IIA Chicago 63rd Annual Seminar
SEC Sets Climate Disclosures

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The Institute of
Internal Auditors
Chicago

Speaker Bio’s

Alyse Mauro Mason

Alyse Mauro Mason is a leader in the Sustainability & ESG practice. Alyse has over 15 years of experience in strategic planning, project management, litigation and dispute resolution involving complex issues for companies, individuals, and nonprofits. She is a trusted advisor and analytical decision maker with a proven track record of guiding project teams through operational processes to achieve impactful outcomes.

Associate Director, Protiviti

Business Performance Improvement – Supply Chain

Chris Benvenuto

Chris is a Managing Director in our Internal Audit Services practice of Protiviti. Chris works extensively with clients in providing a broad array of internal audit consulting services dealing with internal control structure, financial statement risks, process, and operational reviews. Chris’ primary focus has been providing his clients with Internal Audit and Sarbanes Oxley 404 consulting services.

Managing Director, Protiviti

Internal Audit and Financial Advisory

Overview of Today's Discussion

1. Overview of Climate-Related Disclosures
2. SEC's Final Rule
3. Key Actions Organizations Should Be Taking
4. Q&A

The Evolving Global ESG Regulatory Landscape

Mandatory requirements are here or coming

- OSFI B-15
- Non-Financial Reporting Directive (NFRD)
- Corporate Sustainability Reporting Directive (CSRD)
- IFRS Sustainability Disclosure Standards
- European Sustainability Reporting Standards (ESRS)
- Singapore Carbon Tax
- EBA European Banking Authority Pillar 3
- Sustainable Finance Disclosure Regulation (SFDR)
- EU Taxonomy
- ISSB

