

THE COST OF CLIMATE DISCLOSURE:

THREE CASE STUDIES ON THE COST OF VOLUNTARY CLIMATE-RELATED DISCLOSURE

A Report of The Climate Risk Disclosure Lab

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CLIMATE RISK
DISCLOSURE LAB

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ABOUT:

The Climate Risk Disclosure Lab seeks to support those in government, the private sector, and civil society who are working to address climate change and the risks it poses to the global financial system through effective implementation of climate risk disclosure rules. The Lab is an education and policy development initiative led by the Duke Financial Economics Center.

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This report fills a critical knowledge gap by providing real-time information on current climate-related disclosure practices and the associated costs at publicly traded companies. This information is intended to assist the Securities and Exchange Commission (SEC or Commission) as it actively considers proposing a mandatory climate disclosure rule sometime in 2022.

To successfully promulgate a rule, the SEC must assemble a robust administrative record in accordance with the Administrative Procedure Act and comply with requirements set forth in the securities acts and SEC guidance. Multiple procedural requirements are necessary to successfully issue a proposed SEC rule including the completion of a comprehensive economic analysis, or cost-benefit analysis (CBA). A 2012 SEC staff memo lists four “basic elements of a good regulatory economic analysis.”¹ This report focuses on one of these elements—an evaluation of the benefits and costs—with a particular focus on the potential costs to registrants of complying with a mandatory climate disclosure rule.

As a practical matter, it is difficult to conduct an “apples to apples” economic comparison of all the benefits and costs associated with any disclosure rule, as they include both quantitative and qualitative factors. For example, how

¹ U.S. SEC. AND EXCH. COMM’N, *Current Guidance on Economic Analysis in SEC Rulemakings* (Mar. 12, 2012), at 4, <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

do you compare the cost of issuer compliance with a climate disclosure rule with the benefits of providing investors and other market participants with reliable, consistent, and comparable climate-related information they need to make informed capital allocation and business decisions? How the qualitative benefits associated with a proposed climate-related disclosure rule will be considered in the SEC's CBA is very much an open question.

Inevitably, the SEC must make decisions about what information or data it will rely upon to estimate the cost of compliance with a climate disclosure rule. While there is ample evidence that many, if not the majority, of public companies already disclose climate-related information in some form, it is not at all clear how much company resources—in terms of time, personnel, and money—go into producing these disclosures.² Similarly, it is not known whether public companies will continue to disclose climate-related information under existing voluntary frameworks if climate disclosures must also be filed with the Commission (especially when there is an ongoing convergence of standards among the multiple voluntary disclosure frameworks that is expected to continue under a new standardized SEC disclosure format). While a mandatory disclosure rule will impose additional compliance costs on some issuers, these costs may be more than offset by the cost savings to other issuers who would otherwise report climate-related information using multiple frameworks and platforms. That said, without actual issuer cost information, it is hard to quantify this potential.

To assist the SEC, investors, and policymakers in identifying and measuring the cost of climate-related disclosures, the Climate Risk Disclosure Lab (Lab) surveyed three companies on their current climate disclosure practices, the associated costs, and how these costs may change under a mandatory climate disclosure regime. The case studies included in this report provide unprecedented insight into the resources it takes for some public companies to compile and disclose climate-related risks.

The three companies differ in terms of size and sector. Respondents include a multinational large-cap financial institution (LCFI), a US-based large-cap company (LCC), and a US-based mid-cap company (MCC). Each company provided written answers to a detailed survey prepared by the Lab that asked about: 1) current climate disclosure practices, including voluntary frameworks adhered to; 2) specific costs associated with producing current climate disclosures; and, 3) estimates for how costs and practices may change under a potential SEC climate disclosure rule. Survey answers were supplemented with additional information each firm supplied in follow-up meetings with Lab staff and a review by the Lab of publicly available information. To make firms comfortable with providing this information—which is mostly confidential—they remain anonymous.

² In its 2021 Status Report, the Task Force on Climate-related Financial Disclosures noted that more than 2,600 organizations have expressed their support for the TCFD recommendations and that over 50% of firms surveyed disclosed their climate-related risks and opportunities. See, FINANCIAL STABILITY BOARD, 2021 Status Report: Task Force on Climate-related Financial Disclosures (Oct. 14, 2021), <https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/>.

Survey results revealed several important findings:

→ **Expected Compliance Costs from an SEC Climate-Related Disclosure Rule Are Minimal**

While compliance costs will depend on the content of a final rule, respondents do not expect a mandatory SEC climate disclosure rule to have a significant impact on their costs. This is largely because each firm has already established robust in-house climate disclosure systems that can easily be leveraged to comply with any new disclosure rule. Respondents noted the main cost driver of a mandatory disclosure rule could be audit and assurance services.

→ **Respondents Anticipate Continuing to Report Climate-Related Information Under Currently Utilized Voluntary Frameworks**

Each firm reports climate information in accordance with multiple voluntary frameworks (see the glossary in the Appendix for a complete list of these frameworks). This ensures firm stakeholders have sufficient information to make informed business decisions. Respondents noted that because it is unlikely the SEC will require the disclosure of all the information firm stakeholders currently seek, they plan on continuing to report under voluntary frameworks.

→ **Respondents View Climate Disclosure as a Business Opportunity and Not Just an Obligation**

Each firm noted several motivations for disclosing climate-related information, including requests from stakeholders. But more importantly, they view disclosure of climate-related risks and opportunities as important for managing the business, differentiating themselves in a crowded marketplace, and combatting climate change.

→ **Consistent, Comparable, and Reliable Disclosures About Climate Risk Are Necessary**

All respondents agree that public companies should have to disclose internationally consistent, comparable, and reliable information on climate change risk given the increased demand for climate-related information by investors and other stakeholders. As such, they are broadly supportive of an SEC-mandated climate disclosure rule, although they have some concerns around specific components of a potential rule, as noted below.

→ **Respondents Agree That Disclosing Scope 3 Emissions is Important, but They Have Differing Views About the Reliability of Scope 3 Data**

Companies that can easily account for scope 3 emissions are keen to report them. Conversely, companies that cannot easily or accurately quantify scope 3 emissions due to a lack of reliable data and established calculation methodologies, have some concerns about imposing a disclosure obligation absent agreed upon methodologies. Reporting scope 3 emissions is particularly challenging for financial firms, as noted by LCFI: “most of our scope 3 emissions are funded

emissions, which are difficult to assess without standardized climate-related disclosures from the bank’s clients and established methodologies.” While LCFI noted that they are actively working to improve their scope 3 measurement and reporting, they are still concerned about the accuracy and completeness of the existing data needed to calculate scope 3 emissions.

