

Scope 2

Emissions are indirect emissions from the generation of purchased energy.

Scope 3

Emissions are all indirect emissions (not in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions from the generation of purchased energy.

SEC Climate Change Disclosure Rule

The final rule requires a registrant to disclose:

- Material climate-related risks
- Activities to mitigate or adapt to such risks
- Information about the board of directors' oversight of climate-related risks
- Management's role in managing material climate-related risks
- Information on any climate-related targets or goals that are material
- Scope 1 and 2 greenhouse gas (GHG) emissions when material
- Attestation report covering the Scope 1 and 2 GHG emissions
- Disclosure of financial statement effects of severe weather events and other natural conditions including costs and losses

Materiality: The SEC has adopted only financial materiality (i.e., it is NOT double materiality) as defined "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available"

(1) chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.sec.gov/files/33-11275-fact-sheet.pdf

SEC Climate Change Disclosure Rule

The How:

- The SEC leverages the Task Force on Climate-Related Disclosures (TCFD) framework[(2)]
- TCFD framework utilizes a lens of financial materiality to focus on climate-related risks and opportunities on an organization

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organization's governance around climate-related risks and opportunities.	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.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

(2) https://www.fsb-tcfd.org/

SEC Climate Change Disclosure Rule Timeline

The When:

Small reporting companies ($75M - $250M)

Accelerated & non-accelerated filer ($250M - $700M)

Large accelerated filers (>$700M)

SEC estimates that roughly 2,800 U.S. companies will have to make the disclosures and about 540 foreign companies with business in the U.S. will have to report climate information(3)

Compliance Dates under the Final Rules[1]

Registrant Type	**Disclosure and Financial Statement Effects Audit**		**GHG Emissions/Assurance**			**Electronic Tagging**
	All Reg. S-K and S-X disclosures, other than as noted in this table	*Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)*	*Item 1505 (Scopes 1 and 2 GHG emissions)*	*Item 1506 - Limited Assurance*	*Item 1506 - Reasonabl e Assurance*	*Item 1508 - Inline XBRL tagging for subpart 1500[2]*
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027

1 As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed.
2 Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. *See* Rule 405(b)(1)(i) of Regulation S-T.

(3) https://apnews.com/article/climate-change-sec-disclosure-companies-emissions-risks-b5bb510f9167ef396ee2fbc5a02ba1cf