Further ESG requirements are to be expected

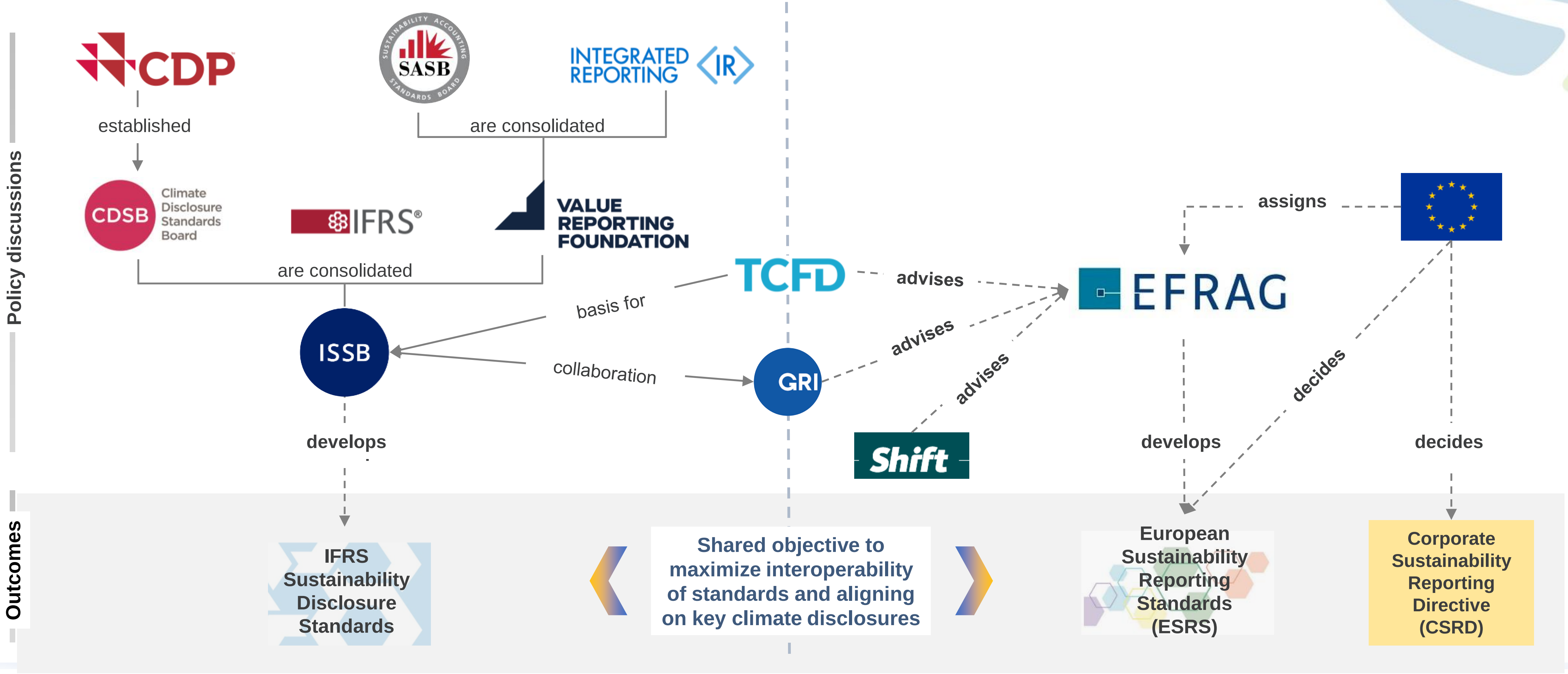
Memberships, commitments and agreements

- CPLC Carbon Pricing Leadership Coalition
- TCFD
- We Support UN Global Compact
- Sustainable Development Goals
- Climate Engagement Canada
- BlackNorth Initiative – Strength(In) Diversity
- CDP – Driving Sustainable Economies
- Caring Company Certified – Imagine Canada
- PRI Principles for Responsible Investment
- UN environment programme finance initiative
- Equator Principles
- Circular Economy Leadership Canada
- RIA Responsible Investment Association
- Canadian Climate Institute / L'Institut Climatique du Canada
- Catalyst
- Institute for Sustainable Finance

Convergence in ESG (reporting) Requirements

Global standards for sustainability related reporting

European corporate sustainability reporting



Other Relevant Climate Rules

Although some of organizations may not be subject to the SEC rules, other regulations exist that could impact an organization directly or indirectly. Two examples are below, with many others existing across the globe.

Corporate Sustainability Reporting Directive (CSRD)

WHO DOES IT APPLY TO

- EU and non-EU companies which have a European subsidiary that meets **two of the three** criteria:
  - **> 250 employees**
  - **> €40M turnover**
  - **> €20M total assets**
- Additionally, any **listed companies and non-EU companies** which have net sale **> €150M in the EU** and have **at least one subsidiary or branch in the EU** will need to follow the new standard.

WHAT DOES IT REQUIRE

- Information based on "**double materiality**" cover information about:
  - Environmental, Social, and Governance information
  - General sustainability information

TIMELINE

Phased implementation approach:

- FY 2024, 2025, 2026, or 2028 depending on organization specifics

California Senate Bills 253 & 261

SB 253: Climate Corporate Data Accountability Act

Criteria: Companies with global revenue of $1 billion that conduct business in the state of California

Requirements: Disclose scope 1, 2, and 3 emissions measured in accordance with GHG Protocol; issue to the state of California; obtain third party assurance

Timing: Reporting and assurance for scopes 1, 2, and 3 to be completed in 2026 for FY 2025, and annually thereafter

SB 261: Greenhouse gases: climate-related financial risk

Criteria: Companies with global revenue of $500 million that conduct business in the state of California

Requirements: Disclose climate related financial risks in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) *

Timing: Reporting to be completed in 2026 and biennially thereafter

Today's Discussion

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- IFRS Sustainability Disclosure Standards
- European Sustainability Reporting Standards (ESRS)
- Singapore Carbon Tax
- Pillar 3
- Sustainable Finance Disclosure Regulation (SFDR)
- EU Taxonomy
- ISSB

Further ESG requirements are to be expected

Memberships, commitments and agreements

CARBON PRICING LEADERSHIP COALITION

TCFD

WE SUPPORT

CLIMATE ENGAGEMENT CANADA

Strength(In) Diversity

DRIVING SUSTAINABLE ECONOMIES

PRI Principles for Responsible Investment

UN environment programme finance initiative

EQUATOR PRINCIPLES

CIRCULAR ECONOMY LEADERSHIP CANADA

Responsible Investment Association

CANADIAN CLIMATE INSTITUTE L'INSTITUT CLIMATIQUE DU CANADA

CATALYST

Institute for Sustainable Finance

Key Facts

On March 6, 2024, the SEC adopted final rules to require registrants to disclose certain climate-related information in registration statements and annual reports. Companies will be required to disclose the mandated climate-related disclosures either in a separate, appropriately captioned section of its registration statement or annual report or in another appropriate section of the filing, such as Risk Factors, Description of Business, or MD&A.

