FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
December 14, 2021
Zoom for Government

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For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Tuesday, December 14, 2021

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Ms. Harper and Johnson, and Messrs. McNamee, Patton, and Smith. The executive director, Ms. Valentine, and general counsel, Mr. Culliton, were also present throughout the meeting. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

• Approval of Minutes

The Board approved the October meeting minutes prior to the meeting.
Updates and Clippings

Mr. Scott asked the members if there were any comments on the clippings. Ms. Johnson noted her appreciation with getting the clippings weekly as opposed to every other month. No other members had comments.

Ms. Reese, Governmental Accounting Standards Board (GASB) senior project manager, provided a brief overview of GASB’s recent activities.

Ms. Reese first noted the “big three” projects: the conceptual framework project on disclosures that GASB had re-exposed in late June, the revenue and expense preliminary views document, and the financial reporting model reexamination. The comment period for the conceptual framework document recently ended, so GASB plans to discuss the topic at a future meeting. GASB is in the process of reviewing the feedback on the revenue and expense preliminary views document. The Board also held an education session on executory contracts and reviewed the results of the revenue and expense preliminary views field test. On the financial reporting model reexamination project, the Board is considering the feedback.

GASB issued Statement 98 renaming state and local government financial reports to the Annual Comprehensive Financial Report. The Board is also reviewing the feedback on the Compensated Absences, Accounting Changes, and Error Correction exposure draft (ED), as well as the feedback on the Omnibus ED.

GASB continues to work on the risk and uncertainty disclosures project. The Board also added two projects to its agenda—one on going concern and severe financial stress disclosures and another on classification of non-financial assets.

Mr. Scott thanked Ms. Reese for keeping the Board informed of GASB’s activities.

Mr. Scott noted the extensive outreach efforts in the past two months from both Board members and staff. He also mentioned topic E, which included information on non-agenda topics.

Ms. Valentine introduced FASAB’s new general counsel, Todd Culliton. Mr. Culliton is an assistant general counsel with the Government Accountability Office. Ms. Kate Hudson will continue to support Mr. Culliton on FASAB matters. Members and staff welcomed him. Mr. Culliton expressed that he was looking forward to working with FASAB members and staff.

Agenda Topics

- Environmental, Social, and Governance Education Session

Mr. Scott introduced the Environmental, Social, and Governance (ESG) education session from topic A. He noted that during the October 2021 climate session, members
had expressed an interest in ESG. Therefore, the objective of this session was to introduce ESG and its connection to climate.

Ms. Gilliam, assistant director, welcomed Ms. Corinne Dougherty, who is a partner at KPMG’s Washington, DC office. Ms. Dougherty has over 18 years of experience in providing audit and advisory services to federal government clients and leads KPMG’s federal ESG practice. In addition, she has experience in providing ESG assurance services to clients.

Ms. Dougherty answered the following questions during her presentation:

- What is ESG?
- Why is ESG important now?
- Where does climate fit in?

Ms. Dougherty also discussed ESG reporting and frameworks, the regulatory landscape, the ESG history, and the role of finance.

Ms. Dougherty’s full presentation can be found at attachment 1 of the minutes.

Ms. Dougherty answered the following questions from members:

Question #1: What are other government standard setters looking for in their unique role as regulators for climate disclosures and for overall operations?

Ms. Dougherty: Other countries are making net zero emission commitments a high priority but most are not yet reporting on the government’s progress against their commitments.

Question #2: Are you finding interest from federal agencies for reporting on and disclosing information on obtaining net zero emissions?

Ms. Dougherty: Operations staff is determining how to decarbonize to reduce greenhouse gas emissions. They are assessing how to accumulate current greenhouse gas data to report the journey to net zero emissions.

Question #3: Are industries waiting to see what regulators will require for disclosures or are they taking the initiative to begin reporting?