→ **Respondents Raised Concerns About Subjecting Disclosures, Particularly Scope 3 Emissions, to Audit Given Ongoing Methodology Challenges**

While respondents noted that verification costs would increase under a mandatory climate disclosure regime, especially if the SEC requires audit and assurance of scope 3 disclosures, they collectively support the principal that all companies should provide verifiable and reliable climate-related information to investors and firm stakeholders. Their concern lies in the potential for verification costs and liability risk to abruptly increase if the SEC requires immediate scope 3 disclosure—as opposed to a phase-in period—given the degree to which firm estimates are used in scope 3’s calculation.³ As MCC noted, the lack of rigorous and proven methodologies behind scope 3 calculations would result in cost increases if auditors are required to “substantiate judgments and determinations [MCC] made pertaining to scope and materiality.”

These findings can inform SEC staff as they consider outstanding issues before a release of an Advance Notice of Proposed Rulemaking in 2022. Key provisions of a proposed rule remain uncertain: the manner in which the SEC will phase in the rule; the degree to which the SEC may require industry-specific disclosures; whether the disclosures should include scope 3 emissions; whether liability “safe harbors” should be implemented; the potential liability associated with forward-looking disclosure requirements, particularly scenario analysis; the ability of accounting firms to incorporate climate disclosure costs into their work; and whether climate disclosures should be included in annual, quarterly, and other documents filed with the SEC or if they should be furnished via separate climate reporting.

While three companies is certainly not a representative sample of the thousands of public issuers, the case studies in this report provide climate-related disclosure cost data at a granular level and offer critical insights into issuer

³ Respondents’ concerns around scope 3 data and methods echo the Task Force on Climate-related Financial Disclosures October 2021 “Guidance on Metrics, Targets, and Transition Plans.” The guidance notes that “[o]rganizations struggle to collect relevant and sufficiently granular primary data and to manage the amount of data needed to determine Scope 3 GHG emissions.” The guidance also notes that “[a]ccurately capturing Scope 3 GHG emissions also has methodological challenges, including estimating GHG emissions for suppliers that do not calculate their own emissions, defining an appropriate calculation approach for each Scope 3 category, and recognizing double counting that may occur when GHG emissions are aggregated across multiple organizations.” See TASK FORCE ON CLIMATE-RELATED DISCLOSURES, Guidance on Metrics, Targets, and Transition Plans (2021) at 57, at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf.

disclosure practices that, until now, were not publicly available. These case studies, which the Lab will submit to the SEC for inclusion in the administrative record, provide the best available evidence of the costs of a potential SEC mandatory climate-related disclosure rule. Collectively, they highlight that consistent, comparable, and reliable climate disclosures are necessary; that the marginal cost to publicly traded firms of mandatory climate disclosures are minimal; and that the benefits of a well-crafted and well-reasoned climate risk disclosure rule far outweigh any potential costs imposed on the private sector.



The SEC is poised to issue a landmark draft rule requiring SEC reporting companies to disclose consistent, comparable, and reliable information on climate-related risks, impacts, and opportunities. The SEC is taking this action because of the increased demand for climate-related information by investors and other market participants, as well as to protect investors and ensure the efficient operation of capital markets.

Over a decade ago, in response to “several petitions for interpretive advice submitted by large institutional investors and other investor groups,” the SEC issued updated guidance to US public companies on the existing disclosure requirements as they applied to climate change matters.⁴ The 2010 guidance indicated that firms are required to disclose certain material climate-related risks under the existing regulatory scheme, and it was the last time the SEC issued explicit guidance relating to climate change disclosure. In the intervening decade-plus, investor demand for, and company disclosures of, information about climate change risks, impacts, and opportunities has increased exponentially, and concerns have emerged over the effectiveness of current SEC disclosure requirements in providing investors with decision-useful climate-related information. To fill this information void, numerous voluntary climate and sustainability reporting frameworks have emerged.⁵ While these frameworks have helped

⁴ U.S. Sec. and Exch. Comm’n, Commission Guidance Regarding Disclosure Related to Climate Change, Release Nos. 33-9106; 34-61469 (Feb. 2, 2010), <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

⁵ The glossary in the Appendix lists a number of these voluntary reporting frameworks.

provide useful guidance to issuers and investors, their voluntary nature permits companies to “use different metrics, choose their own scope, omit unfavorable information, and employ their own calculation methods when they choose to disclose climate-related risks.”⁶ The result, as noted in a previous report from the Climate Risk Disclosure Lab, is that “investors and markets do not have the information needed to accurately compare firms, engage in effective risk-management, and allocate capital confidently and efficiently.”⁷

As SEC Chair Gary Gensler noted, “a lot has changed” since 2010, and “investors don’t have the ability to compare company disclosures to the degree that they need.”⁸ In response, the Commission has embarked on a review and updating of the 2010 guidance and, more ambitiously, the drafting of a mandatory climate risk disclosure rule proposal that is expected to be released in early 2022.⁹

Due to the compliance burden that a mandatory climate disclosure rule will impose on SEC reporting companies, especially on carbon-intensive public companies, it is virtually guaranteed that it will be subject to intense scrutiny and possible judicial challenge.¹⁰ To minimize the potential for invalidating the rule, the SEC will need to take all appropriate actions to assemble a robust administrative record, in accordance with the Administrative Procedure Act, as well as the requirements set forth in the securities acts and SEC guidance. One of the main areas that has been ripe for judicial challenge of SEC rules over the last decade is the SEC’s economic analysis of proposed rules that includes their associated benefits and costs.

This report contains case studies of three companies from different sectors. It examines their current climate disclosures and related costs, and considers what effect, if any, SEC-mandated climate risk disclosure will have on

⁶ CLIMATE RISK DISCLOSURE LAB AT DUKE SCHOOL OF LAW, *Climate Risk: Disclosures and Practices* (2020), at 56, <https://climatedisclosurelab.duke.edu/wp-content/uploads/2020/10/Climate-Risk-Disclosures-and-Practices.pdf>.

⁷ *Id.*

⁸ Gary Gensler, *Prepared Remarks Before the Principles for Responsible Investment “Climate and Global Financial Markets” Webinar*, U.S. SEC. AND EXCH. COMM’N (July 28, 2021), <https://www.sec.gov/news/speech/gensler-pri-2021-07-28>.

