SEC Enhancement and Standardization of Climate-Related Disclosures

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ADOPTED DISCLOSURE REQUIREMENTS

Disclosure requirements can be broadly described as:

1. Disclosure of climate-related **risks**, **mitigations**, **targets** or **goals** that could **materially impact** business results.

2. Corporate **management and governance** systems of climate-related risks and strategies.

3. **Quantitative** disclosure of **Scope 1 and 2** greenhouse gas (GHG) emissions for larger companies.

ions nes)	2010	2009	Adjusted base year 2007	Target 2012	Percentage change 2009/2010	Percentage change 2007/2010
Scope 1	432	521	645	364	-17%	-33%
Scope 2	1,293	1,386	1,494	1,038	-7%	-13%
Total Scope 1 and 2 emissions	**1,725**	**1,907**	**2,139**	**1,402**	**-10%**	**-19%**
Scope 3	7,245	7,320	8,001	6,101	-1%	-9%
Total emissions	**8,970**	**9,227**	**10,140**	**7,503**	**-3%**	**-12%**

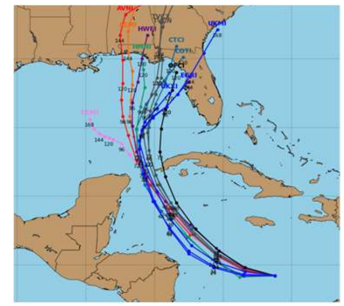
Greenhouse gas emissions intensity (CO2e '000 tonnes/Php M revenue)	2010	2009	Adjusted base year 2007	Target 2012
Scope 1	0.100	0.157	0.229	0.057
Scope 2	0.299	0.418	0.531	0.162
Scope 3	1.675	2.208	2.841	0.953
Total	**2.074**	**2.783**	**3.601**	**1.172**

CLIMATE-RELATED RISKS?

Physical Risks

- **Acute events:** Increased frequency and intensity of extreme weather events like storms, floods, wildfires, and droughts, threatening infrastructure, operations, and supply chains.

- **Chronic changes:** Rising sea levels threatening coastal facilities and/or rising temperatures affecting the efficiency of operations.



Transition risks

- **Policy and regulatory risks:** Stricter regulations on carbon emissions, phasing out fossil fuels, and reduced investments.

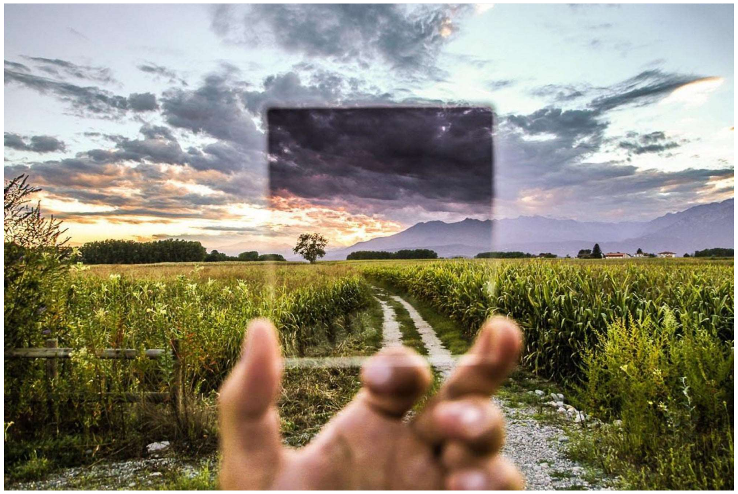
- **Market risks:** Reduction in demand for oil and gas products due to consumer preferences shifting towards cleaner energy sources.

- **Litigation risks:** Companies could face lawsuits related to the climate impacts of their operations or for misleading investors about climate risks.

WHY?

Investor protection

- Enhance **transparency** and **consistency** in reporting and improving investors' access to comparable and consistent climate-related disclosures.



NOT WITHOUT A FIGHT

- On March 15, the US Court of Appeals for the Fifth Circuit granted a **motion** subjecting the SEC climate rules to an **administrative stay** pending review of the rules by the court.
- Cases are **pending** in the Sixth, Eighth and Eleventh Circuits seeking to **block** the new rules
- Challenges from environmental groups in the Second and DC Circuits pushing for **stronger rules**.
- The Judicial Panel on Multidistrict Litigation will consolidate the challenges before a single court of appeals, which may then dissolve the Fifth Circuit's order.

WHO? WHAT?

