How Upcoming ESG Guidelines and Requirements for Climate-Related Disclosures Can Enhance a Company's Sustainability Position

TETRA TECH

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In this article, our Tetra Tech Environmental, Social, and Governance (ESG) team describes approaches to comply with the new rules proposed by the U.S. Securities and Exchange Commission (SEC) for Enhancement and Standardization of Climate-Related Disclosures and align with proposed standards from the International Sustainability Standards Board (ISSB)[1], while advancing corporate ESG strategy and creating competitive advantage.

For many years, establishing a public net zero target set companies with advanced ESG strategies apart from competitors. This is no longer adequate. The SEC's climate disclosure regulation is a monumental shift from companies voluntarily developing a sustainability strategy to requiring registrants to provide annual data as an indicator of their ESG performance and complete and valid documentation to back up climate commitments. Whether a company is already disclosing on greenhouse gas (GHG) emissions and climate strategy or has yet to start, the proposed SEC legislation and the upcoming ISSB standards provide compelling incentive for companies to proactively inventory their practices, manage risks, and capture opportunities.

Upcoming Climate Change Disclosure Requirements

What are they, who will be impacted, and when?

On March 22, 2022, the SEC released a draft of new rules for climate change disclosures that establish how publicly traded companies:

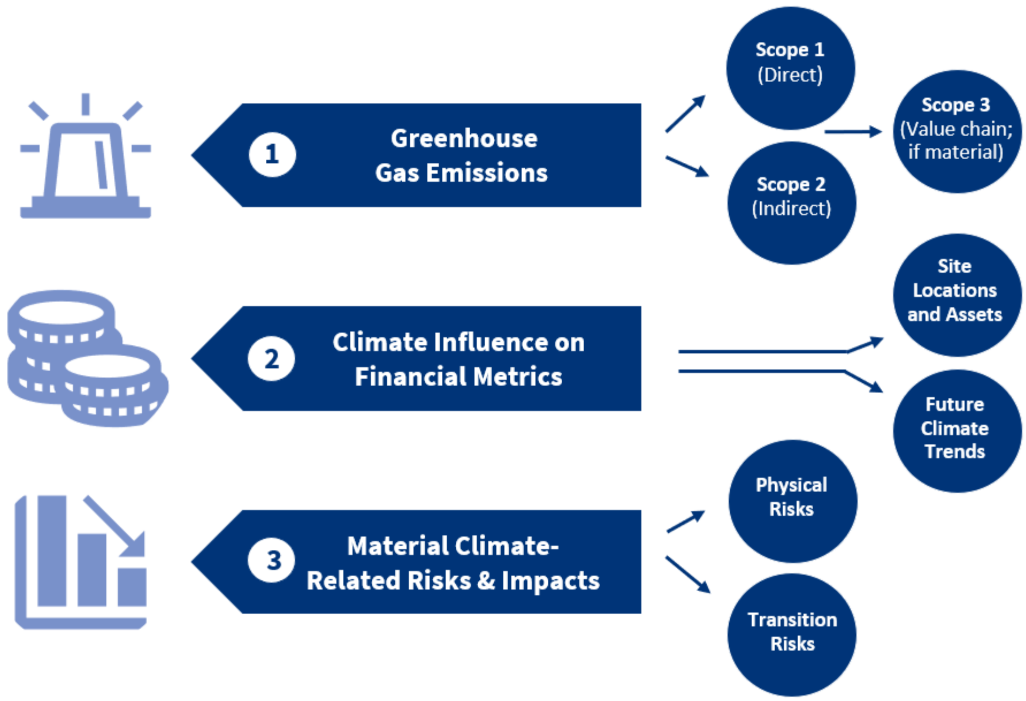
- Verify, manage, and report climate related risks that impact business operations or financial performance
- Quantify and report GHG emissions and carbon intensity
- Validate and assure reported data and metrics

The draft rules emerged from over a decade of rising demand from investors, the recommendations of an ESG Advisory Subcommittee, and a year-long public comment period ahead of the release of the draft rule. The proposed new SEC legislation incorporates frameworks on climate risk and GHG emissions from the Taskforce on Climate-related Financial Disclosures (TCFD) and the Greenhouse Gas Protocol. It seeks to provide stakeholders with consistent and reliable information on the potential impacts climate-related risks may have on business to inform investment decision-making.