⁹ *See*, Allison Herren Lee, Statement on the Review of Climate-Related Disclosure, U.S. SEC. AND EXCH. COMM’N (Feb. 24, 2021), <https://www.sec.gov/news/public-statement/lee-statement-review-climate-related-disclosure> (noting that SEC staff “staff will review the extent to which public companies address the topics identified in the 2010 guidance, assess compliance with disclosure obligations,” and “begin updating the 2010 guidance to take into account developments in the last decade.”); Allison Herren Lee, *Public Input Welcomed on Climate Change Disclosures*, U.S. SEC. AND EXCH. COMM’N (Mar. 15, 2021), <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>.

¹⁰ *See, e.g.*, Patrick Morrissey, Letter West Virginia’s Attorney General Patrick Morrissey to Allison Herren Lee (Mar. 25, 2021), [https://ago.wv.gov/Documents/Letter to Acting Chair Lee.pdf](https://ago.wv.gov/Documents/Letter%20to%20Acting%20Chair%20Lee.pdf) (stating that if the SEC mandates climate-related disclosures, “States and other interested stakeholders will not hesitate to go to court to oppose a federal regulation compelling speech in violation of the First Amendment.”); U.S. Sec. and Exch. Comm’n, Comment Letter on Climate Change Disclosures by Comment Letter submitted by Missouri’s Attorney General Eric Schmitt (June 14, 2021), <https://www.sec.gov/comments/climate-disclosure/cl12-8915601-244834.pdf> (claiming that mandatory climate-related disclosures “would violate the First Amendment.”).

their future costs. The information contained in the case studies was derived from confidential responses to a custom survey prepared by the Climate Risk Disclosure Lab, follow-up interviews with staff from each company, and publicly available information. The Lab’s objective in producing these case studies is to help inform the economic analysis of benefits and costs for a proposed climate disclosure rule by providing current information on climate-related disclosure costs for select firms.

BACKGROUND

The SEC began consideration of a potential mandatory climate disclosure rule in March 2021, when then-Acting-SEC Chair Allison Herren Lee issued a Request for Information (RFI) seeking public input on the adequacy of current climate-related and Environmental, Social, and Governance (ESG) disclosures given the increased demand for this information by investors, registrants, and other market participants.¹¹

Hundreds of individual RFI responses were submitted to the SEC. Overall, most commenters support the SEC’s effort to develop mandatory climate-related disclosures; in fact, many of the commenters already disclose their climate risks in some form. Nearly all comments in support of a mandatory climate-related disclosure rule, regardless of commenter type, recommend modeling the disclosures on Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Based upon the breadth of responses to the SEC’s RFI, as well as the public discourse surrounding the matter, when the SEC issues the Notice of Proposed Rulemaking (NPR), the content, rationale, and authority for the proposed rule will come under intense scrutiny. As with any SEC proposed rule, climate-related and ESG-related rules must clear at least three substantive hurdles to withstand judicial scrutiny and the threat of invalidation.

The first hurdle is the statutory authority to promulgate the rule. The Securities Act and the Exchange Act empowers the SEC to mandate climate- and ESG-related disclosures in registration statements, prospectuses, and periodic reporting, so long as the respective standards set forth in the statutes are firmly established. Sections 7 and 10 of the Securities Act authorize the SEC to require disclosures in registration statements and prospectuses that are “necessary or appropriate in the public interest or for the protection of investors.”¹² Section 13 of the Exchange Act authorizes the SEC to require disclosures in periodic reporting by public companies as is “necessary or appropriate for the

¹¹ Allison Herren Lee, *Public Input Welcomed on Climate Change Disclosures*, U.S. SEC. AND EXCH. COMM’N (Mar. 15, 2021), <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>.

¹² 15 U.S.C. §§ 77g(a)(1), 77j(c).

proper protection of investors and to insure fair dealing in the security.”¹³ These standards are fairly straightforward and easily satisfied in the context of adopting a climate-related disclosure rule for public companies.

The second hurdle revolves around the issue of incorporating a robust understanding of “materiality” beyond immediate financial considerations. Commissioner Lee provided clarification around the SEC’s authority with respect to “materiality” and climate-related disclosure rulemaking in a May 2021 speech. Materiality, she noted, places limits on liability and should not be viewed as a legal limitation on SEC disclosure rulemaking. She also observed that Regulation S-K, principally governing qualitative disclosures required by the Securities Act and the Exchange Act, often requires “information that is important to investors but may or may not be material in every respect to every company making the disclosure.”¹⁴ As examples, she cited items of Regulation S-K requiring the disclosure of related-party transactions, environmental proceedings, share repurchases, and executive compensation—none of which has a materiality threshold. However, some commentators have expressed the view that climate-related disclosures could constitute a departure from the SEC’s traditional materiality analysis where company disclosures include a broad range of topics, without establishing any of those topics as financially material.¹⁵ If the climate-related or ESG-related disclosure rule represents a change from previous topics of SEC rulemaking, the SEC may need to describe the reasoning from the departure based on a “reasoned analysis”¹⁶ included in the administrative record.

The third and final hurdle is the completion of an adequate CBA by the SEC. Section 23 of the Exchange Act has been interpreted by the courts to mandate that the SEC undertake an economic CBA to ensure that the proposed rule does not “impose a burden on competition not necessary or appropriate to advance the purposes of the securities laws.”¹⁷ The CBA must be well-reasoned and supported by the administrative record or the rule faces a potential remand by the courts for further explanation by the Commission. In June 2021, SEC Commissioner Elad Roisman commented that the Commission needs to be reasonable in establishing expectations of what companies can disclose

¹³ 15 U.S.C. § 78m(a)(1).

¹⁴ Allison Herren Lee, *Living in a Material World: Myths and Misconceptions about “Materiality,”* U.S. SEC. AND EXCH. COMM’N (May 24, 2021), <https://www.sec.gov/news/speech/lee-living-material-world-052421>.

¹⁵ At least one academic commentator has observed that the SEC typically uses the concept of materiality as a guide when mandating disclosures. For example, when the SEC promulgated its rule governing the Modernization of Regulation S-K Items 101, 103 and 105, the SEC proposed new human capital-related disclosures that are “principles-based” and “cabined with a materiality qualifier.” Amanda M. Rose, *A Response to Calls for SEC-Mandated ESG Disclosure*, 98 WASH. U. L. REV. (forthcoming 2021) (manuscript at 20).

¹⁶ *AT&T Corp.*, 236 F.3d at 734 (quoting *State Farm*, 463 U.S. at 42).