Most Registrants → 1. **Material Impacts** of Climate-Related Risks on Strategy, Business Model, and Outlook

~ if you have…??

2. **Transition Plan**
3. **Scenario Analysis** If Used
4. Maintained **Internal Carbon Price**
5. **Board Oversight**
6. **Management Oversight**
7. **Risk Management**
8. **Targets and Goals**

Only medium & large companies

9. **Scope 1 & 2 GHG Emissions**
10. **Attestation** Over GHG Emissions Disclosure (third-party verification & validation)

KEY CHANGES FROM PROPOSED RULES

– **Less prescriptive** approach to certain rules
- **Climate-related risk** disclosure
- **Board oversight** disclosure
- **Risk management** disclosure requirements

= Qualifying **materiality** for:
- Climate-related risks
- Use of scenario analysis
- Internal carbon price

↔ **Streamlines** to reduce redundancy with other reporting frameworks

Eliminating the requirement:
- To describe board members' climate **expertise**
- Of **Scope 1 and Scope 2** emissions disclosure for some
- To provide **Scope 3** altogether
- To **disclose** the impact of **severe weather** events and other natural conditions

\+ **Requiring** disclosure of **material expenditures** directly related to climate-related activities

Extending a **safe harbor** from private liability for certain disclosures

DEFINITIONS

- **Materiality** – There is a substantial likelihood that a **reasonable investor** would consider it **important** or view omission of the disclosure as having significantly altered the total mix of information made available.

- **Time Horizon** – Reasonably likely to manifest in the **short-term** (i.e., the next 12 months) and separately in the **long-term** (i.e., beyond the next 12 months)

- **Safe Harbor** – A legal provision to reduce or eliminate **legal or regulatory liability** in certain situations as long as certain conditions are met.

PARALLELS TO OTHER ESG REPORTING

The SEC's climate disclosure rule makes reference to and draws upon:

- The Task Force on Climate-Related Financial Disclosures (TCFD)
- …now adopted by the International Sustainability Standards Board (ISSB)

- and -

- The Greenhouse Gas (GHG) Protocol

PILLARS OF TCFD/IFRS

TCFD Recommendations and Supporting Recommended Disclosures	SEC Rules
Governance	**Board Oversight** **Management Oversight**
Strategy	**Material Impacts** of Climate-Related Risks **Transition Plan** **Scenario Analysis** If Used Maintained **Internal Carbon Price**
Risk Management	**Risk Management**
Metrics and Targets	**Targets and Goals** **Scope 1 & 2 GHG Emissions** **Attestation**

CALIFORNIA

California Senate Bill 261 – Climate-Related Financial Risk Act

- U.S. companies that do business in **California** and have **over $500 million** in annual revenues
- **Biennial report** (once every two years) disclosing climate-related financial risks and measures based on the **TCFD** recommendations or a comparable disclosure regime in a report published on the company's website no later than January 2026.

California Senate Bill 253 – Climate Corporate Data Accountability Act

- U.S. companies that do business in California and have **over $1 billion** in annual revenues
- Disclose **Scopes 1 and 2** GHG emissions by **2026**
- **Scope 3** GHG emissions by **2027**

DISCLOSURE REQUIREMENTS

GHG EMISSIONS DISCLOSURE

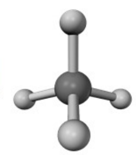
Item 1505

- **Material Scope 1** emissions and/or **Scope 2** emissions metrics by:
- Large Accelerated Filers (LAFs) Accelerated Filers (AFs)

Not required for:

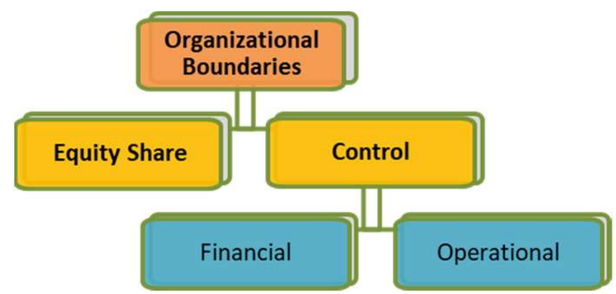
- Smaller Reporting Companies (SRCs)
- Emerging Growth Companies (EGCs)

- **Disaggregated constituent gas(es)** if emissions are **individually material**



- Describe the **methodology**, **significant inputs**, and **significant assumptions** used to calculate disclosed GHG emissions.