[1] The ISSB was created in 2021 by the International Financial Reporting Standards Foundation (IFRS) to provide a comprehensive and global baseline standard to propel more transparent, reliable and comparable disclosures on climate and other ESG matters.

The landscape of ESG disclosures will become more standardized with the SEC's focus on the below key elements.

Key Elements of the SEC's Climate-Related Disclosure Requirements



Proposed or prototype standards from the ISSB were published March 31, 2022, with a focus on investors and enterprise value. The upcoming ISSB standards offer specific guidance and a global baseline for defining and reporting material information about significant ESG risks and opportunities.

The two ISSB prototype standards cover:

- General Sustainability Disclosure requirements, both industry-specific and cross-industry
- Climate Disclosure requirements, including physical risks, transition risks, and climate change opportunities

With promulgation of the SEC rules and issuance of the ISSB standards anticipated at the end of 2022, 2023 will bring a significant shift in how companies track and report on climate resiliency and GHG emissions. Consider where your company fits in the SEC's stair-stepped deadlines below, and begin planning how to advance your company's ESG and sustainability position during 2023 in preparation for the additional compliance requirements.

SEC Proposed Compliance Dates for Disclosure of GHG Emissions

Registrant Type	SEC Definitions	Scopes 1 and 2 GHG Emissions Disclosure Compliance Date[4]	Scope 3 GHG Emissions Disclosure Compliance Date[4]
Large Accelerated Filer	≥ $700 million public float	Fiscal year[3] 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)
Accelerated Filer	≥ $75 million but < $700 million	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
Non-Accelerated Filer	< $75 million	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
Small Reporting Company	<$100M in annual revenue and either (1) no public float (because it has no public equity outstanding or no public trading market for its equity exists) or (2) a public float of less than $700M	Fiscal year 2025 (filed in 2026)	Exempted

2 Public float is the aggregate market value of the issuer's outstanding voting and nonvoting common equity held by nonaffiliates. It is calculated by multiplying the number of the company's voting and nonvoting common shares held by nonaffiliates by the market price.

3 Fiscal year as defined by the Company. (SEC Financial Reporting Manual)

4 Dates assume that the proposed rules will be adopted with an effective date in December 2022.

How can a company prepare?

The path forward for disclosure readiness, a clear compliance strategy, and advancing ESG maturity

There is a wide spectrum of ESG maturity within the commercial sector. Companies can take several approaches, depending on where they are and where they aim to be along the ESG maturity spectrum. The following graphics provide examples on ESG Leading Practices for a company to consider and representative milestones that are key to advancing a company's ESG maturity. While the SEC rules are only applicable to certain publicly traded companies, companies outside of the SEC's jurisdiction will be affected given interrelated supply chain connections and general business advancement goals in the private sector. The path forward for a company's disclosure readiness and SEC compliance assurance can include the following to best manage GHG emissions and climate resiliency:

General ESG Leading Practices Related to SEC Proposed Rule

Comprehensive GHG Emissions: Quantify, Manage, and Disclose	• Quantify Scope 1, 2, and 3 GHG emissions for all material locations, assets, and value chains • Verify and validate data using third-party credentialed experts • Automate data rollup and analytics • Maintain current emission factors • Track and report progress toward goals
Climate Risk and Resiliency: Evaluate, Manage, and Disclose	• Identify, prioritize, and create systems for monitoring and evaluating material climate risks • Establish or improve your governance processes for managing climate risk and resiliency • Evaluate past, present, and future climate risks for all locations, assets, and value chains • Evaluate risks using verified data and established models • Seek collaborative solutions to address climate risks and build climate resiliency for your company and the community

Advancing a company's sustainability position occurs through year-on-year rigorous efforts for data collection, improved ESG policies, process improvements, and new initiatives focused on reducing a company's footprint. The representative milestones in the following graphics can be a guide to advancing sustainability.