¹⁷ *Nat’l Ass’n of Mfrs. v. SEC*, 748 F.3d 359, 369 (D.C. Cir. 2014) (quoting 15 U.S.C. § 78w(a)(2)) overruled on other grounds); *Am. Meat Inst. v. USDA*, 760 F.3d 18 (D.C. Cir. 2014).

and how they disclose it. Moreover, Commissioner Roisman noted that “new disclosure requirements impose costs in obtaining and presenting new information and increased liability for those disclosures.”¹⁸

Since 1934, the SEC has adopted hundreds of rules by exercising its congressionally delegated rulemaking authority. On the whole, there have been few judicial challenges, and in those cases, courts have historically accorded substantial deference to the SEC’s process-based and policy decisions reflected in the final rule. Under the Administrative Procedure Act, a court can invalidate agency action, such as rulemaking, that is “in excess of statutory jurisdiction” or is determined to be “arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law.”¹⁹ In response to challenges initiated and funded almost entirely by business trade groups, the US Court of Appeals for the District of Columbia Circuit has invalidated several SEC rules as “arbitrary and capricious” due to a perceived failure of the SEC to conduct an adequate CBA.²⁰

To address judicial concerns, in 2012, SEC staff adopted CBA guidance that remains in effect today—“Current Guidance on Economic Analysis in SEC Rulemakings”²¹—and includes the following components:

1. a statement of the need for the proposed action;
2. the definition of a baseline against which to measure the likely economic consequences of the proposed regulation;
3. the identification of alternative regulatory approaches; and,
4. an evaluation of the benefits and costs—both quantitative and qualitative—of the proposed action and the main alternatives identified by the analysis.²²

¹⁸ Elad L. Roisman, *Putting the Electric Cart before the Horse: Addressing Inevitable Costs of New ESG Disclosure Regime*, U.S. SEC. AND EXCH. COMM’N (June 3, 2021), <https://www.sec.gov/news/speech/roisman-esg-2021-06-03>.

¹⁹ 5 U.S.C. § 706(2)

²⁰ *Bus. Roundtable v. SEC*, 647 F.3d 1144, 1148-49 (D.C. Cir. 2011). *See also*, *Am. Equity Inv. Life Ins. Co. v. SEC*, 613 F.3d 166, 177-79 (D.C. Cir. 2009); *Chamber of Commerce v. SEC*, 412 F.3d 133, 142-44 (D.C. Cir. 2005)

²¹ U.S. SEC. AND EXCH. COMM’N, *Current Guidance on Economic Analysis in SEC Rulemakings* (Mar. 12, 2012), <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

²² *Id.* at 4.

KEY FINDINGS

The respondents are all mid-to-large-cap publicly traded companies, with operations in multiple countries, that have been disclosing climate-related information for several years under multiple voluntary disclosure frameworks. A review of their confidential survey responses and existing climate disclosures reveal several key findings.

→ **Respondents View Climate Disclosure as a Business Opportunity and Not Just an Obligation**

While each firm noted they have received a growing number of requests for climate-related information from investors and other firm stakeholders, these requests are not the sole—or even the primary—motivation for voluntarily disclosing climate information. LCC notes that they voluntarily disclose climate-related information to meet expectations of their investors, suppliers, and customers, as well as to drive change within the industry. Similarly, LCFI “believes transparency on climate-related information [is] important to assess its understanding, management of, and resilience against such risks, as well as its strategic choices and business opportunities.” MCC was initially motivated to disclose climate-related information by its Board of Directors, and it also recognizes the business development potential in disclosing this information due to its investors’ rapidly growing interest in ESG matters.

→ **Expected Compliance Costs from an SEC Climate-Related Disclosure Rule Are Minimal**

Respondents noted that although there are costs incurred with any new disclosure obligation, the costs associated with mandatory climate disclosures will likely be comparable to existing SEC reporting expenditures, and, in some instances, significantly less than other compliance reporting obligations, such as reporting under Environmental Protection Agency regulations. For example, MCC estimated the cost of producing voluntary climate-related disclosures to be less than 5% of its total SEC compliance-related costs and expects SEC mandated climate-related reporting “to have relatively minimal impact on [its] costs.” Further, because all the respondents operate in global markets, they are already subject to strict foreign climate-related financial risk disclosure obligations, therefore additional US market disclosure obligations are seen as de minimis. Responses also noted the anticipated marginal costs of complying with an SEC climate disclosure rule will be low because they already produce and disclose the information that will likely be required under a final rule.

→ **Respondents Anticipate Continuing to Report Climate-related Information Under Currently Utilized Voluntary Frameworks**

Each firm reports climate information in accordance with multiple voluntary frameworks (see Appendix for a complete list of these frameworks). Respondents noted that it is unlikely the SEC

will require the disclosure of all the information firm stakeholders currently seek. Therefore, they plan on continuing to report under voluntary frameworks and they may also report under new or modified frameworks as they become operational. For instance, LCC recently started providing narrative disclosures in accordance with the World Economic Forum’s Stakeholder Capitalism Metrics initiative and anticipates that it will disclose in accordance with standards developed by the newly created International Sustainability Standards Board (ISSB).²³

→ **As a Percentage of Revenue, the Cost of Producing Voluntary Climate Disclosures is Small, With Third-Party Costs Constituting the Largest Cost Element**

For LCFI and LCC, the annual cost, as a percentage of revenue, to produce voluntary climate disclosures is less than one tenth of one percent. For MCC, the employee costs of producing climate disclosures are approximately \$12,600 per year. However, its third-party costs fall between \$60,000 and \$160,000 each year, depending on whether they require a major or minor update of their annual climate disclosures. Third-party costs can include report design and writing, consultants, web design, auditors, and data. LCC spends approximately \$400,000 per year on consultants for its climate disclosures. None of the respondents pay for third-party assurance of their climate-related disclosures.

→ **Respondents Expect Third-Party Costs to Increase Under a Mandatory Climate Disclosure Regime**

As US reporting firms, both LCC and MCC expect their third-party costs to increase if the SEC finalizes a climate disclosure rule, particularly if the SEC requires scope 3 emissions disclosure. The bulk of the cost increase will come from third-party verification and audit services.

→ **Respondents Support the Requirement of Consistent, Comparable, and Reliable Disclosures on Climate Risks**

All respondents agree that public companies should have to disclose consistent, comparable, and reliable information on climate change risk given the increased demand for climate-related information from investors and other firm stakeholders. They recognize that having a mandatory SEC disclosure rule will allow businesses to compete on level playing field and help deter greenwashing.