- **Organizational boundaries** used when calculating its Scope 1 & 2 emissions and if they are **materially different** from the consolidated financial statements



GHG EMISSIONS DISCLOSURE

Item 1505

- Expressed in the aggregate in terms of **Carbon Dioxide Equivalent** (CO_2e)

CO_2e **intensity** not required to be reported

- **Type and source** of any **emission factors** used (such as the EPA)

Quantitative emission **factors** not required

- Disclosure in **Form 10-K** may be by reference from Form 10-Q for the **second fiscal quarter** in the following fiscal year

- Foreign private issuers that file **Form 20-F** must disclose no later than **225 days** after the end of the fiscal year.

WHO HAS TO DISCLOSE SCOPE 1 & 2?

Accelerated Filers (AFs)

Public float* exceeds $75 million but less than $700 million

Large Accelerated Filers (LAFs)

An accelerated filer whose public float exceeds $700 million

*Public float is the amount of shares in the hands of public investors as opposed to locked-in shares held by promoters, company officers, controlling-interest investors, or governments.

IDENTIFYING EMISSIONS BY SCOPE

SCOPE 1

- Direct fuel use and combustion of fuel Process emissions usually only in certain industry sectors:
    - oil,
    - gas,
    - aluminum,
    - cement, etc.
- Office based organizations will have no direct emissions, except for vehicles, AC

SCOPE 2

- Almost all businesses generate indirect emissions due to the purchase of electricity for use in their processes or services
    - Electricity
    - Heat
    - Steam
    - Cooling

(optional)

SCOPE 3

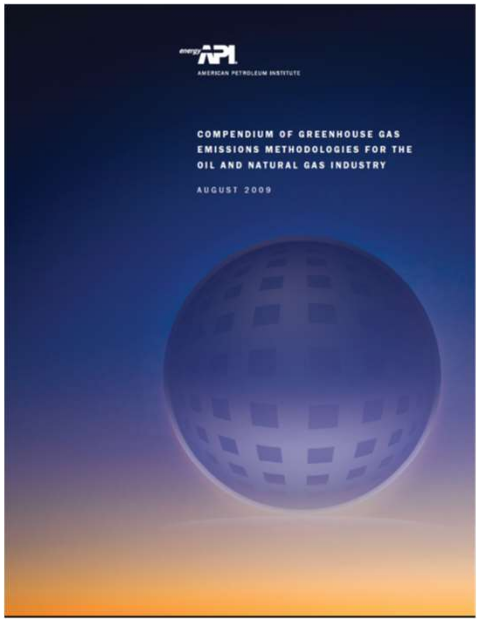
- Emission along the value chain upstream and downstream:
    - Extraction and production of raw materials;
    - Transportation;
    - Use of sold products and services. Etc.

CALCULATION APPROACHES

1. Direct Measurements: By monitoring GHG concentration and flow rate.
    - Continuous Emissions Monitoring System (CEMS)

2. Stoichiometric Calculations: Mass of emissions can be directly related to fuel burn.
    - Balancing of chemical equations or material balance

3. Estimate Emissions: Multiply activity data (ex: fuel use data) by documented emission factors.
    - Most common approach
    - Emission factors may be provided by professional organizations, governments or GHG Program



Companies should use the most accurate calculation available to them that is appropriate for their reporting.

IMPACTS OF CLIMATE-RELATED RISKS ON STRATEGY, BUSINESS MODEL, AND OUTLOOK

- 1502(b) – **Describe** actual and potential **material impacts** of any climate-related risks identified
- 1502(c) – **Discuss** whether impacts have been **integrated** into **business model** or strategy and relation to any targets or transition plan
- 1502 (d) – **Disclose** quantitative and qualitative **material expenditures incurred** (past) and **material impacts** (future) on financial estimates and assumptions as a direct result of actions taken

Non-exclusive list of potential **material impacts**:

- **Business operations**, including the types and locations of its operations;
- **Products or services**;
- Suppliers, purchasers, or **counterparties to material contracts**, to the extent known or reasonably available;
- **Activities to mitigate** or adapt to climate-related risks, including adoption of new technologies or processes;
- **Expenditure** for R&D

TRANSITION PLAN DISCLOSURE [IF USED]

Items 1500 and 1502(e)

- **Transition plan** – A registrant's strategy and implementation **plan** to reduce **climate-related risks**.

- Describe a **transition plan** *if it has been adopted* to manage a material transition risk.
  - **Does not mandate** that registrants **adopt** a transition plan.