24,000

Total number of public comment letters received by the SEC on the proposed rule dating back to 2022

3-2

Final vote by the SEC Commissioners, adopting the rule

2025

First fiscal year of compliance for large accelerated filers

886

Number of pages in the final rule published on March 6, 2024

SEC Final Rule: Climate-Related Disclosure

01

Qualitative and quantitative disclosures in registration statements and annual reports

New subpart 1500 of Regulation S-K (MD&A)

02

Disclosure of Scope 1 and/or Scope 2 greenhouse gas emissions and an attestation report addressing such disclosures

03

Disaggregated financial information presented in the notes to the financial statements

New Article 14 of Regulation S-X

04

Final Rules will become effective 60 days following the publication in the Federal Register

Footnote Disclosure Requirements

The final rule included requirements for disclosures in the footnotes to the audited financial statements, specifically focused on:

Financial Statement Impacts of Severe Weather Events and Other Natural Conditions

- Required to disclose aggregate capitalized costs and charges taken, expenditures expensed and losses incurred due to severe weather events and other natural conditions, prior to consideration of recoveries (i.e., insurance)
- Subject to applicable disclosure thresholds (absolute values);
  - Greater of 1% pre-tax income (loss) or $100,000 for Income Statement
  - Greater of 1% equity (deficit) or $500,000 for Balance Sheet
- Disclose amounts recognized for each financial statement line item affected

Carbon Offsets and Renewable Energy Credits

- Required to disclose capitalized costs, expenditures expensed and losses recognized related to carbon offsets and renewable energy credits or certificates if used as a ***material*** component of a registrant's plans to achieve its disclosed climate-related targets or goals

Estimates and Assumptions

- Required to disclose if the estimates and assumptions a registrant uses to produce the financial statements are materially impacted by risks and uncertainties associated with severe weather events and other natural conditions or any disclosed climate-related targets or transition plans.

Source: SEC Fact Sheet, 33-11275-fact-sheet.pdf (sec.gov)

Other Required Disclosures

The final rule included requirements for quantitative and qualitative disclosures in SEC filings:

GHG Emissions

- For large accelerated filers (LAFs) and accelerated filers (AFs) that are not otherwise exempted, disclose information about ***material*** Scope 1 direct emissions and/or Scope 2 indirect emissions (purchased energy)
  - Metric tons of carbon dioxide-equivalent
  - If any constituent GHG is individually material, disclose on a disaggregated basis
- Required to be provided separately and on a gross basis, before consideration of any offsets
- *Smaller Reporting Companies (SRC) and Emerging Growth Companies (EGC) are exempted*

Climate Strategy

- Disclose climate-related risks that have had or are reasonably likely to have a material impact on business strategy, results of operations, or financial condition
- Actual and potential material impacts of climate-related risks on the strategy, business model, and outlook
- If an internal carbon price is used, and it is material to the evaluation of climate-related risks, disclose the price and certain other information
- Describe scenario analyses used and material impacts determined, for any climate-related risks reasonably likely to have a material impact
- Describe the climate transition plan, if such plan has been adopted, and the progress over time

Climate Targets

- Disclose climate-related target or goal, if such target or goal has materially affected or is reasonably likely to materially affect the company's business, results of operations, or financial condition, including:
  - Scope of activities
  - Anticipated timeline
  - Baseline (if applicable)
  - Plan for achieving target/goal
  - Update on progress annually
  - Carbon offset and renewable energy credits, if they are material

Source: SEC Fact Sheet, 33-11275-fact-sheet.pdf (sec.gov)