IFRS & ISSB Sustainability Standards Structure

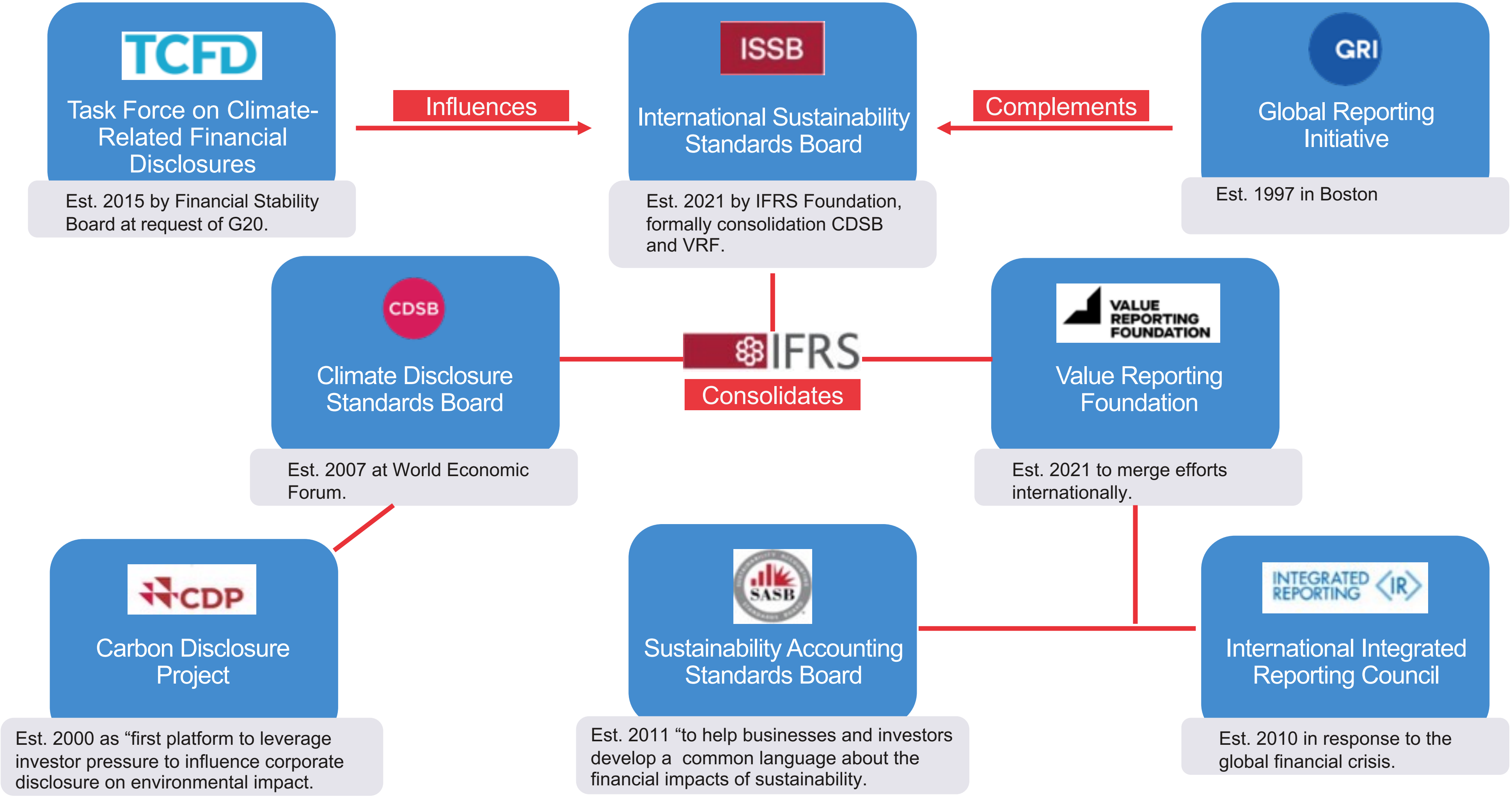
IFRS International Financial Reporting Standards

ISSB

Structure of IFRS, IASB & ISSB Standard-setting Boards

Public Accountability	IFRS Foundation Monitoring Board	
Governance, Strategy & Oversight	IFRS Foundation Trustees	
Independent Standard-setting & Related Activity	International Accounting Standards Board (IASB)	International Sustainability Standards Board (ISSB)
	IFRS Accounting Standards	IFRS Sustainability Disclosure Standards

IFRS Convergence of Sustainability Standards



ISSB Sustainability Standards

The What:

- The ISSB published two draft IFRS Sustainability Disclosure Standards (ISDS) in March 2022
  - Exposure Draft Proposed IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information; and
  - Exposure Draft Proposed IFRS S2: Climate-related Disclosures

The Why:

- To develop a truly global baseline of sustainability disclosures to further inform economic and investment decisions(4)
- Four Objectives:
  1. Develop standards for a global baseline of sustainability disclosures
  2. Meet the information needs of investors
  3. Enable companies to provide comprehensive sustainability information to global capital markets
  4. Facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups

(4) https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/#:~:text=The%20ISSB%20is%20responsible%20for,inform%20economic%20and%20investment%20decisions.

ISSB Sustainability Standards

The How:

- The ISSB, like the SEC, leverages the Task Force on Climate-Related Disclosures (TCFD) framework
- TCFD framework utilizes a lens of financial materiality to focus on climate-related risks and opportunities on an organization
- The ISSB has built its ISDSs around the TCFD Framework

Governance	Strategy	Risk Management	Metrics & Targets

IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information(5)

TCFD Framework Area	Key Points
Governance	Investors to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities
Strategy	Investors to assess a company's strategy for addressing significant sustainability-related risks and opportunities - If risks and opportunities are incorporated into strategic and financial planning - If the risks and opportunities are core to its strategy
Risk Management	Investors to understand the process by which a company identifies, assesses and manages current and anticipated sustainability-related risks and opportunities and whether that process is integrated into its overall risk management processes
Metrics and Targets	Investors to understand how a company measures, monitors and manages significant sustainability-related risks and opportunities and assesses its performance, including progress towards the targets it has set

