ESG UPDATE
EXECUTIVE SUMMARY
FEBRUARY 2023

Global ESG Disclosure Regimes

Rick Goss
GREEN COGNITION LLC
March 3, 2023

EXECUTIVE SUMMARY

GENERAL

- Morningstar Sustainalytics released research findings revealing that corporate carbon emissions disclosures, although improving in frequency and quality, remain insufficient for the investment community. Morningstar determined that only 40% of approximately 17,000 companies (private and public) surveyed reported on Scope 1 and 2 emissions for FY2021. Three-quarters did not disclose Scope 3 emissions data. Scope 3 emissions constitute more than 90% of emissions associated with several major sectors: Consumer Discretionary, Industrials, Real Estate and Consumer Staples. Morningstar identified a critical need for accurate and consistent emissions estimations models.
- Global accounting professionals issued survey results showing that ESG reporting, particularly among large companies, is gaining momentum. The research focused globally on 1,350 companies in 21 major jurisdictions. While noting continued progress, the authors cautioned that substantial gaps exist: "Significant hurdles remain, however, when it comes to providing consistent, comparable and high-quality sustainability information for investors and lenders." While reliance on SASB and TCFD continues to grow, 86% of companies use multiple standards and frameworks.

EUROPEAN UNION

- A group of dozens of companies, financial institutions and associations sent a letter to leading European Union officials urging them not to further dilute the substance of the European Sustainability Reporting Standards drafted by EFRAG. The coalition – which includes eleven financial institutions with €570 billion in assets and nearly thirty companies with $80 billion in revenue – stated that the "number of disclosure requirements and data points in the final ESRS have already been reduced substantially compared to EFRAG's first draft." The group urged the EU to "to swiftly make these ambitious standards law without reducing their scope."

UNITED STATES

- SEC Chairman Gary Gensler stated the Commission was making some "adjustments" to the proposed Climate Disclosure Rule. Noting that the SEC had received over 15,000 comments on the proposed rule, Chair Gensler concluded that it is "quite customary to make adjustments" based on input received. He denied that the Commission was making changes based on political pressure from the new GOP majority in the U.S. House, or from state-level GOP officials.

Anonymous "insiders," however, claim that the SEC is struggling with how to address the contentious Scope 3 issue in the face of expected lawsuits.

- The GOP majority of the House Financial Services Committee (HFSC) sent a letter to SEC Chair Gensler "demanding records and other information related to the proposed climate disclosure rule." Referencing the Commission's "disastrous climate disclosure proposal," the Committee demanded the SEC preserve records related to the development of the proposed rule and provide specific documents and information requested to the Committee by March 8. Among other items, the HFSC demanded any legal advice or analyses the Commission has developed or received "regarding whether the SEC lacks the statutory authority to promulgate any portions of the proposed climate disclosure rule."
- In a related effort, the HFSC majority announced it had formed a Republican ESG Working Group "to combat the threat to our capital markets posed by those on the far-left pushing ESG proposals." The Working Group intends to "rein in the SEC's regulatory overreach," reinforce materiality as a pillar of financial disclosure, and hold to account those who "misuse the proxy process or their outsized influence to impose ideological preferences" on markets.
- On February 13, the extended comment period closed for the Federal Acquisition Regulation proposal entitled, *Disclosure of Greenhouse Gas Emissions and Climate-Related Financial Risk*. The comment period was originally set to expire on January 13. The proposed rule would require "major" Federal suppliers to publicly disclose GHG emissions and climate-related financial risk, and to set science-based reduction targets. The proposal sets two tiers of federal contractors, and its baseline provisions would apply to all entities that secured at least $7.5 million in federal contracts in the prior fiscal year. Significant additional disclosure obligations would attach to suppliers that received $50 million or more in federal contracts in the prior fiscal year. The proposed rule generated 261 sets of comments.

United Kingdom

- The UK Financial Conduct Authority published a Discussion Paper focused on sustainability-related governance, incentives, and competencies in financial services firms. The FCA will use feedback from this effort "to consider how we can better support the industry in this evolving field and whether there is a case for further regulatory measures in the area of firm governance, incentives and competencies to support the role of finance in contributing to positive change." Comments are due by May 10.
- The UK announced the creation of the Department for Energy Security and Net Zero, tasked with "delivering security of energy supply, ensuring properly

functioning energy markets, encouraging greater energy efficiency, and seizing the opportunities of net zero to lead the world in new green industries." The new department is one of four created to replace the UK Department for Business, Energy and Industrial Strategy, which has been dissolved.

IFRS-ISSB

- In its February 16 meeting in Montreal, the ISSB took several key actions to advance its initial Sustainability Disclosure Standards: IFRS S1 *General Sustainability-related Disclosures* and IFRS S2 *Climate-related Disclosures*. The Board finalized the technical content of both standards and agreed unanimously to advance the drafts to balloting. The ISSB also:
    - Reconfirmed its intent to issue the final standards at the end of Q2 2023;
    - Tentatively decided to make IFRS S1 and IFRS S2 effective for annual reporting periods beginning on or after 1 January 2024; and,
    - Voted to reference European Sustainability Reporting Standards (ESRS) within an appendix to S1.
- ISSB officials also noted that they had approved "a package of reliefs" for companies during the first several months of implementation. As one example, the ISSB will waive for one year the requirement that companies detail Scope 3 GHG emissions by suppliers and vendors across their supply chains. Companies will be allowed initially to estimate Scope 1 and Scope 2 GHG emissions as well, before being directed to phase in more precise reporting.

California

- The Senate Committee on Environmental Quality has scheduled a March 15 hearing to consider the Climate Corporate Data Accountability Act (SB 253) and the Climate-Related Financial Risk Act (SB 261). SB 253 – which failed in Sacramento last year by a single vote – would direct corporations with more than $1 billion in annual revenues to disclose all scopes of their greenhouse gas emissions. SB 261 would require "a covered entity … to prepare a climate-related financial risk report disclosing the entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk disclosed."