

NIRI Chicago Ongoing ESG Discussion: Regulatory Spotlight

January 12, 2024

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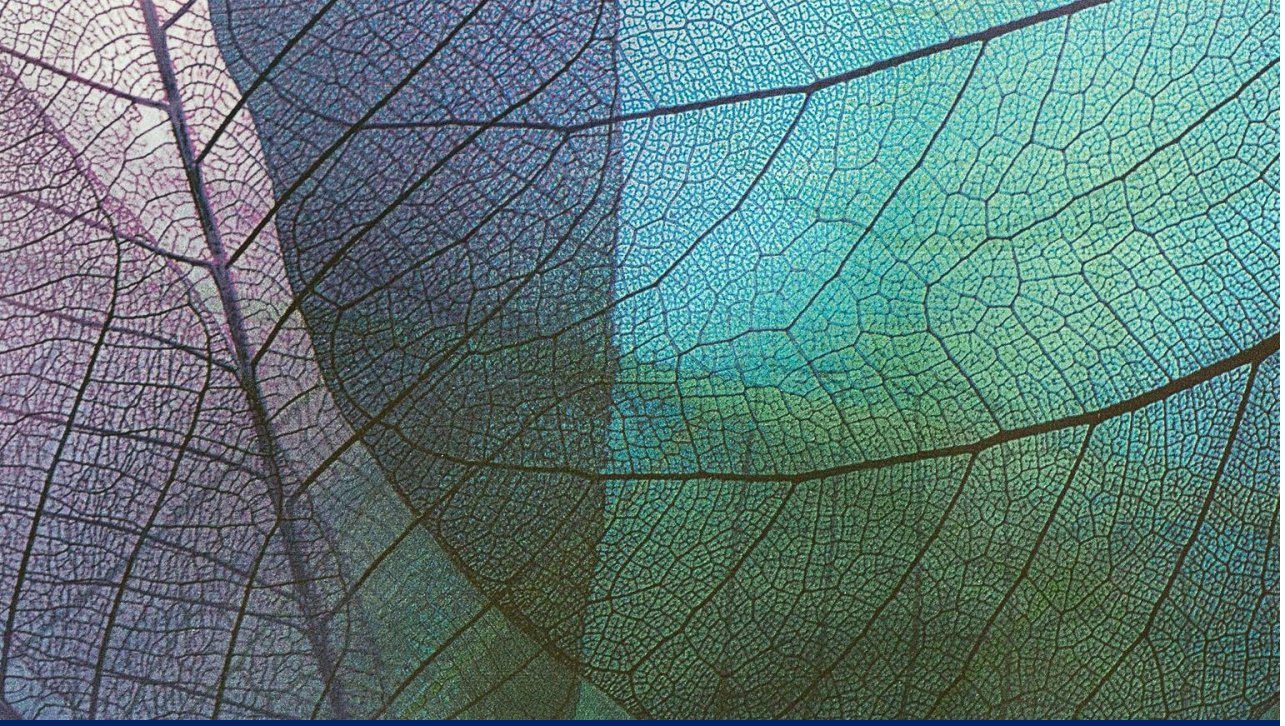

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ESG Regulatory Spotlight

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California Climate Accountability Package

	Applicability	Reporting Requirements	Timing
Climate Corporate Data Accountability Act (SB 253)	• Large US **private and public** companies "doing business in California" w/ **total annual revenues > $1B** • "Doing business" in California are not yet defined, but expected to be broad	• Annual disclosure of **Scopes 1, 2, and 3 GHG emissions** for the prior fiscal year • Companies below the $1B revenue threshold should expect **additional pressure from customers and vendors** to disclose GHG emissions data • **Must obtain third-party assurance** for emissions reporting, starting with limited assurance and moving to reasonable assurance in subsequent periods	• Beginning 2026 for Scopes 1 and 2 emissions • Beginning 2027 for Scope 3 emissions
Climate-Related Financial Risk Act (SB 261)	• Large US **public and private** companies "doing business" in California with **total annual revenues > $500M**	• Biennial climate-related financial risk report that discloses: **(i) climate-related financial risk built upon TCFD recommendations**, and **(ii) measures adopted to mitigate and adapt to the disclosed risks** • "Climate-related financial risk" includes **all material risk of harm to immediate and long-term financial outcomes** due to physical and transitional risks • If company cannot provide all required disclosures in report, must give detailed explanation of reporting gaps and steps taken towards compliance	• Initial report must be published before January 1, 2026 • Reports required every 2 years after initial report

EU Corporate Sustainability Reporting Directive (CSRD)