Other Required Disclosures - Continued

The final rule included requirements for quantitative and qualitative disclosures in SEC filings:

Material Expenditures

- If, as part of its strategy, a registrant has undertaken activities to mitigate or adapt to a ***material*** climate-related risk, disclose:
    - A quantitative and qualitative description of material expenditures incurred, and
    - Material impacts on financial estimates and assumptions that directly result from such mitigation or adaptation activities

Risk Management

- Disclose any processes the registrant has for:
    - Identifying, assessing, and managing material climate-related risks and,
    - If the registrant is managing those risks, whether and how any such processes are integrated into the registrant's overall risk management system or processes

Governance

- Describe the board of directors' oversight of climate-related risks
    - This includes identifying Board committees or subcommittees involved, and how the board is informed about such risks
- If the company is required to disclose any climate-related target/goal or transition plan, describe how the Board oversees progress against the target/goal or transition plan

Source: SEC Fact Sheet, 33-11275-fact-sheet.pdf (sec.gov)

Phase-In Periods and Accommodations

The final rules will be phased in for all registrants with the compliance date dependent upon the status of the registrant as an LAF, an AF, or non-accelerated filer (NAF), smaller reporting company (SRC), or emerging growth company (EGC), and the content of the disclosure and provides several accommodations, including:

Large Accelerated Filer

- Additional phase-in periods for disclosures pertaining to ***material*** expenditures, GHG emissions, the assurance requirement, and electronic tagging if the registrant is an LAF (see Compliance Date Table on following slide)

Safe Harbor

- A safe harbor from private liability for climate-related disclosures (excluding historical facts) pertaining to transition plans, scenario analysis, the use of internal carbon price, and targets and goals

SRC and EGC

- An exemption from the GHG emissions disclosure requirement for SRCs and EGCs

GHG Emissions

- An accommodation that allows Scope 1 and/or Scope 2 emissions disclosure, if required, to be filed on a delayed basis

Source: SEC Fact Sheet, 33-11275-fact-sheet.pdf (sec.gov)

Compliance Dates

The final rules will become effective 60 days after publication in the Federal Register, and compliance will be phased in as follows:

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 – Reasonable Assurance*	*Item 1508 – Inline XBRL tagging for subpart 1500[2]*
Large Accelerated Filers	**FYB 2025**	FYB 2026	**FYB 2026**	FYB 2029	**FYB 2033**	FYB 2026
Accelerated Filers (other than SRCs and EGCs)	**FYB 2026**	FYB 2027	**FYB 2028**	FYB 2031	N/A	FYB 2026
Small Reporting Companies, Emerging Growth Companies, Non-Accelerated Filers	**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.					

1502(d)(2) – material expenditures incurred and material impacts on financial estimates and assumptions that directly result from activities to mitigate or adapt to climate-related risks
1502(e)(2) – "transition plan" to reduce climate-related risks, if applicable
1504(c)(2) – progress toward meeting targets or goals and how such targets have been achieved

Source: SEC Fact Sheet, [33-11275-fact-sheet.pdf (sec.gov)]

Significant Changes from Proposed Rules

Due to various rounds of public comments and pushback, the final rules differ significantly from those initially proposed in March 2022. Some of the more significant changes are described below.

Topic	Change from Proposed Rules
GHG Emissions - Disclosures	• Eliminated proposed requirement for all registrants to disclose Scope 1 and Scope 2 emissions; only required for LAFs and AFs on a phased in basis and **only when those emissions are material** • Eliminated the proposed requirement to provide Scope 3 emissions disclosure
GHG Emissions - Assurance	• Modified proposed assurance requirement over Scope 1 and Scope 2 emissions for AFs and LAFs by extending the reasonable assurance phase in period for LAFs and requiring only limited assurance for AFs
Severe Weather Event Impact	• Removed requirement to disclose the impact of severe weather events on each line item of a registrant's consolidated financial statements
Board Expertise	• Eliminated proposed requirement to describe board members' climate expertise

Source: SEC Fact Sheet, 33-11275-fact-sheet.pdf (sec.gov)

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Organizations Should Prioritize