²³ The IFRS Foundation launched the International Sustainability Standards Board (ISSB) on November 3, 2021. The ISSB will incorporate the consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022. *See*, <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

CONCLUSION

Climate change poses serious risks to almost every aspect of the economy, and its impacts will have long-term disruptive effects on financial markets around the world. Currently, these risks are not adequately addressed by financial regulators in the United States. As a result, climate-related information is not accurately incorporated into financial markets, leaving firms, investors, and stakeholders ill-equipped to weather the inevitable effects of climate change. The SEC recognizes that facilitating the disclosure of consistent, comparable, and reliable information on climate change is in keeping with its mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The challenge for a proposed rule lies in determining what should be disclosed and the form disclosures should take (i.e., should they be posted on issuers' websites, furnished to the SEC, or "filed" with the SEC). We hope the following case studies will inform SEC staff as it considers these critical questions and contribute to the development of a climate disclosure rule whose benefits clearly outweigh the costs.



The case studies profile three firms of differing sizes and operating in different sectors. Using the company responses to the survey questionnaire, as well as a review of publicly available company disclosures, each case study summarizes the nature and extent of the current costs and resources the companies use to compile and disclose climate-related risks. In addition, this report also examines how disclosure costs and resources may change under a mandatory SEC compliance regime.

In terms of process, the Lab encouraged respondents to provide detailed answers to the survey questions. Respondents' names, and the names of respondents' constituents who filled out the survey, remain anonymous to protect confidential business information. To help inform policymakers and the public about the practices of different respondents, the Lab discloses the sector respondents operate in and respondents' market capitalization. Follow-up meetings were held by the Lab with each respondent to discuss and clarify its responses to the survey questions. Prior to publication of the final report, each respondent was provided with a draft of its case study for its respective review and comment.

Some respondents declined to disclose specific dollar figures for some of the categories of costs on the basis of not wanting to reveal confidential business information. In such instances, respondents provided estimates based on ranges supplied by the Lab. When direct quotations are used, they are referencing written survey answers; therefore, they are not cited.



CASE STUDIES

01 | LARGE-CAP FINANCIAL INSTITUTION (LCFI)

Sector:	Financial Services
Market Capitalization:	~ €70 billion
Where Climate-Related Information is Currently Reported:	Universal Registration Documents (URD), ²⁴ Integrated Report, ²⁵ TCFD Report, CDP Questionnaire
Voluntary Frameworks Adhered To:	SASB, TCFD, CDP

INTRODUCTION

Operating as a European-based multinational large-cap financial institution, the respondent is a major provider of diversified banking and financial services, with a strong presence in the US consisting of local teams offering corporate and institutional banking, retail banking, and wealth and asset management. As a European-registered company, LCFI would not be subject to a SEC climate disclosure rule, but it notes that the climate information it does make publicly available goes above and beyond what it believes the 2010 SEC Guidance Regarding Disclosure Related to Climate Change requires. LCFI noted that it was initially motivated to disclose climate-related information by stakeholder requests as well as its management’s desire to contribute to the “fight against climate change.” The firm also noted that being transparent with its climate risks is important to its “understanding, management of, and resilience against such risks, as well as [its] strategic choices and business opportunities.”

²⁴ Issued under the EU’s Prospectus Regulation (Regulation (EU) 2017/1129), a URD describes the company’s organization, business, financial position, earnings and prospects, governance, and shareholding structure.

²⁵ The objective of an integrated report is to show how the company’s strategic vision and modes of organization enable it to generate value, based on financial and extra-financial elements.

In addition to publicly disclosing climate-related information, the firm produces climate-related information for its internal use as part of its Environmental, Social, and Governance (ESG) “risk monitoring approach, and in order to comply with some of the regulations” to which the firm is subjected. This information may be shared with some of the firm’s “external stakeholders (rating agencies, institutional investors, asset managers, etc.) on a confidential basis, if deemed appropriate and useful for both parties,” and in strict adherence to applicable rules and regulations. LCFI noted that climate-related information “initially produced for internal use only tends to be made public after some time [has elapsed, and is thereafter] ... used in public climate reporting.”

CLIMATE RISKS

In its response, LCFI identified three types of climate-related exposure to its business:

- **Transition risks** related to the process of adjusting to a low-greenhouse gas (GHG) emissions economy. LCFI noted that the “emissions reduction process is liable to have a material impact on all sectors of the economy by affecting the value of certain financial assets and the profit margins of certain companies.”
- **Physical risks**, including “the economic costs and financial losses resulting from the increased severity and frequency of extreme weather phenomena triggered by climate change” and from gradual long-term changes to the climate.
- **Liability risks**, which LCFI noted can arise from transition risks and physical risks. They include “the damages and interest a legal entity would have to pay if found liable for global warming or for failing to anticipate its effects as it could and should have done.”

VOLUNTARY CLIMATE REPORTING

LCFI reports climate-related information in its Universal Registration Documents (URD), Integrated Report, and TCFD Report. In addition to adhering to TCFD recommendations, LCFI adheres to Sustainability Accounting Standards Board (SASB) standards under the category “Commercial Bank.”²⁶

²⁶ LCFI provides a mapping of SASB metrics to information in its Universal Registration Document and Annual Financial Report in a

LCFI discloses their GHG emissions, including scope 1, 2, and 3 emissions. For the time being, public disclosure of scope 3 is limited to indirect emissions associated with business travel. LCFI noted that “most of [its] scope 3 emissions are funded emissions, which are difficult to assess without standardized climate-related disclosures from the bank’s clients and established methodologies.” For scope 3 emissions, LCFI is currently assessing existing methodologies, as well as new methodologies under development, with the goal of improving its scope 3 measurement and reporting. LCFI is committed to achieving net-zero emissions by 2050 and is in the process of implementing the Paris Agreement Capital Transition Assessment (PACTA) methodology to align its loan portfolio with the goals of the Paris Agreement.

LCFI also discloses its carbon offset activity. Each year, residual GHG emissions of the firm’s operations (scopes 1, 2 and part of 3—business travel) are offset from the previous year’s emissions. LCFI works with specialized contractors for its offsetting programs.

COST OF DISCLOSURES

The responsibility for producing climate-related disclosures is shared throughout the organization. LCFI does not employ executives dedicated strictly to climate reporting; however, climate reporting, as part of a broader ESG reporting dimension, falls within the perimeter of several members of LCFI’s Executive Committees (Corporate Engagement, Risk Management, Compliance) and the firm’s top managers partake in strategic initiatives related to climate change. The firm noted that the three climate-dedicated programs of the ESG Action Plan—one dedicated to PACTA and Net-Zero Banking Alliance (NZBA), one to climate scenario analysis, and one to climate-related physical risk analysis—will benefit from a specific budget of €5.5 million in 2022, with this cost shared between central functions and business lines.

