RESOURCE MANAGEMENT
WEEK 2023

ASSURING SUSTAINABILITY IN
RESOURCE MANAGEMENT

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Climate Change Disclosure Rules

Common Objectives

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April 27, 2023

Objectives of the Disclosure Rules

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1. Provide consistent, comparable and transparent data
   - For investors/lenders to make informed investment/lending decisions
   - For governments to make policy decisions, e.g., to set frameworks for resource management
   - For companies and governments, (together with capital allocators) to manage jointly the opportunities and risks to them arising from changes in climate and regulations

2. To unlock the potential of green finance
   - To increase investment in greener industries and support their growth

3. To encourage/require companies to make plans to transition to a lower carbon economy

Some Key Issues under these Rules

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1. Definitions of materiality and application of materiality thresholds
2. Scope 3 emissions data
3. Methodologies used to calculate emissions and other data
4. Assurance and audit requirements
5. Reliance on third party data
6. Liability for misstatements
7. Safe Harbour for forward-looking statements
8. Scale of the task to comply with these new rules – Phase-in timelines
9. Internal and external resources and expertise needed to generate the required disclosures
10. Lack of coordination between overlapping disclosure regimes

SEC Proposed Climate-related Disclosure Rules

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- Key Provisions include:
  1. Disclosure and Attestation of GHG Emissions Metrics Scope 1, 2 and (if material), Scope 3. Includes GHG intensity as well as gross amounts.
  2. Disclosure of Climate-related Risks and their Impact
  3. Potential Disclosure of Transition Plan and Targets/Goals if company has adopted or set them
  4. Disclosure in Financial Statements of the financial impact of severe weather events, transition activities, expenditure to mitigate climate-related risks and estimates and assumptions impacted by such risks – required to be audited
  5. Disclosure of Climate-related Risks and Risk-Management Processes
- SEC's proposed rules are based on TCFD but go beyond how many companies now prepare their TCFD reporting
- Timing and content of final rules remain uncertain following a delay in the rulemaking process
- It is widely expected that the final SEC rules will be challenged in court

EU Corporate Sustainability Reporting Directive ("CSRD")

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- The CSRD entered into force on January 5, 2023 and will be phased in from January 1, 2024
- Disclosures will be required to cover a range of ESG-related topics including environmental, social and human rights and governance based on a "double-materiality" perspective – How Company's activities impact people and the environment and how sustainability matters affect the Company
- The precise disclosure requirements (known as the "European Sustainability Reporting Standards") are being developed by the European Financial Reporting Advisory Group and drafts of the ESRS have been released
- EFRAG's proposals for Environmental Disclosures include:
  1. A company's gross Scope 1, 2 and 3 GHG emissions
  2. Information on the company's climate-related targets and on its material climate-related impacts, risks and opportunities
  3. Information on energy consumption and mix

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4. Information on resilience of strategy and business models in relation to climate change including the use of climate scenario analysis
5. Potential financial effects from physical and transition risks and potential opportunities
6. Transition plan for climate change mitigation including explanation of how company's targets are compatible with limiting global warming to 1.5°C

- Reporting will commence in 2025 for the 2024 financial year for certain large European and European-listed companies
- Companies will be required to obtain third party assurance over their disclosures

UK Sustainability Disclosure Requirements

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- The UK has required large listed Companies to provided GHG emissions data since 2013 – Scope 1 and 2 but not Scope 3 (subject to a limited exception)
- The UK's disclosure framework has been aligned with the TCFD recommendations. Includes disclosure of governance, strategy, risk management and use of metrics and targets and scenario-analysis
- The UK Government plans to extend these disclosure requirements to government agencies and to introduce economy-wide requirements by 2025
- The UK Government is developing its own broader corporate sustainability reporting standards and green taxonomy and has established working groups to develop policy recommendations and legislative proposals
- The UK Government has confirmed that the standards being developed by the ISSB will form a core component of its future disclosure framework

Global Framework

Task Force on Climate-related Financial Disclosures (TCFD)

- Many public companies have already begun to report under the TCFD framework either voluntarily or due to regulatory requirements, as in the UK
- Unlike the EU's CSRD, TCFD-aligned disclosures are limited to climate and are not required to follow the "double materiality" standard

International Sustainability Standards Board (ISSB)

- First draft standards were published in March 2022
- Draft standards include specific industry-based disclosure requirements derived from SASB standards
- In addition to emissions data and water management disclosures, oil and gas companies will be required to perform sensitivity analyses to price and cost projections impacted by climate-related risks and to disclose the impact on reserves estimates.

Thank you!

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Date April 27 2023, Geneva

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