01

Review existing sustainability programs

02

Assess the underlying support / process / data /controls

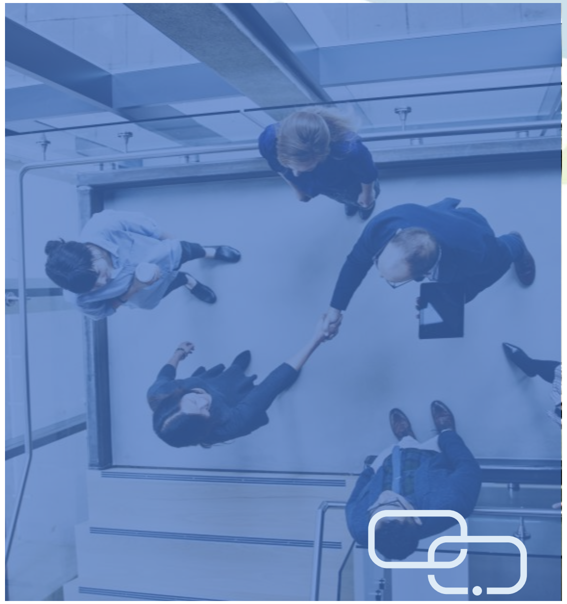
03

Roadmap and remediation

Review Existing Sustainability Programs

Establish proper sustainability / climate governance – form an ESG steering committee & make sure you have proper board oversight

Integrate climate risk discussions into your agenda (ESG steering committee)



Evaluate your board on climate expertise

Evaluate internal and external resourcing

Assess the Underlying Support / Process / Data / Controls

01 Materiality assessment with climate as a focus (sustainability function)

02 Evaluate data requirements for climate reporting (external reporting, internal audit, sustainability functions)

03 Design / Documentation of sustainability process and GHG processes (external reporting, internal audit functions)

04 Evaluate your internal controls (external reporting / internal audit functions)

05 Revisit climate-related risk oversight and management practices (enterprise risk management)

06 Look at Scope 1, 2 and how much effort that could be (sustainability, internal audit functions)

SEC Climate Disclosure Readiness Overview

The below topics and questions can assist businesses in complying with the new SEC climate disclosure rules, enabled by technology, while establishing a robust control environment.

Governance and Strategy
- What aspects of the SEC rules are applicable to you?
- How does it relate to your communication with stakeholders around sustainability?
- Do you have resources to support a climate disclosure program?
- How will you integrate any current reporting to the financial disclosure reporting process?

Risk Integration
- What are the potential risks from climate change?
- Have you identified both physical climate risks and transition risks?
- How will you integrate climate risks with your ERM program?
- Have you completed a materiality assessment?

Financial Footnotes & GHG Data/Targets
- How will you evaluate Scope 1 and 2 emissions?
- How will you collect relevant climate data?
- What processes will you establish to report timely and accurately?
- Do you have capacity and skills on your team to integrate climate disclosure processes?
- What will your disclosures include and can they sustain audit scrutiny?
- How will you confirm your reporting is 10-K ready?

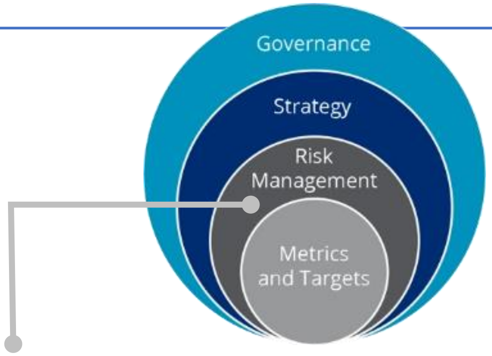
Process & Controls
- How will you handle risk assessments, controls and data quality?
- What information governance will you put in place?
- Do you have process level documentation to support your control environment?
- Are there formal policies to govern the process?

Technology Platform
- How will you leverage technology and automation to produce required reporting?
- Will you use a digital platform?
- Do you have appropriate technology controls?

Frameworks

TCFD

The TCFD recommendations on climate-related financial disclosures are widely adoptable and applicable to organizations across sectors and jurisdictions. The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.