Overview	Topic	Key Reporting Metrics

• All companies must make the **mandatory disclosures**, including on their diligence process
• Companies also need to disclose "material sustainability matters" in their **own operations** + upstream and downstream **value chain**
• **Double materiality** standard
  ◦ Financial materiality
  ◦ Impact materiality
• Mandatory **third-party audit**
• Risks of regulatory action + litigation (including EU class actions) for failure to report or misrepresentations in the report
	Climate Change	Scopes 1, 2, and 3 greenhouse gas emissions, energy consumption

	Pollution	Impacts on pollution of the air, water, soil, living organisms, and food resources, use of substances of concern and microplastics
	Water & Marine Resources	Consumption, withdrawal, and discharge from and into water (incl. ground and surface water), consideration of the extraction and use of marine resources
	Resource & Circular Economy	Resource inflows, outflows, waste, resource optimization, risks of the transition to a circular economy
	Biodiversity & Ecosystems	Drivers of biodiversity loss, impact on species, dependencies on ecosystems
	Own Workforce	Gender pay gap, pay ratio between top paid executive and median employee, privacy
	Workers in the Value Chain	Similar to "own workforce," but on workers in the value chain(s)
	Affected Communities	Impact of operations and value chains (incl. products and services) on indigenous rights, civil rights, social and economic rights, water and sanitation
	Consumers & End Users	Access to quality information, privacy, protection of children, product recalls
	Business Conduct	Anti-corruption and anti-bribery practices, whistleblower protection, political lobbying, payment practices and relationships with suppliers

EU CSRD Scope & Timing

FY 2024

(reporting in 2025)

EU undertakings already subject to current EU non-financial reporting rules

Includes large companies listed on an EU regulated market or large companies with debt listed on an EU regulated market

FY 2025

(reporting in 2026)

Large EU undertakings (including subsidiaries of US parents) and EU parents

If they satisfy at least two of the following (on the individual or EU group basis):

1. Balance sheet total of over EUR 25 million
2. Net turnover of over EUR 50 million
3. Average of more than 250 employees over the financial year

FY 2026

(reporting in 2027), with an option to opt out for two further years

Small and non-complex credit institutions and captive insurance and reinsurance undertakings

(reporting in 2027)

Small and medium-size undertakings listed on the EU regulated markets

(except “micro-undertakings”)

FY 2028

(reporting in 2029)

Non-EU parents

If they satisfy both of these criteria:

1. Generate a net turnover of more than EUR 150 million in the EU for each of the last two consecutive financial years at the consolidated level
2. Have at least one subsidiary that is itself within the scope of the CSRD or an EU branch that generates a net turnover of over EUR 40 million



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Practical steps to prepare

1. **Assemble cross-functional team** to drive the data collection, analysis, and reporting initiatives

2. Understand requirements and **determine applicability** of US and global reporting (e.g., CSRD, ISSB) proposals

3. **Create an inventory** of existing climate commitments and related data, including identifying data sources, processes and controls

4. **Assess gaps** between the existing inventory and required data, including identifying missing data as well as low quality data and inadequate controls

5. Create a **project plan** to prepare for reporting:
   - Develop training and resources to upskill personnel, including key members of management and the board
   - Assess existing climate commitments and affirm action plans or modify as applicable
   - Identify (or develop) sources for data gaps, including greenhouse gas emissions
   - Document key reporting policies (e.g., assessment of materiality for emissions data)
   - Design and implement high-quality processes and controls over all applicable data (including consideration of accelerated reporting)
   - Assess technology requirements and implement solutions to support timely, complete, and accurate reporting

Key considerations in the move toward investment grade ESG data

Companies should navigate to ‘investment grade’ data quality standards and to assess, design, and implement a controlled ESG reporting environment.

Understanding IT dependencies

- Establish data traceability from ESG reports back to the source systems including the flow of data through your IT environment
- Document data sources, extraction parameters, and adjustments required for your metrics and disclosures
- Leverage existing processes and controls

Formalizing processes and controls

- Treat ESG data and information with the same rigor and controls as financial accounting data; leverage existing controls
- Address both the technological and people side of change