As it pertains to producing existing climate-related disclosures, LCFI noted that its annual costs fall between \$250,000 and \$500,000, the bulk of which comes from the cost of producing chapter 7 of LCFI’s URD, which is the extra-financial performance statement of the consolidated firm. Chapter 7 covers the Corporate Social Responsibility (CSR) strategy and achievements of LCFI, with climate change being but one among many other themes (LCFI was unable to precisely report costs on the climate-related parts of chapter 7).

separately published amendment to the Universal Registration Document.

When asked about the initial cost of producing climate-related reports, LCFI noted the following:

- The cost of issuing its first TCFD report was less than \$100,000, which reflects the fact that TCFD reports are partly based on information produced for the URD.
- The cost of preparing its first SASB report also did not exceed \$100,000. LCFI stressed that SASB reports “are made of the ‘relevant’ parts taken from other CSR disclosures.”
- The preparation of a CDP Questionnaire “is time consuming for the team in charge of this task,” but the costs for annual preparation do not exceed \$100,000. This is because LCFI can “leverage the information and reporting produced earlier in the year, as CDP questionnaires must be fulfilled from April to July of a given year.”

LCFI does rely on third parties for data acquisition and expert analysis to help produce its climate-related disclosures, but it declined to disclose the associated costs. The firm also noted it is required by law to have its non-financial performance statement, which includes climate disclosures, audited.

CONCLUSION

As a non-registrant, LCFI would not be subject to an SEC mandated climate disclosure rule. Still, the firm noted that any changes to US or EU climate disclosure regulations are unlikely to change its current approach because it considers “the fight against climate change to be a key part of its environmental responsibility, and [it has] a long tradition of engagement and cooperation with external stakeholders on regulatory and ESG/CSR matters.”

The firm is committed to providing “its stakeholders with the information they seek, through the reporting standards they use.” Such a commitment is indicative of the demands placed on a large multinational financial institution with operations around the globe. Furthermore, it is clear from LCFI’s answers to the questionnaire and our follow-up questions that it considers the gathering and disclosure of accurate climate-related information critical to its risk management and strategy execution. For such a firm, the marginal cost of mandating climate-related disclosures will be minimal.

02 | MID-CAP COMPANY (MCC)

Sector:	Waste Management
Market Capitalization:	~\$2.7 billion.
Where Climate-Related Information is Currently Reported:	10-K Report, Proxies, Sustainability Report, CDP Questionnaire
Voluntary Frameworks Adhered To:	CDP, SASB, TCFD, and GRI

INTRODUCTION

Operating in the waste management sector, the respondent is a mid-cap company with approximately 3,800 employees and operations in the US and abroad. MCC has been publicly disclosing climate-related information for over a decade in a variety of formats. MCC was initially pushed to disclose climate-risk information by its Board of Directors due to the highly regulated nature of the waste management sector, but it has since seen a rapid increase in investor interest in climate-related information and it recognizes the business development potential in disclosing this information. MCC does not disclose non-public climate-related information to third parties (e.g., credit rating agencies, asset managers, investors, creditors, etc.).

CLIMATE RISKS

MCC recognizes transition risk as its main source of climate-risk, specifically new regulations around GHG emissions:

“The public and political discourse over GHG emissions (principally CO₂ and methane), and their contribution to climate change, continues both internationally and domestically. We expect this debate to continue, especially as the Biden administration has identified addressing climate change as one of its priorities and has re-joined the Paris Climate Agreement. Any resulting regulations could in the future affect our business.”

MCC reports climate risks and opportunities in their 10-K in accordance with the 2010 SEC Guidance Regarding Disclosure Related to Climate Change.

VOLUNTARY CLIMATE REPORTING

MCC reports climate-related information in a variety of places, including: (1) SEC 10-K and 10-Q, (2) Proxies, (3) Sustainability Report, (4) and CDP Questionnaire. The main source of climate-related information is the annual sustainability report, which is prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option, and aligns with SASB Waste Management sector standards. MCC’s current climate reporting also adheres to the TCFD recommendations, although the firm does not produce a separate TCFD report.

MCC discloses its GHG emissions, including scope 1, 2, and 3. The firm noted that “[s]cope 3 emissions inventories provide a more complete picture of a company’s carbon footprint,” and its current scope 3 disclosures include: purchased goods and services, capital goods, fuel and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, and downstream transportation and distribution. MCC acknowledged that if the SEC mandated scope 3 disclosure, its “costs would increase if [it] is required to substantiate judgments and determinations [its] made pertaining to scope and materiality.” MCC does not purchase carbon offsets.

COST OF DISCLOSURES

MCC utilizes three employees—two in Legal and Compliance, and one in Management and Administration—to produce climate disclosures. The two Legal and Compliance employees devote a combined eighty hours each year to climate disclosure, and the one employee from Management and Administration devotes two hours each year to climate disclosure. Total annual employee costs associated with climate disclosure are approximately \$12,600. In total, MCC estimates the cost of producing voluntary climate-related disclosures to be less than 5% of its total SEC compliance-related costs. MCC noted that the costs of producing climate-related disclosures are significantly smaller than the cost of complying with Environmental Protection Agency Greenhouse Gas (EPA GHG) Mandatory Reporting Program requirements under 40 CFR 98.

MCC retains third parties to “develop [its] corporate sustainability report and microsite, both of which contain GHG climate-related information.” These third-party costs come to \$60,000 to \$160,000 each year, depending on whether they require a major or minor update of their annual disclosure. Roughly one-third of third-party costs goes toward designing the annual sustainability report and associated microsite. The remaining two-thirds is for report writing and consulting work on the voluntary frameworks. MCC does not pay for third-party assurance of its climate disclosures. MCC noted that the cost of producing its first TCFD and SASB report were both less than \$10,000.

CONCLUSION

MCC’s leadership was early in recognizing the business opportunities robust climate-related disclosure provides. After an initial modest investment to stand-up its climate reporting framework, the firm’s annual expense to produce climate-related disclosures is minimal. For this reason, the firm expects SEC-mandated climate-related reporting “to have relatively minimal impact on [its] costs.”

03 | LARGE-CAP COMPANY (LCC)

Sector:	Industrial Manufacturing
Market Capitalization:	~\$40 billion
Where Climate-Related Information is Currently Reported:	10-K, ESG Report, CDP Questionnaire
Voluntary Frameworks Adhered To:	CDP, SASB, TCFD, and GRI

INTRODUCTION

The respondent is a large-cap company in the industrial manufacturing sector with approximately 36,000 employees operating in the US and globally. LCC was an early adopter of ESG disclosures, which contributed to it being one of the most widely held companies by sustainable and ESG-focused investors and investment funds. LCC is rated by the most widely followed ESG indices, although the firm noted that comparing across indices is difficult. LCC was initially prompted to disclose climate-related information due to its desire to be an industry leader in sustainability and because of frequent requests from various stakeholders. LCC noted it is one of the largest users of greenhouse gasses as raw material, which provides a financial incentive for the firm to transition to more sustainable practices; and as an industry leader, its ESG disclosures can improve disclosure practices at other energy intensive firms. LCC also noted that changes to its ESG disclosures over the past two years have been driven by the demands of ESG investors as well as suppliers and customers. LCC does not disclose non-public climate-related information to third parties (e.g., credit rating agencies, asset managers, investors, creditors, etc.).