RISK MANAGEMENT

Disclose how the organization identifies, assesses, and manages climate-related risks

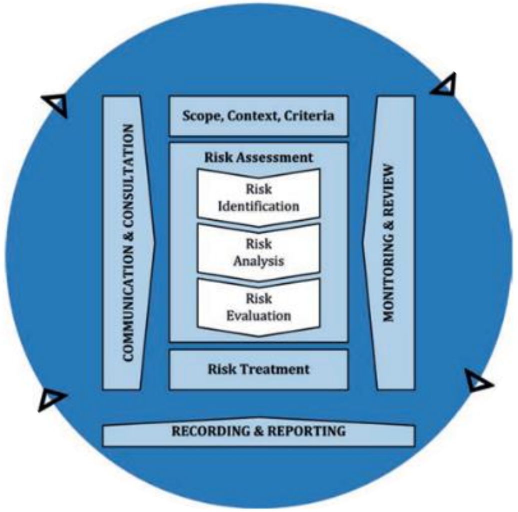
- Describe the organization's processes for identifying and assessing climate-related risks.
- Describe the organization's processes for managing climate-related risks.
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management

COSO

The Committee of Sponsoring Organizations' (COSO) mission is to help organizations improve performance by developing thought leadership that enhances internal control, risk management, governance and fraud deterrence. COSO published a guidance designed to help risk management and sustainability practitioners apply enterprise risk management (ERM) concepts and processes to ESG-related risks.

ISO

Worldwide, ISO31000 is the most applied risk management framework. However, ISO31000 does not provide detailed guidance on the integration of ESG as it allocates ESG in the "context" section.



Roadmap and Remediation

01 Remediation from a gap analysis against existing disclosures (external reporting, ESG steering committee)

02 Training of internal controls to GHG control owners (external reporting, internal audit functions)

03 Coordinate with your external auditor (external reporting function)

04 Prepare annual reports (external reporting function)

05 Track compliance dates (external reporting function, general counsel)

Approach to Internal Controls

A similar approach used for Internal Controls over Financial Reporting can be applied to ESG performance data and reporting

1	2	3	4
Determine Objectives	**Identify Risks and Key Control Activities**	**Implement Control Activities**	**Evaluate Effectiveness**
Establish, document, and communicate internal and external ESG reporting objectives, as well as establish accounting principles for specific ESG factors to ensure that they are implemented, and risks in preparing the ESG data are assessed.	Determine the scope of control by assessing the relevant qualitative and quantitative risk factors for key material topics that could endanger the achievement of ESG reporting goals. Identify and document key control activities in the form of an ESG RCM.	Implement specific control activities to manage or mitigate risk of misstatement of key material topics. These procedures will support data measurement, management, and integrity of data used in reporting.	Once internal controls over ESG data are established, design and operational effectiveness should be evaluated on a regular basis to confirm that the documented procedures are operating as intended.

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Protiviti's Approach to Sustainability

Organizations need to know **relevant sustainability & ESG topics** and analyze their **impact on the organization and of the organization**. This comprises their impact on impact on society and the environment and the risks and opportunities related to sustainability & ESG. In order to get a holistic view and have a real value according to your unique business and purpose, **six activity areas** must be considered.