Coordinate reporting activities

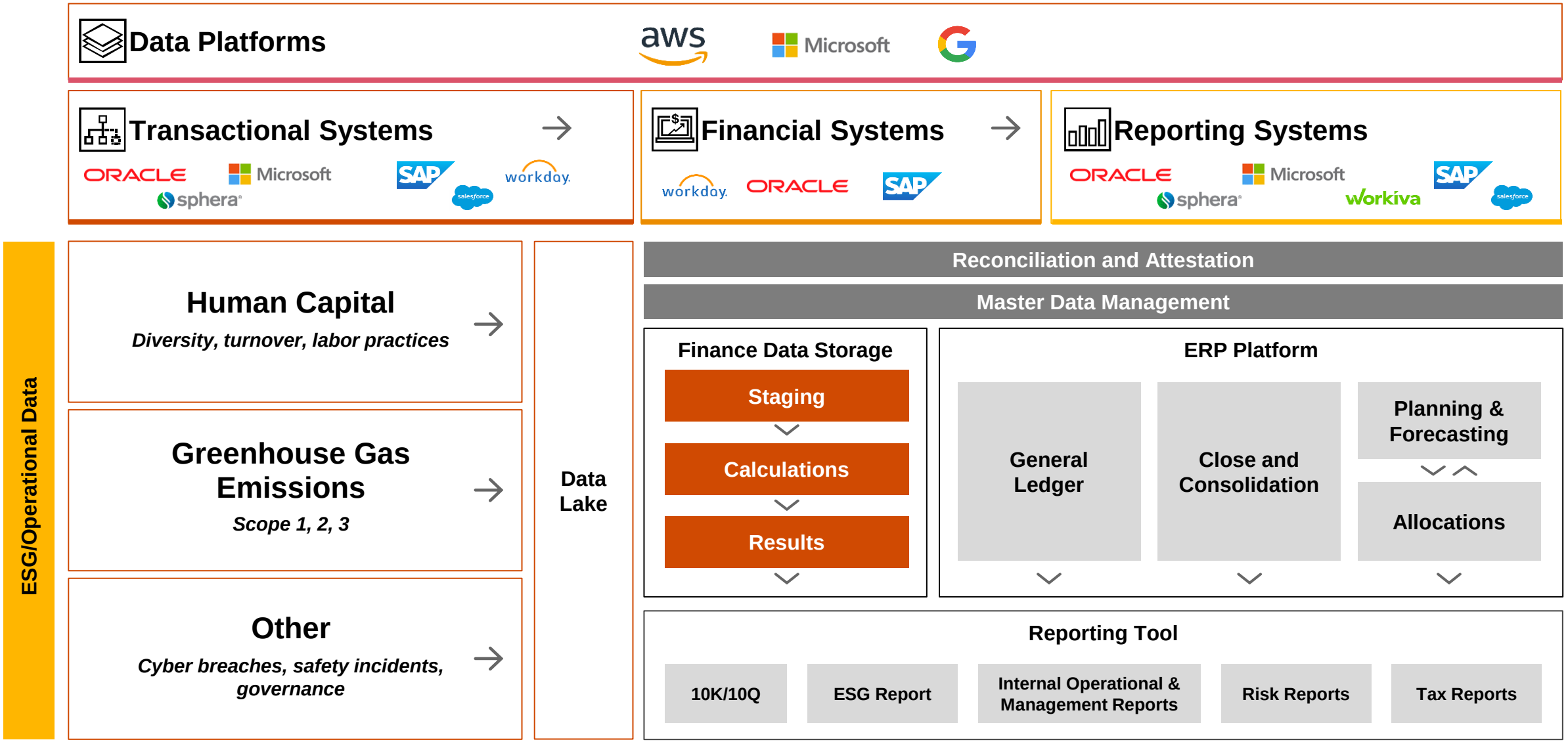
- Clearly define roles and responsibilities across ESG reporting activities with defined hand-offs and timelines; drive accountability
- Retain sufficient evidence to support disclosures and enable reperformance/recalculation and any associated assurance requirements

Collecting the right data, timely

- Formalizing processes and internal controls to define, collect, and process data
- Building trust by ensuring the completeness, accuracy, and comparability of data
- Shorten the close process using IT/estimates

Supported by change management and upskilling

ESG reporting architecture



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Climate risk assessment & GHG inventory management plan

Slides for NIRI Chicago’s ESG regulatory meeting

Climate risk assessment

Assess the physical and transition risks that impact your business

Why?

