Today...

• Oversight of ESG is often not clearly established or defined, though governance and organizational capacity are critical to managing climate-related efforts.¹

• Timeliness for data collection and reporting typically extend beyond current 10-K filing deadlines.²

• Data processes and controls over climate-related information are generally not as mature as financial reporting processes and controls.¹

• Climate-related disclosure is voluntary. Companies use a variety of sustainability reporting frameworks and standards, and disclosure outlets.²

• Assurance—an avenue to quality, accurate, and reliable disclosure—is currently not required.¹

Under the proposed rule, registrants would be required to disclose³...

1. Governance of climate-related risks, how identified climate-related risks have or are likely to have a material impact on a company’s strategy, business model, outlook over short-, medium-, or long-term, and risk management processes.

2. Climate-related financial statement metrics (e.g., disaggregated climate impacts on financial statement line items) and impact of climate-related physical events and transition activities on estimates and assumptions.

3. Greenhouse gas (GHG) emissions, including Scope 1 and 2 (and Scope 3 phased in if material or if registrant has Scope 3 target).

4. Reasonable assurance, phased in for accelerated and large accelerated filers over certain GHG emissions disclosures; limited assurance precedes.

5. Information about climate-related targets and transition plans.

Let’s Talk Climate.

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2. ESG Reporting and Attestation: A Roadmap for Audit Practitioners CAQ. 2021.
3. The Enhancement and Standardization of Climate-Related Disclosures for Investors. SEC. March 21, 2022.
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SEC Proposal: Enhancement and Standardization of Climate-Related Disclosures

What now? How to prepare in 7 steps

### Establish or Refine Climate Governance

- Identify Board and Management oversight on climate-related matters and define clear roles, responsibilities, and charters.
- Establish cadence for climate-focused discussions and implement recurring educational sessions.
- Consider ESG or climate performance linked to compensation, as applicable.

### Include the Right People

- Perform internal and external stakeholder engagement, including education on climate-related risks, data collection, and target setting.
- Establish or refine a cross-functional sustainability council with clear roles, responsibilities, objectives, accountability, and monitoring.

### Build Reporting Agility

- Enhance data quality, timeliness, automation, and relevance by standardizing governance and controls to prepare for assurance-ready disclosure.
- Quickly upskill relevant stakeholders on proposed SEC requirements and reporting timelines, aligning financial filings and existing climate disclosure.
- Enhance preparedness by aligning with the recognized frameworks and standards (e.g., TCFD, GHG Protocol).

### Establish Controls over Climate-Related Data

- Assess the strength of processes and controls over climate-related data, leveraging existing financial reporting control structure.
- Clearly document process flows and control matrices, identify areas for improvement, and prepare for regulatory disclosure timelines.
- Establish near- and long-term plans for climate-related disclosures (e.g., Scope 1 and 2 GHG emissions, and phased in Scope 3 GHG emissions).

### Think Strategically

- Understand disclosure requirements for climate-related metrics and targets, preparing for greater transparency on progress and transition plans.
- Integrate climate risk and opportunity analyses into business strategy, supporting physical and transition risk mitigation and preparedness.

### Identify Climate Risks and Opportunities

- Identify climate-related physical and transition risks and opportunities (e.g., legal and policy, market, product, physical hazards) to the business.
- Evaluate how identified risks and opportunities have or may have an impact on the financial statements over the short-, medium-, or long-term.
- If scenario analysis has been performed, prepare to disclose scenarios, parameters, assumptions, and financial impacts.

### Be Transparent

- Prepare for accelerated reporting timelines, similar to financial reporting.
- Develop a plan to obtain and/or increase the level of assurance.
- Disclose relevant metrics and evidence of progress to achieve targets.
- Contemplate financial accounting and reporting implications.
- Engage Internal Audit.

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**CLIMATE CONSIDERATIONS**

1. Establish or Refine Climate Governance
2. Include the Right People
3. Build Reporting Agility
4. Establish Controls over Climate-Related Data
5. Think Strategically
6. Identify Climate Risks and Opportunities
7. Be Transparent
## SEC Proposal: Enhancement and Standardization of Climate-Related Disclosures

### A Deeper Look: Governance and Controls over Climate-Related Data

**Climate-Related Governance**

- **Establish board oversight & top-down accountability** mechanisms to support robust control environment
- **Clearly define data owners’ roles, responsibilities, and competencies**
- **Build organization capacity and train Board and Management**
- **Incorporate climate-disclosure considerations into data management policies and procedures**

### Internal Controls over Climate-Related Data

1. **Define disclosure objectives**
   - Establish, document and communicate internal and external climate-related data timelines, aligned with financial reporting
   - Review current-state of processes and controls around existing climate disclosure
   - Understand existing quantitative and qualitative data governance structures, to identify gaps and meet near- and long-term reporting requirements

2. **Assess disclosure risks**
   - Identify potential risks that could impact climate-related reporting objectives
   - Determine relevant data sources, systems and process owners
   - Document end-to-end climate processes through narratives and flowcharts
   - Identify and document data and IT system limitations, assumptions and estimates

3. **Identify controls**
   - Evaluate maturity of existing controls to enhance data accuracy and completeness
   - Define internal process controls and general IT controls (GITCs) to mitigate identified climate-related risks
   - Document methodologies for data collection, measurement and/or estimation (i.e., disparate data sources, varying units, conversion factors, etc.)

4. **Evaluate effectiveness**
   - Regularly assess design, implementation, and operating effectiveness of controls
   - Remediate control gaps and deficiencies timely and implement ongoing process improvements
   - Integrate controls over climate disclosure into enterprise risk management processes and Internal Audit plans
   - Engage with external assurance provider

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The SEC proposed rule calls for disclosure of GHG emissions, Scope 1 and 2 (and Scope 3 phased in if material or if registrant has Scope 3 target), as well as certain financial statement disclosures, and qualitative and governance disclosures. The Scope 1 and Scope 2 GHG emission disclosures would be subject to limited assurance during a phase-in period, followed by reasonable assurance.