- Disclose **quantitative and qualitative material expenditures** incurred (past) and material impacts on **financial estimates** and assumptions (future) as a direct result of the disclosed **actions taken**.

- Subject to a **safe harbor** – limited protection from frivolous lawsuits based on unforeseen circumstances.

DISCLOSURE OF SCENARIO ANALYSIS IF USED

Items 1500 and 1502(f)

- *If* a registrant uses **scenario analysis** and if a climate-related risk is **reasonably likely** to have a **material impact** on its business, results of operations, or financial condition

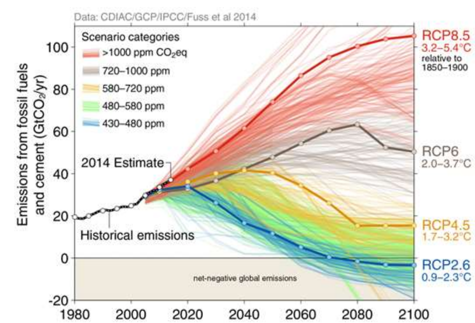
- **Describe** each scenario and expected **material impacts**, including **financial impacts**

- Scenario analysis disclosure will be subject to a **safe harbor**.

Include a *brief* description of scenario:

- Parameters
- Assumptions
- Analytical choices used – not tools

- Does not impose any specific scenario such as 3 °C, 2 °C, or 1.5 °C



MAINTAINED INTERNAL CARBON PRICE

Item 1502(g)

- If a registrant uses **internal carbon pricing** and *if such* use is **material** to how it evaluates and manages a climate-related risk that it has identified as having **materially impacted** or is reasonably likely to have a **material impact** on its business strategy, results of operations, or financial condition.

- **Disclose** certain information about the internal carbon price.

- Registrant's use of an internal carbon price will be subject to a **safe harbor**.

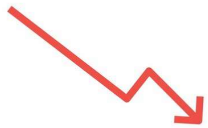
- The **price** per metric ton of CO_2e

- How the total price is **estimated to change** over the time periods referenced in Time Horizon

MATERIAL IMPACT OF CARBON PRICE

Revenue

- Material impact to income based on sales of carbon credits
- More important is the risk to revenue based on potential falling carbon price



Cost

- Material impact to capex/opex based on carbon tax, fee, cap-and-trade, etc…

DISCLOSURE OF BOARD OVERSIGHT

Item 1501(a)

- Description of a **board of directors' oversight** of climate-related risks and **identification**, *if applicable*, of any **board committee or subcommittee** responsible for the oversight of climate-related risks
- **Description** of the **processes** by which the board or such committee or subcommittee is informed about such risks.
- **Disclosure** of whether and how the board oversees **progress** against the target or goal or transition plan.
- Disclosures are not required for those that do not exercise board oversight of climate-related risks.

- **Not** intended to shift governance behaviors
- Additional **flexibility** to determine how much detail to provide about the board's oversight of climate-related risk

DISCLOSURE OF MANAGEMENT OVERSIGHT

Item 1501(b)

- Describe **management's role** in assessing and managing **material** climate-related risks.
- Whether and which management **positions or committees** are responsible for assessing and managing climate-related risks, and the relevant expertise in such detail as necessary to fully describe the nature of the expertise
- The **processes** by which such positions or committees **assess and manage** climate-related risks
- Whether risks are **reported** to the board of directors, a committee or subcommittee of the board of directors

- **Flexibility** to tailor the disclosures based on their particular governance structure.
- **Does not** seek to influence decisions about how to manage climate-related risks or otherwise change registrant behavior.

RISK MANAGEMENT DISCLOSURE

Item 1503

- Description of processes for **<u>identifying</u>**, **<u>assessing</u>**, and **<u>managing material</u>** climate-related risks.
- Does not require speculation about future **<u>restructurings</u>**, **<u>write-downs</u>**, or **<u>impairments</u>** related to climate risk management
- If a registrant has not identified a material climate-related risk, **<u>no disclosure is required</u>**.

Address how it:

- Decides whether to mitigate, accept, or adapt to the particular risk
- Prioritizes whether to address the climate-related risk.