CLIMATE RISKS

In its response, LCC noted that climate change threatens its bottom line in two ways. First, changes in regulation could reduce the demand for LCC’s products and services. And second:

“Natural disasters, power outages, health epidemics or pandemics or other contagious outbreaks or other unexpected events could result in physical damage to, and complete or partial closure of, one or more of [its] plants, temporary or long-term disruption of [its] operations by causing business interruptions or by impacting the availability and cost of materials needed for manufacturing.”

LCC reports additional context on these two risk factors in its “ESG Risk Factor” in SEC filings, in accordance with the 2010 SEC Guidance Regarding Disclosure Related to Climate Change. LCC also reports climate-related information under the EU Climate-related Disclosures Directive and is preparing to comply with the new EU Taxonomy.

VOLUNTARY CLIMATE REPORTING

LCC utilizes several voluntary reporting frameworks (GRI, SASB, TCFD) to disclose climate-related information. Climate-related disclosures are provided in the firm’s annual ESG report, CDP questionnaire, and SEC filings (10Ks and 10Qs). The main source of climate-related information is the firm’s annual ESG report, which is prepared in compliance with GRI standards and is aligned with SASB standards for Electrical and Electronic Equipment & Industrial Machinery and Goods sectors. LCC’s ESG report also complies with TCFD recommendations (LCC does not file a separate TCFD report). LCC maintains a microsite for mapping SASB, TCFD, and GRI recommendations to its corresponding location in existing firm disclosures. In addition, the firm has recently begun including a few pages of narrative disclosure in accordance with the World Economic Forum’s Stakeholder Capitalism Metrics initiative.

LCC discloses its GHG emissions, including scope 1, 2, and 3. Scope 3 represents the majority of LCC’s value chain emissions, and annual scope 3 disclosures include fuel- and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, and use of sold products. LCC noted that if the SEC mandates scope 3 disclosures, its costs would increase due to the need to have these disclosures subjected to third-party assurance (even though LCC has a credible scope 3 calculator that leverages GHG Protocol data, as well as data on voided emissions). LCC noted that if the SEC mandates scope 3 disclosures, it would force the firm, and other companies, to obtain more localized “real” emissions data as opposed to relying on estimates. LCC does not purchase carbon offsets.

COST OF DISCLOSURES

The annual internal cost to produce LCC's voluntary climate disclosures falls between \$200,000 and \$350,000. These disclosures, including the ESG report, are prepared by a report team working each year from November until March. The team consists of approximately 20 employees working part-time on climate-related disclosures during this period and one full-time consultant; all disclosures are reviewed by the firm's SEC counsel.

LCC reports that the costs of compliance with the SEC's 2010 guidance on climate disclosure is a small fraction of their total climate-related reporting. The ratio of voluntary climate disclosure costs to SEC-mandated climate disclosure costs is about 6:1. LCC retains third-party auditors and consultants who provide support in LCC's climate disclosure efforts. Auditors review data quality and data collection procedures. Consultants assist in the preparation of substantive disclosures, advise on adherence to the voluntary frameworks, and prepare web updates. LCC spends roughly \$400,000 per year on these auditors and consultants, and it does not pay for third-party assurance of its climate disclosures.

When asked about the initial cost of producing climate-related disclosures, LCC noted that combined costs for producing its first TCFD, SASB, and GRI disclosures were between \$200,00 and \$350,000. The costs of preparing its first CDP questionnaire did not exceed \$50,000.

LCC noted that the cost of climate-related reporting has increased in recent years, largely due to demands from its Board of Directors. LCC's board meets five times each year, and climate-related information is included in every board packet.

CONCLUSION

LCC has been an early and sustained leader in producing robust voluntary climate-related disclosures, motivated in part by stakeholder requests and a recognition of strategic opportunities. As such, LCC does not anticipate an SEC climate disclosure rule having much impact on its current disclosure practices. The firm noted that the SEC is unlikely to require the disclosure of all the information for which LCC's stakeholders are currently asking for. Therefore, it plans on continuing to report climate-related information under multiple voluntary frameworks even after an SEC rule is finalized. Thus, the marginal cost of complying with a mandatory climate disclosure rule is minimal to LCC, and largely reflects expected expenditures on disclosure assurance.



APPENDICES

01 | SAMPLE QUESTIONNAIRE

GENERAL QUESTIONS:

01 Please indicate how many employees your organization has.

02 Please describe what current or future climate-related risks, including physical and/or transition risks, impact or may impact your organization the most?

03 Where and how does your organization currently disclose climate-related information? (for example, in sustainability reports and/or SEC filings).

04 What is the primary reason your organization is voluntarily publicly disclosing climate-related information?

05 Does your organization utilize voluntary domestic and/or international reporting frameworks to formulate your organization’s climate-related disclosures? If the answer is “yes,” please describe those frameworks. (e.g., TCFD, SASB, etc.).

06 Does your organization currently report climate and/or sustainability information in jurisdictions other than the United States? If the answer is “yes,” please describe those jurisdictions.

07 Does your organization report any “confidential” climate-related information (i.e., information that is not publicly disclosed) to any third parties? (for example, credit rating agencies, asset managers, investors, creditors, etc.) If the answer is “yes,” please describe what type of third parties your organization discloses additional information to.

08 Does your organization currently disclose information that is required in accordance with the 2010 SEC Guidance Regarding Disclosure Related to Climate Change? If so, what climate-related information is your organization currently reporting?

COST OF DISCLOSURES:

STAFF-RELATED ONGOING COSTS

- 09** For each of the departments/functions listed below that apply to your company, please indicate: (1) the total number of employees (exempt and non-exempt full-time equivalents FTEs) involved in climate-related reporting in that department/function, (2) total annual employee hours devoted to climate-related reporting in that department/function, and (3) average cost per hour of these employees. The ability to provide information requested below might vary by firm size. Please respond as appropriate.