Ms. Dougherty: Some companies are waiting to see what the Securities and Exchange Commission (SEC) will require. Based on public comments by Chairman Gensler, the SEC is looking at existing frameworks and standards, in particular the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Therefore, KPMG is advising clients not to wait until the SEC issues disclosures and to utilize TCFD to develop procedures to collect appropriate data for upcoming climate-related disclosure requirements.
Question #4: Is finance getting involved with the operations side for reporting on climate?

Ms. Dougherty: KPMG’s research on the Canadian cities reporting according to TCFD shows that finance is included from the beginning to help build out the climate disclosures.

- **Climate-Related Financial Reporting**

Ms. Gilliam introduced the climate session from topic B by thanking the members for providing comments and edits. She noted that staff is developing a catalog of generally accepted accounting principles (GAAP) that preparers and users of federal financial reports can use as a reference tool when accounting for and reporting impacts from climate-related events and climate-related financial risks. This staff educational paper is not an authoritative pronouncement and does not change or modify existing GAAP.

**Question 1 – Do members agree with the project plan to publish the staff educational paper on February 15, 2022?**

Members did not discuss this question.

**Question 2 – Do members have any final technical edits for the Staff Educational Paper: Generally Accepted Accounting Principles Applicable to Climate-Related Financial Reporting?**

Members reviewed the introduction and scope section. Staff will update the introduction section with the scope information.

Members reviewed the topics portion of this document. As a result of Board deliberations, staff will remove references to definitions and update paragraph references to include context and a connection to climate. Staff will also change the topic titled “arrangements” to “other.” Lastly, staff will remove the following topics from the document: social insurance, tax expenditures, sustainability reporting, and social insurance in management’s discussion and analysis (MD&A).

The meeting adjourned for lunch.

- **Omnibus Concepts Amendments**

Ms. Valentine introduced the concepts omnibus discussion from topic C of the briefing materials. Ms. Valentine noted that both she and Ms. Gilliam had worked on topic C.

Ms. Valentine noted that the Board last reviewed the draft *Omnibus Concepts Amendments* ED at the June 2021 meeting. During the June meeting, the Board continued to deliberate on the amendments to paragraphs 68 and 69 in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to update note disclosures and MD&A concepts. The members agreed to several edits to the draft ED.
The members also agreed to rescind SFFAC 3, *Management’s Discussion and Analysis*, in its entirety.

Ms. Valentine noted that it is common practice for standard setters to develop their conceptual framework before developing the related standards. However, in this instance most of the standard-based language for developing MD&A resides in SFFAC 3 rather than in Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management’s Discussions and Analysis*. Staff recommends exposing both the updated MD&A concepts and updated MD&A standards together so as not to create a void in the guidance since SFFAC 3 would be rescinded with the proposed omnibus.

**Question 1 – Are the proposed concept amendments sufficient to guide the Board in developing standards for note disclosures and MD&A?**

Ms. Valentine reviewed several suggested edits to the draft ED that members had provided prior to the meeting:

- One member asked staff to consider incorporating the proposed guidance in paragraph 68D of the note disclosures concepts into the proposed MD&A concepts.
- One member asked staff to ensure that the context of the Required Supplementary Information was included in the proposed amendments to SFFAC 2, paragraph 69.
- Two members asked staff to review paragraphs 7A and 7B for consistency with the changes to the summary.
- The members also asked staff to review the document for consistency throughout the sections.
- The members also agreed to a few additional edits.

**Question 2 – Does the Board approve the Omnibus Concepts Amendments ED?**

Ms. Valentine noted that staff is concurrently drafting an ED for MD&A standards. Once the Board approves the updated draft *Omnibus Concepts Amendments* ED, staff will wait to expose the document until the MD&A standards ED is ready for release. Then both proposals will be released for public comment together.

The Board noted that it would like to review an updated draft after staff incorporates the edits discussed at the meeting into the document. Staff noted that the plan was to bring a pre-ballot draft ED to the Board for review once the MD&A standards draft ED was also ready for pre-ballot testing. The members agreed with staff’s plan.
• **Management’s Discussion and Analysis**

Ms. Gilliam introduced topic D, the draft MD&A ED, by thanking the members for providing comments and edits. She noted that the Board has been deliberating MD&A standards since June 2019. Before developing the proposed standards, the Board developed 11 MD&A objectives and the MD&A vision framework. Between January and March 2021, staff conducted a pilot with 17 agencies that tested the MD&A objectives and framework to develop streamlined sample MD&As. Sixteen users then reviewed the streamlined MD&A samples against the MD&A objectives and framework. This provided feedback for members to develop the proposed MD&A standards.