STRATEGY & PLANNING

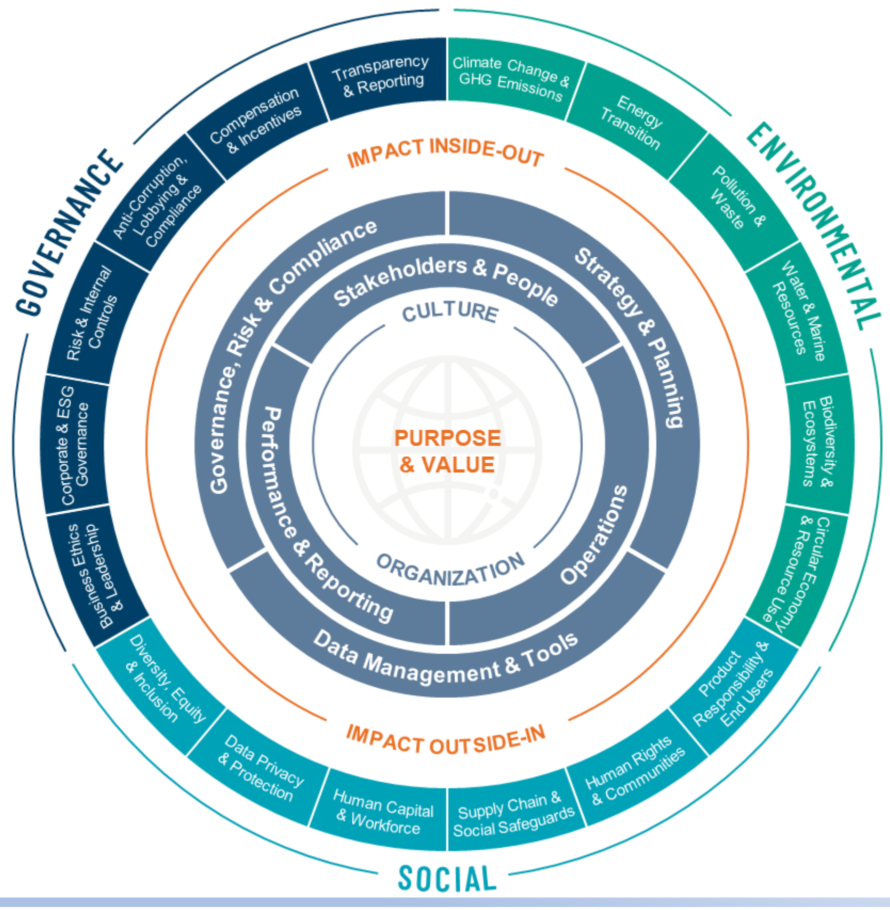
Understand the organization, its sustainability maturity, context, competitors and stakeholders, and identify material topics.

GOVERNANCE, RISK & COMPLIANCE

Ensure your organization manages its risks, complies with all relevant regulations and provides insights for improved decision-making.

DATA MANAGEMENT & TOOLS

Identify relevant data & tools for the analysis and management of material sustainability topics and build the data collection, aggregation, and validation processes.



STAKEHOLDERS & PEOPLE

Define communication and interaction with external and internal stakeholders. Continuously engage with the relevant stakeholders and meet their expectations.

PERFORMANCE & REPORTING

Define and implement an infrastructure to monitor your sustainability performance; provide comprehensive and transparent reporting; and excel in ESG indices, ratings and rankings.

OPERATIONS

Assess, design, and implement capabilities that improve your operations and support the achievement of value chain sustainability.

Q&A

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Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and its independent and locally owned member firms provide clients with consulting and managed solutions in finance, technology, operations, data, digital, legal, HR, risk and internal audit through a network of more than 90 offices in over 25 countries.

Named to the 2023 Fortune 100 Best Companies to Work For® list, Protiviti has served more than 80 percent of Fortune 100 and nearly 80 percent of Fortune 500 companies. The firm also works with government agencies and smaller, growing companies, including those looking to go public. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

$2.10 BILLION REVENUE IN 2023*

90+ OFFICES

25+ COUNTRIES
(AMERICAS, EUROPE, MIDDLE EAST, ASIA-PACIFIC)

11,000+ PROFESSIONALS

*Inclusive of Protiviti's Member Firm network

Protiviti Values and Client Promises

INCLUSION

WE FOSTER A CULTURE OF BELONGING WHERE EVERYONE CAN CONNECT, THRIVE AND GROW.

INTEGRITY

WE PUT ETHICS FIRST AND DO THE RIGHT THING IN ALL SITUATIONS.

INNOVATION

WE ADAPT, EVOLVE AND INVEST TO DELIVER NEW IDEAS AND SOLUTIONS.