	Total Number of Employees	Total Annual Employee Hours	Average Cost per Hour of Employees
Legal & Compliance			\$
Management & Administration			\$
Retail Activities <i>Mutual funds, insurance, etc.</i>			\$
Institutional <i>Equity and Fixed Income</i>			\$
Research			\$
Others (please list):			\$
			\$
			\$
			\$
Total:			\$

Please note any key assumptions you made for your responses to Question 9, including the costs of any voluntary climate reporting your company engages in (e.g., TCFD or SASB reports, CDP Questionnaire). If possible, please specify the costs of creating a baseline for initial climate reporting at your organization (e.g., preparation of the first TCFD report or SASB report and the associated IT buildout):

10 What would you estimate to be your climate-related costs as a proportion of total SEC compliance-related costs?

11 Does your company produce any climate-related information strictly for internal consumption? What are the costs of producing climate-related information for internal consumption, compared to costs of public climate reporting?

12 Does your organization employ executives dedicated strictly to climate reporting?

OUT-OF-POCKET ONGOING COSTS

- 13** Does your company retain external advisors, consultants, legal counsel, or other professionals to produce your climate-related disclosures? If so, please indicate the type of third-party your organization uses and your firm's total climate-related out-of-pocket ongoing expenditures for 2020: Type of third parties used to help produce climate disclosures (auditors, consultants, etc.):

Third-party costs:

- 14** To what extent have the costs described in the Question 13 changed over the last 5 years (e.g., did they increase and by what percentage?)

- 15** In the last 5 years, what aspect of SEC compliance (e.g., newly mandated disclosures) have had the most adverse impact on compliance-related out-of-pocket costs at your company?

- 16** What form of third-party assurance (if any) are your organization’s climate disclosures subject to? What are the approximate or estimated annual costs for such assurance?

SEC REGULATORY INITIATIVES MANDATING CLIMATE-RELATED COMPLIANCE

- 17** To what extent will compliance costs, including but not limited to staff, out-of-pocket, for your company be impacted in the event the SEC adopts regulations requiring the disclosure of climate-related risks? In addition, how would these costs change if the SEC mandates climate-related disclosures to be filed in audited financial statements?

- 18** In the event the SEC adopts regulations requiring the disclosure of climate-related risks, do you anticipate that your organization will, if applicable, continue to voluntarily disclose additional climate information to third parties, such as creditors or third-party standard setters?

- 19** Scope 3 emissions include emissions from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts via its value chain. To the extent that any scope 3 emissions are attributable to your organization, does your organization currently disclose scope 3 emissions? Why or why not?

- 20** If the SEC mandates the disclosure of scope 3 emissions, how will this effect, if at all, the compliance obligations and costs of compliance for your organization?

CARBON OFFSETS:

- 21** Does your organization use carbon offsets?

- 22** If the response to Question 21 is “yes,” what information does your organization disclose (e.g., number of offsets, offset registry, offset project location, the emissions (scope 1,2,3) that offsets are applied to)?

GENERAL COMMENTS

23 Is there any other information you wish to provide or that you think would be useful for the case study?

02 | WHERE AND HOW COMPANIES CURRENTLY DISCLOSE CLIMATE-RELATED INFORMATION

TABLE 1 - LOCATION OF CLIMATE-RELATED REPORTING

	LCC	LCFI	MCC
10-K/Annual Report*	✓	✓	✓
CDP Questionnaire	✓	✓	✓
Proxy Materials			✓
Sustainability Report/ESG	✓		✓
Integrated Report		✓	
TCFD Report		✓	

* Annual report includes URD

TABLE 2 - VOLUNTARY CLIMATE-RELATED DISCLOSURE FRAMEWORKS ADHERED TO*

	LCC	LCFI	MCC
SASB	✓	✓	✓
TCFD	✓	✓	✓
GRI	✓		✓
CDP**	✓	✓	✓

* More information on each of these voluntary frameworks is provided in the glossary in Appendix 3

** CDP is included here for completeness but it is less of a disclosure framework than it is a mechanism for firms to supply detailed climate-related information that then feeds into other reporting frameworks.

→ **LCC**

LARGE-CAP COMPANY

→ **LCFI**

LARGE-CAP FINANCIAL INSTITUTION

→ **MCC**

MID-CAP COMPANY

03 | GLOSSARY

→ *CPD Questionnaire*

CDP is a not-for-profit that operates a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.

The CPD collects and stores data on companies, including information on their business decisions and strategy, creating the most comprehensive data set on corporate and city sustainability actions.

→ *GRI Standards*

The Global Reporting Initiative is an independent international organization that assists businesses, governments, and other organizations in understanding and communication the impact of businesses on economic, environmental, or societal issues.

→ *Integrated Report*

Includes information on the company's performance, goals, governance, and strategy with respect to conditions outside of the organization, but which still have an impact on the company.

→ *PACTA*

The Paris Agreement Capital Transition Assessment accumulates asset-data, which is then used to create a tailored report for investors to use when analyzing how their investments coincide with the Paris Agreement and climate scenarios.

→ *Proxy Statement*

This is information given to shareholders prior to a shareholder vote to solicit votes. It is filed prior to the annual meeting.

→ *SASB*

The Sustainability Accounting Standards Board sets voluntary industry standards for issues they deem to be financially-material sustainability information to which investors would want access. SASB enables companies to disclose their performance and targets relative to their industry's climate-related risks. Not all industry Standards require the disclosure of Scope 1, 2, and 3.

→ ***Sustainability Report***

To improve sustainable development by companies, organizations report on their environmental and social performance to inform stakeholders.

→ ***TCFD***

The Task Force on Climate-related Financial Disclosures has developed a voluntary framework to assist public companies and organizations to disclose climate-related risks and opportunities. The TCFD frameworks requires that all industries disclose Scope 1, 2, and 3 where it is deemed material. Where it is not material, the company may still disclose.

→ ***Universal Registration Document (URD)***

Issued under the EU's Prospectus Regulation (Regulation (EU) 2017/1129), a URD describes the company's organization, business, financial position, earnings and prospects, governance, and shareholding structure.

→ ***NZBA***

The Net-Zero Banking Alliance has banks around the globe coming together with the collaborative aim of ensuring their investment portfolios and lending coincides with the goal of net-zero emissions by 2020.

→ ***10-K Report***

The yearly report of a publicly-traded company that is required by the SEC. The report details the company's financial performance in significantly more detail than the company's annual report. Information disclosed includes the company's structure, financial statements, subsidiaries, etc.

→ ***10-Q Report***

The quarterly report of financial performance a publicly-traded company is required to submit to the SEC. The 10-Q is generally an unaudited report.



CLIMATE RISK
DISCLOSURE LAB