At the August 2021 Board meeting, members agreed that MD&A standards should be broad based to provide a holistic perspective, define terms to help users better understand the content/context, and be organized by themes.

**Question 1 – Do members have any comments or suggested revisions to the draft MD&A ED?**

Due to the time constraint, Ms. Gilliam started the discussion with a review of the definitions. She noted that staff would consolidate edits received on *What is the Board Proposing; How Would this Proposal Improve Federal Financial Reporting*; and the *Scope* sections. Staff would then present the updates in the next MD&A ED draft. Members agreed to change the title to “terms.”

**Definitions**

Staff will update the *financial position* definition by considering alternatives to the word “status,” such as account or balance. Staff will include budgetary resources, with explanation in the basis for conclusions, because it is a measure of financial position for the federal government environment. Staff will also reference concepts that define financial position.

Staff will edit the *financial condition* definition to reference concepts that define financial condition.

Staff will update the *key performance challenges and achievements* definition by changing the title to *Key Performance Achievements and Challenges* and referencing operating performance concepts to distinguish from basic performance reporting.

Staff will update the guidance on *significance* by moving it from the definition section to the *Presenting Information in MD&A* theme. Staff will change “meaningful” to “relevant” and provide an explanation instead of a definition. The explanation will refer to the vision framework to help users understand the context of significance, set guidance for parameters, and emphasize that significance is a matter of professional judgment. Mr. Savini, assistant director, recommended that staff review SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, for previous
due process completed by the Board on “significance.” The Board agreed and suggested including examples in implementation guidance.

Themes

Staff will move the theme Information Presented in MD&A before the Presenting Information in MD&A theme and remove the Financial Condition theme. Staff will merge the financial condition standards into the Presenting Information in MD&A theme.

Adjournment

The Board meeting adjourned at 4:45 p.m.
Attachment 1
Introduction to Environmental, Social & Governance

FASAB Board Meeting
December 14, 2021

With you today

Corinne Dougherty
Audit Partner
KPMG IMPACT
Contact: cdougherty@kpmg.com

KPMG IMPACT: Your ESG solution
Measure, report and assure ESG data.
01 What is ESG?
What is ESG?

ESG refers to a framework to integrate environmental, social and governance risks and opportunities into a firm’s strategy to build long-term financial sustainability and value creation.

**Environmental**
- Conservation of the natural world:
  - Climate change and emissions
  - Air and water pollution
  - Biodiversity
  - Deforestation
  - Energy efficiency
  - Waste management
  - Water scarcity

**Social**
- Consideration of people and relationships:
  - Customer satisfaction
  - Data protection and privacy
  - Gender and diversity
  - Employee engagement
  - Community relations
  - Human rights
  - Labor standards

**Governance**
- Standards for running an organization:
  - Cyber data breaches
  - Bribery and corruption
  - Executive compensation
  - Lobbying
  - Political contributions
  - Whistleblower schemes

Why ESG now?

**Shareholders/Investors**
- Institutional investors are demanding increased transparency of a company’s ESG strategy and reporting.

**Lenders**
- Borrower discounts and preferential loan pricing are becoming more common amongst lenders.

**Regulators**
- Securities and Exchange Commission (SEC) has discussed the need for proposed recommendations for disclosure standards.

**Consumers**
- 80% of consumers prefer buying from brands whose actions align with their beliefs and values.¹

**Employees**
- Surveys show employees increasingly want to work for companies that align with their values.

**Ratings agencies**
- Poor ESG ratings can lead to stocks being labeled as “unsustainable assets” and increase your cost of capital.