COMMITMENT TO SUCCESS

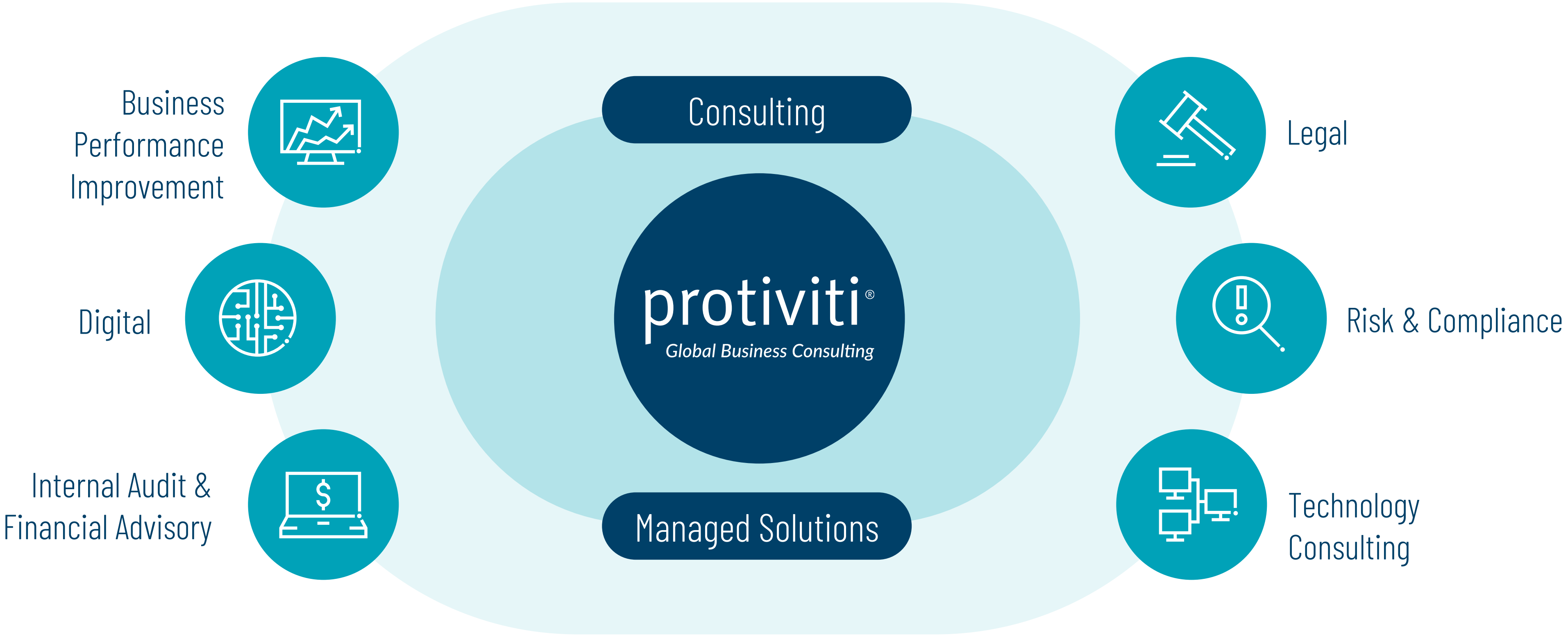
WE EMPOWER OUR PEOPLE TO DRIVE THE SUCCESS OF OUR CLIENTS, COLLEAGUES AND CANDIDATES AND TO BETTER OUR COMMUNITIES.

CLIENT PROMISES

1. LISTEN TO YOU
2. PROVIDE THE RIGHT TALENT
3. COLLABORATE & BUILD RELATIONSHIPS
4. DELIVER VALUE WITH EXCELLENCE
5. OPENLY SHARE LEADING PRACTICES

Protiviti Solutions and Offerings

We provide end-to-end advisory and support services leveraging our six value-added solution families, each of which brings fully dedicated, global teams and has industry-specific expertise:



Resources

Flash Report

Time to Act: SEC Issues Final Climate-Related Disclosure Rules

Insight

Sustainability FAQ

Whitepaper

Regulations and Demand for Accountability Set the Tone for the Future of ESG Disclosures

Upcoming Webinar

Changes to the CSRD Timeline — Practical Insights Into What Companies Should Be Doing Now

Blog

EU Extends Certain CSRD Adoption Timelines for Sector-Specific Standards and Non-EU Companies – But Read Between the Lines

Blog

California Climate Disclosure Requirements

For more resources, please visit: https://www.protiviti.com/ESG