GHG Emissions Milestones of ESG Maturity

LOW MATURITY Establishing a Robust ESG Position	**MEDIUM MATURITY** Improving or Transitioning ESG Stance	**HIGH MATURITY** Implementation and Innovation Focused to Achieve ESG Goals
• Quantify GHG baseline (Scope 1 and 2 GHG emissions across all operations) • Disclose GHG emissions • Prepare inaugural ESG report • Establish systems to track and measure GHG emissions • Consider purchase of carbon offsets	• Optimize GHG emissions data collection across portfolio • Digitalize GHG emissions data analysis • Determine Scope 3 GHG emissions across value chain • Establish net zero goals and action plan • Develop governance procedures and policies	• Introduce site specific engineering and technological solutions • Implement specific decarbonization strategies per asset, operation, and location • Apply business solutions, such as clean energy contracting • Implement carbon capture and storage solutions • Develop carbon removal projects • Implement clean energy and hydrogen improvements • Disclose information and share your GHG reduction journey transparently

Climate Risk and Resiliency Milestones of ESG Maturity

LOW MATURITY Establishing a Robust ESG Position	**MEDIUM MATURITY** Improving or Transitioning ESG Stance	**HIGH MATURITY** Implementation and Innovation Focused to Achieve ESG Goals
• Conduct climate resiliency screening (portfolio-wide, across all operations) • Evaluate climate resiliency for screened in assets and operations, including future scenarios • Develop governance procedures and policies • Track and measure climate threats	• Invest in data management and analytics systems • Identify resilience solutions • On-going assessment of climate risks tied to business continuity planning and management • Verify and validate data • Prepare climate resiliency action plan and goals	• Implement engineering and technological solutions/mitigations to increase resilience to future climate threats • Prioritize solutions that have dual benefit to greater community and progress social objectives of ESG strategy • Evaluate attainment of climate action goals • Refine and update goals for continual improvement • Internalize costs of climate resiliency and adaptation measures

Regardless of where a company is at on the ESG maturity spectrum, a focus on improving strategy, governance and systems for these milestones is extremely beneficial:

- Data collection and management systems
- Tracking systems for reporting and disclosure
- Verification and validation related to GHG emissions data, key performance indicators, and climate risk evaluation
- Climate resiliency strategy, inclusive of mitigation efforts

Moving from vision to action

We encourage companies to use the Milestones of ESG Maturity table above to reflect on the company's current sustainability practices and to inform your unique strategy and action plan. ESG improvements involve iterative steps. No matter where you fall along the continuum, you can make frequent process improvements and take bold action to mature beyond regulatory requirements to improve business outcomes.

Learn how Tetra Tech can help

Whether the SEC's proposed rule directly or indirectly affects your company, Tetra Tech can be an asset to your team as you get to work on what's next for your company's ESG progression. We have been delivering sustainability services for more than 50 years and have 21,000 engineers, scientists, and technical specialists to support your global business needs. From strategy development to engineering and implementation solutions, we're here to support you.

Feel free to contact us at ESGservices@tetratech.com for further information.

SHARE YOUR COMMENTS

The **IFRS ISSB** is accepting comments on the Climate Disclosures Exposure Draft and the General Disclosure Requirements Exposure Draft through **July 29, 2022**. Comments can be submitted via survey or comment letter at
IFRS - Exposure Draft and comment letters: Climate-related Disclosures and
IFRS - Exposure Draft and comment letters: General Sustainability-related Disclosures