¹Source: KPMG International, Me, my life, my wallet 2020
Climate is what you expect, weather is what you get

- Weather is short-term changes in the atmosphere, climate describes what the weather is like over a long period of time
- Climate is often looking at averages of precipitation, temperature, humidity, sunshine, wind and other measures of weather that occur over a long period of time

Climate disasters in the US

Source: National Centers for Environmental Information
Climate change is driving a market transformation

- The planet has warmed 1.1 degrees Celsius since the 19th century due to human activities. Warming of 1.5 degrees is projected.¹

- With new commitments made by India, Russia, Brazil, Saudi Arabia, Australia and others, at least 90% of the world’s economy is now signed up to net-zero targets — that figure was less than 30% one year ago.²

- Net Zero commitments will drive a fundamental reorientation of our economies, with infrastructure, real assets, investments and patterns of consumption requiring an overhaul.

- Banks, insurers and capital markets are expected to drive action now to a far greater extent than ever before.

- Through the Glasgow Financial Alliance for Net Zero (GFANZ), US$130 trillion of private capital has been committed to net zero. Clean finance can now play a critical role in driving, or stopping, activity.

- The shift to net zero is the next great industrial revolution and businesses that seize the opportunity are expected to thrive — those that don’t, may not.

Source:
1. IPCC Climate Change 2021 (www.ipcc.ch/report/ar6/wg1/)
2. PM: Glasgow Climate Pact keeps critical 1.5C global warming goal alive - GOV.UK (www.gov.uk)

Climate in the news

Media insights from ClimateInsights.kpmg

An interactive platform that visualizes data and insights related to worldwide news and social media coverage of climate change.

Designed to help the global community understand more about climate topics, and provide media and website owners with live, shareable visual content.
More companies acknowledge the financial risks of climate change

4 in 5 US Fortune 100 companies now report climate risk in line with TCFD

54% of US Fortune 100 companies now acknowledge the financial risks of climate change in their reporting

71% of US Fortune 100 companies report carbon reduction targets now link those targets to global climate goals

A majority of US Fortune 100 companies now have targets in place to reduce their carbon emissions

Source: The KPMG Survey of Sustainability Reporting 2020

02

ESG reporting and frameworks
Leading ESG guidance and reporting frameworks

A set of core first and second generation initiatives, frameworks, and guidance examples are outlined below:

- **GRI**
  - Global Reporting Initiative
  - Early, broadly accepted methodology to homogenize sustainability reporting - periodically updated to improve disclosure quality & meet sector specific needs
  - Reporters identify their material focus areas and tailor reporting to cover those topics
  - GRI provides E, S and G topic level disclosures for material focus areas, which include both qualitative and quantitative disclosures

- **Value Reporting Foundation (VRF)**
  - Sustainability Accounting Standards Board
  - Modeled on the Financial Accounting Standard Board (FASB) - aims to create a focused, standardized reporting framework tailored to corporate needs
  - The global economy is divided in 77 sub-sectors - For each sub-sector material topics were identified and topic specific metrics were developed
  - Rapidly growing support among investors and corporations alike

- **<IR>**
  - Integrated Reporting Framework
  - <IR> framework includes an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.

- **World Economic Forum: ESG Metrics**
  - ESG metrics incorporating leading practices from current reporting frameworks
  - Core and expanded metrics to report on ESG performance and track their contributions towards the SDGs
  - Developed in coordination with the Big Four accounting firms

- **Task Force on Climate-related Financial Disclosures**
  - TCFD requires entities to consider and assess risk & opportunities posed by Climate Change to the business and its operations
  - Analysis is forward looking, covering strategic and tactical considerations, as well as the quality of Governance and Management
  - Institutional asset managers are beginning to expect (but not yet require) TCFD analysis

- **Carbon Disclosure Project**
  - Non-profit organization for companies and other organization to submit and disclose details of their environmental impacts – typically GHG emissions and water
  - Companies are asked to populate surveys, which capture details of emissions scope and scale, and ambitions to modify and manage emissions
  - Submissions are scored for completeness, transparency, and planned mitigations. Scored survey materials are shared via a searchable, public-facing database

As ESG-related flows continue to increase, companies must integrate ESG into their policies and procedures. The noted initiatives, frameworks, and guidance offer a starting point for building and evidencing integration.