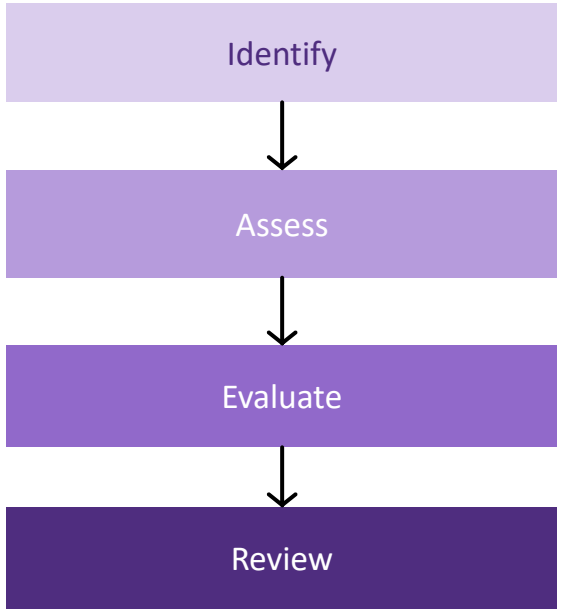
Assessing climate risk will help you better understand the impact climate has on your business while meeting the reporting requirements of stakeholders and regulators.

APPROACH

Key steps:

- Identify potential climate risks and opportunities
- Assess significance of risks & opportunities
- Evaluate potential impact & response
- Review findings and prepare deliverable to facilitate reporting

PROCESS



OUTCOMES

- Aligned mapping of climate risks with relevant reporting requirements
- Understand climate risks and opportunities to enhance risk mitigation
- Satisfy stakeholder expectations for awareness and transparency
- Results are useable for all types of reporting, whether regulatory or voluntary such as CDP or GRI

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GHG inventory management plan

Establish a high quality GHG inventory that documents the processes for collecting, calculating, and maintaining GHG data

Why?

A GHG inventory management plan allows organizations to enhance governance over emissions data, understand emission sources, and prepare complete & accurate reporting.

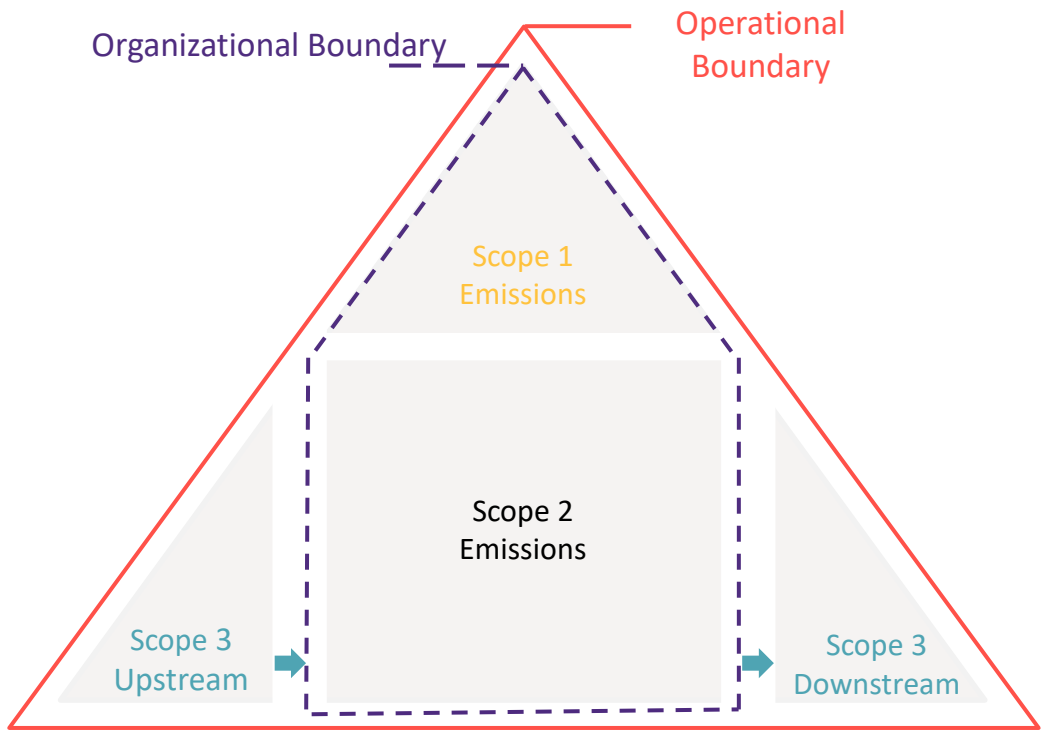
APPROACH

Part 1: GHG inventory design

Define GHG inventory parameters including organizational and operational boundaries, emissions sources and related activity data.

Part 2: GHG inventory deployment

Calculate GHG emissions metrics in accordance with GHG Protocol or other regulatory requirements.



OUTCOMES

- Key decisions related to GHG policy, governance, and boundaries are made
- Material emission sources are identified, data collected, estimations developed, and GHG emissions calculated
- Alignment with relevant reporting frameworks

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