(5). https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/snapshot-exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information-and-exposure-draft-s2-general-sustainability-related-disclosures.pdf

IFRS S2: Climate-Related Disclosures[5]

TCFD Framework Area	Key Points
Governance	• Terms of reference for company's climate-monitoring governance body • Management's role in assessing and managing climate-related risks • Ensure people with right skills oversee company's strategy
Strategy	• Companies to disclose information about how climate change could reasonably be expected to affect their business model, strategy and cash flows over the short, medium or long term, their access to finance and their cost of capital • How the company plans to adapt or mitigate climate-related risks, including carbon offsets
Risk Management	• Investors to understand the process by which a company identifies, assesses and manages current and anticipated climate-related risks and opportunities and whether that process is integrated into its overall risk management processes
Metrics and Targets	• Disclose absolute gross Scope 1, Scope 2 **and Scope 3** GHG emissions and the intensity of those emissions. • Calculate emissions using the GHG Protocol.

(5). https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/snapshot-exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information-and-exposure-draft-s2-general-sustainability-related-disclosures

ISSB Sustainability Standards

The When:

- The ISSB is finalized IFRS 1and IFRS 2 on June 26, 2023; effective January 2024
- The ISSB is already working on priorities for additional standards
  - Biodiversity, ecosystems and ecosystem services
  - Human Capital
  - Human Rights
  - Connectivity in reporting

CSRD

CSRD

The What:

- The Corporate Sustainability Reporting Directive (CSRD) is a European Union (EU) standard that was passed on November 28, 2022
- The CSRD applies to all companies with:
  - More than 250 employees
  - More than 40€ in annual revenue and 20 € in total assets
  - Publicly-listed equities that have more than 10 employees or 20€ million revenue
  - International and non-EU companies with more than 150€ million annual revenue within the EU and which have at least one subsidiary or branch in the EU exceeding certain thresholds

The Why:

- Enhance transparency and comparability of corporate sustainability reporting
- Part of the European Union’s (EU) sustainability initiatives to establish a comprehensive reporting framework covering Environment, Social, and Governance factors

CSRD

The How: Starting in 2024 impacted companies are required to annually:

- Prepare and submit a CSRD report (large company reports due early 2025, others 2026)
- Track and disclose required information, including:
  - Process of identify material ESG themes, topics, and risks
  - ESG performance targets, goals and progress
  - ESG risk impacts to business performance
  - Environmental protection policies and actions
  - Anti-corruption and bribery practices
  - Corporate ESG governance
- Digital Data and Tagging: must prepare in XHTML and tag data to a taxonomy
- Provide “Limited” third party assurance of the information

California Climate Change Senate Bills

The what:

- California passed two state senate bills in October 2023:
- SB-253: Climate Corporate Data Accountability Act (Scope 1, 2, and 3 GHG emissions)
- SB-261: Greenhouse Gases: Climate-Related Financial Risk (a qualitative disclosure: climate-related financial risks and measures a company has adopted to reduce and adapt to such risks)

The why:

- California is experiencing more extreme climate change that can have a large impact on the state's economy
- Enables California to develop emissions reductions and act more quickly

CALIFORNIA AIR RESOURCES BOARD

California Climate Change Senate Bills

The who:

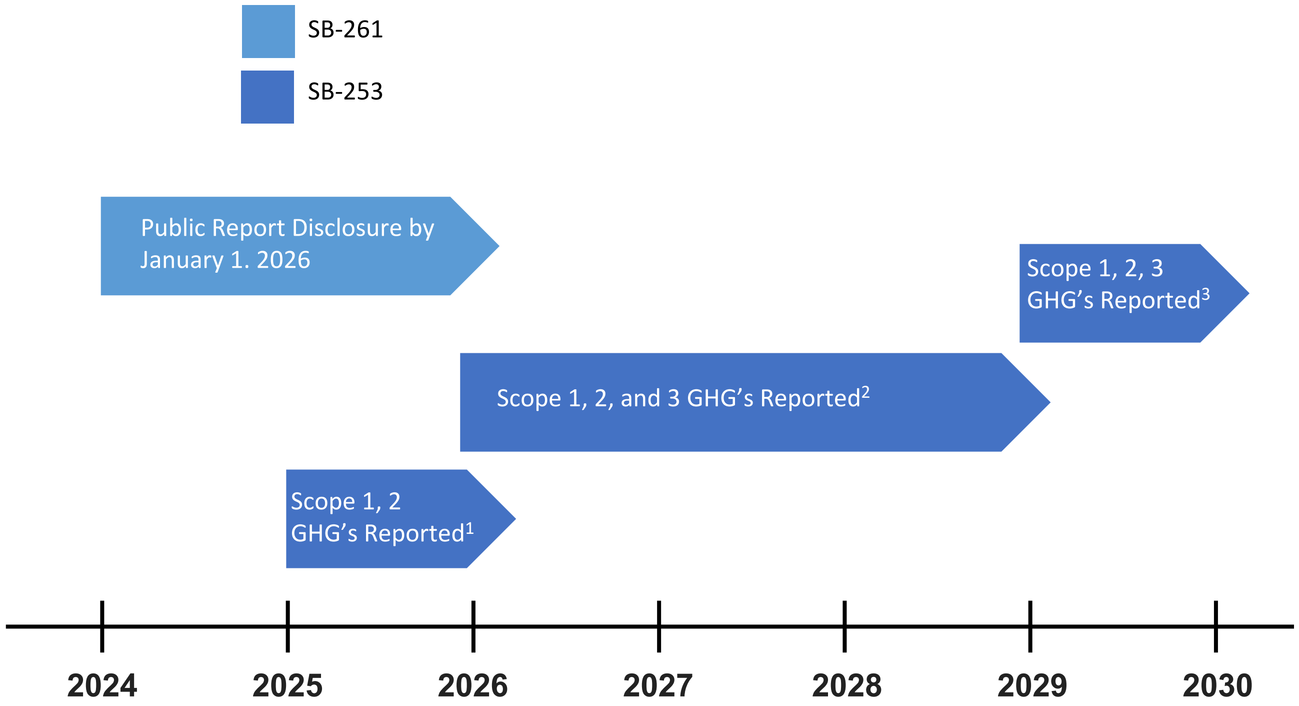
- This affects both Public AND Private companies “doing business in California”*
- SB-253: Total annual revenues exceeding $1 Billion
- SB-261: Total annual revenues exceeding $500 Million (excluding insurance industry)

* “Doing Business in California” is to be clarified further by the California Air Resources Board (CARB)

SEC Climate Change Disclosure Rule

The how:

- Thankfully, California has aligned with the SEC and the ISSB for the same frameworks and Standards:
- SB-253: GHG Protocol
- SB-261: TCFD reporting framework, or Sustainability Disclosure Standards issued by the ISSB



1- With Limited Assurance
2- Scope 3 Reported within 180 days of Scope 1 and 2 reporting. No assurance on Scope
3- Scope 1 and 2 reported with reasonable assurance. Possible limited assurance for Scope 3.

Other States Following Suit…

- Illinois:
  - Sustainability Investing Act (active)
    - Enacted 2020 and amended in 2023
    - Similar to California SB-261 for ESG Reporting
  - Climate Corporate Accountability Act (HB4268)
    - Proposed late 2023
    - Similar to SB-253 in California for Scope 1, 2, and 3 GHG reporting

- New York: SB S897A – New York Climate Corporate Accountability Act
  - Proposed January 2023
  - Similar to SB-253 in California

- Colorado, Maine, and Vermont
  - Introducing state-level enforcement with various bills and policies