TARGETS AND GOALS DISCLOSURE

The Overall Disclosure Requirement (Item 1504(a), (b), and (c))

- **Any** climate-related **target or goal** (internal or publicly disclosed) that has, or is reasonably likely to **materially** affect the registrant's business, results of operations, or financial condition.
- **Quantitative** and qualitative disclosure of any **material expenditures** and material impacts on financial estimates and assumptions as a direct result of the target or goal or the actions taken to make progress toward the target or goal
- **Flexibility** to explain **qualitatively** the nature of any disclosed expenditure and how it is a direct result of **progress** under a disclosed target or goal.

Disclose:

- The **scope** of activities included in the target
- The **unit** of measurement
- Defined **time horizon** for the target
- If the time horizon is based on any **treaty**, **law**, **regulation**, **policy**, or **organization**
- Any established **baseline** for the target or goal, the defined baseline **time period** and the means by which progress will be tracked
- A **qualitative description** of how the registrant intends to meet its climate-related targets or goals

EXAMPLES OF TARGETS

There are a number of initiatives launched by organizations that provide a common goal for governments and oil companies to commit to.

- Zero Routine Flaring by 2030 – World Bank
- Net-Zero by 2050 – United Nations
  - Approximately 2/3rd of companies in our analysis have committed to Net-Zero by 2050.
- Other targets include overall reduction in emissions intensity levels.
- Some have committed to CCUS targets, thus offsetting emissions from oil and gas operations…

TARGETS AND GOALS DISCLOSURE (CONT)

The Carbon Offsets and RECs Disclosure Requirement (Item 1504(d))

- **Disclose** material use of **carbon offsets** or Renewable Energy Certificates (RECs)
- **Amount** of carbon avoidance, reduction or removal
- Whether fluctuating **supply or demand**, and corresponding **variability of price**, related to carbon offsets or RECs, presents an additional **material risk**.
- Nature & source of the offsets or RECs.
- **Description and location** of the underlying projects
- Any **registries or other authentication** of the offsets or RECs
- **Cost** of the offsets or RECs

ATTESTATION OVER GHG EMISSIONS

Item 1506 – Third-party Validation & Verification

- If required to disclose **Scope 1 & 2** emissions include an attestation report
- **Scope 3** required to be included if voluntarily reported

Filer Type	Scopes 1 and 2 Emissions Disclosure Compliance Date	Limited Assurance Compliance Date	Reasonable Assurance Compliance Date
LAFs	Fiscal year 2026	Fiscal year 2029	Fiscal year 2033
AFs (other than SRCs and EGCs)	Fiscal year 2028	Fiscal year 2031	N/A

- "Limited assurance" and "reasonable assurance" not defined in the final rules
- **Limited assurance** – generally limited to analytical procedures and inquiries
- **Reasonable assurance** – risk assessment and detail testing procedures to respond to the assessed risk

LAF TIMELINE (NOT TO SCALE)

March 2024
Final Rules Published

2026
Report FY 2025 Disclosures
Excluding:
- GHG Emissions
- 1502(d) – Material Expenditures
- 1502(e) – Transition Plan
- 1504(c) – Progress

2027
FY 2026
All Disclosures Required
GHG Scope 1 & 2

2030
FY 2029
Disclosures with Limited Assurance Attestation Report

2034
FY 2033
Disclosures with Reasonable Assurance Attestation Report

AF TIMELINE (NOT TO SCALE)

March 2024
Final Rules Published

2027
Report FY 2026 Disclosures

Excluding:

- GHG Emissions
- 1502(d) – Material Expenditures
- 1502(e) – Transition Plan
- 1504(c) – Progress

2028
FY 2027 Disclosures

Excluding:

- GHG Emissions

2029
FY 2028

All Disclosures Required

GHG Scope 1 & 2

2032
FY 2031

Disclosures with Limited

Assurance Attestation Report

OTHER REGISTRANTS TIMELINE (NOT TO SCALE)

March 2024
Final Rules Published

2028
Report FY 2027 Disclosures

Excluding:

- GHG Emissions
- 1502(d) – Material Expenditures
- 1502(e) – Transition Plan
- 1504(c) – Progress

2029
FY 2028 Disclosures

Excluding:

- GHG Emissions

WHAT TO DO TO PREPARE?

The SEC's landmark climate-related disclosure rules are finalized and on the horizon. Don't wait – start preparing today!

- Gain a competitive edge: Be among the first to demonstrate climate leadership and transparency.
- Smoother transition: Avoid scrambling to meet deadlines.
- Improved investor confidence: Provide investors with the information they need to make informed decisions.
- Reduced risk of future regulatory issues: Proactive compliance sets a strong foundation.