Summary

	Regulations		Standards	
	SEC	**California**	**ISSB**	**CSRD**
Location	• United States	• State of California	• International	• European Union
Authority	• Mandated disclosure requirements	• Required ESG Reporting to impacted companies "Doing Business in California"	• Can be jurisdictionally mandated through regulation	• Required ESG reporting to impacted companies
Materiality	• Materiality in line with Supreme Court; Investor-centric	• Investor and company value-centric	• Investor and company value-centric	• Double materiality 1: Impacts of company outward 2: Outward impacts to company
Focus	• Climate-related disclosures (industry agnostic)	• Two Regulations : SB-253: Reported annually SB-261: Biennially on Company's site	• Two Standards : S1: Sustainability disclosures S2: Climate-related disclosures	• ESG annual reporting (industry-specific)
Assurance	• Financial statement audit (ICFR) Scope 1 and 2: Limited assurance, then reasonable	• Sustainability disclosures follow limited assurance, then reasonable assurance	• Subject to jurisdictional requirements	• Sustainability disclosures follow limited assurance, then reasonable assurance

ESG Risk Ratings

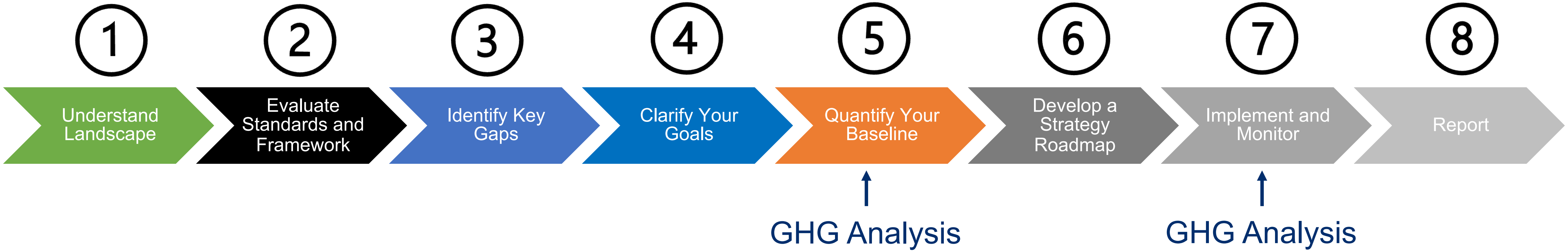
- ESG Risk Ratings measure and quantify exposure to long-term ESG risks
- Typically performed by specialized rating agencies such as MSCI or Sustainalytics
- Ratings agencies evaluate material risks to companies within their respective sectors or sub-industries
- Higher scores indicate lower ESG risk in comparison to other companies within the same sector or sub-industry
- Utilized by investors and asset managers to inform investment decisions

Internal Control Over Sustainability Reporting

- The COSO Internal control framework was expanded in 2023 with supplemental guidance:
  - *"Achieving Effective Internal Control of Sustainability Reporting (ICSR)"*
- Inclusive of:
  - Sustainable business information. Often referred to as "nonfinancial," "environmental, social, and governance (ESG)"
  - Role of Internal Audit in sustainability reporting
  - Themes for effective systems of internal control over financial and sustainable business information

Starting Your ESG Reporting Journey

- Successful implementation and reporting is contingent upon understanding:
  - The ESG landscape (Frameworks, Standards, Regulations)
  - How your industry fits within the context of this landscape
  - Requirements relevant to you from ISSB Standards and the TCFD framework, based on stakeholder demands, including regulators
  - How your ESG reporting aligns with what is important to your key customers and their needs
  - Your ability to successfully develop, implement, and maintain the program



Questions?

UHY

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Professional Experience

Stephen Lathrop is a managing director with UHY's Transformation group. Stephen has over 25 years of consulting experience with a unique blend of engineering and business consulting. As a registered professional engineer, Stephen spent his first 18 years as an environmental engineering consultant helping his clients navigate regulatory frameworks and developing lines of business in sustainability, greenhouse (GHG) analysis and baselining, carbon credits, environmental compliance, and site remediations. In the last 9 years, Stephen shifted to business consulting and has utilized his expertise as a registered project management professional to help companies optimize processes, prioritize project portfolios, and positively transform organizations.

This unique blend of skills enables Stephen to connect the implications and complexities of environmental regulations to business needs by developing actionable and realistic business plans that meet a client's strategic framework.

Background

- Project Management Professional (PMP)
- Professional Engineer (PE)

Education

- Georgia Institute of Technology, Bachelor of Science, Civil Engineering
- Georgia Institute of Technology, Master of Science, Environmental Engineering