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**International Sustainability Standards Board**

- **Task Force on Climate-related Financial Disclosures**
  - The Financial Stability Board’s TCFD contributes ‘a framework to help organisations disclose climate-related risks and opportunities’

- **Value Reporting Foundation**
  - Formed by the merger of the SASB and <IR>

- **Sustainability Accounting Standards Board**
  - SASB contributes ‘a complete set of globally applicable industry standards’

- **Integrated Reporting Framework**
  - <IR> aim is to ‘improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital’

- **Climate Disclosure Standards Board**
  - CDSB contributes ‘climate change related information of value to investors in mainstream financial reports’

Resources consolidated into the IFRS Foundation
Greenhouse Gas Emissions Scope

**Scope 1, direct GHG emissions (Owned/Leased)**
Emissions from sources that are owned or controlled by the entity.

**Scope 2, electricity indirect GHG emissions (Energy)**
Emissions from the generation of purchased electricity consumed by the entity.

**Scope 3, other indirect GHG emissions (Business Travel)**
Emissions that are a consequence of the activities of the entity, but that occur from sources not owned or controlled by the entity.

Source: Greenhouse Gas Protocol

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**GHG Protocol Standards**

**Policy and Action Standard**
The GHG Protocol Policy and Action Standard provides a standardized approach for estimating the greenhouse gas effect of policies and actions.

**Mitigation Goal Standard**
The GHG Protocol Mitigation Goal Standard provides guidance for designing national and subnational mitigation goals and a standardized approach for assessing and reporting progress toward goal achievement.

**Project Protocol**
The GHG Protocol for Project Accounting is the most comprehensive, policy-neutral accounting tool for quantifying the greenhouse gas benefits of climate change mitigation projects.

Source: Greenhouse Gas Protocol
What are green, social, sustainability (GSS) and sustainability-linked bonds (SLB)?

**Green Bond**
A green bond, like any other bond, is a fixed-income financial instrument for raising capital through the debt capital market. The key difference between a ‘green’ bond and a regular bond is that the issuer publicly states it is raising capital to fund ‘green’ projects, assets or business activities with an environmental benefit, such as renewable energy, and which are aligned with the four core components of the Green Bond Principles (GBP).  

**Social Bond**
Any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects and which are aligned with the four core components of the Social Bond Principles (SBP).  

**Sustainability Bond**
Any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying green projects and the latter to underlying social projects.  

**Sustainability-Linked Bond**
Any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives. In that sense, issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are forward-looking performance-based instruments.  

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1. ICMA Group, Green Bond Principles June 2021  
2. ICMA Group, Social Bond Principles June 2021  
3. ICMA Group, Sustainability Bond Guidelines June 2021  
4. ICMA Group, Sustainability-Linked Bond Principles June 2020
### Regulatory landscape

**Global ESG regulation points to 2024**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>IFRS Foundation consults on establishing an International Sustainability Standards Board (ISSB) parallel to IASB.</td>
</tr>
<tr>
<td>Q1 2021</td>
<td>In EU, the Sustainable Reporting Standards recommendation of EU project task force.</td>
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<td>Q3 2021</td>
<td>SEC public consultation closed.</td>
</tr>
<tr>
<td>Q4 2021</td>
<td>COP26 launch of the IFRS Foundation’s ISSB.</td>
</tr>
<tr>
<td>2022</td>
<td>Q1: SEC disclosure proposals expected.</td>
</tr>
<tr>
<td>2023/2024</td>
<td>Climate change, human capital, and cybersecurity risk governance.</td>
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<td>2024</td>
<td>U.K. registered companies and wider scope of listed companies required to report under TCFD.</td>
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<tr>
<td>2023</td>
<td>Initial disclosure under SFDR and the EU Taxonomy is required.</td>
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<tr>
<td>Oct 22</td>
<td>First set of EU sustainability reporting standards to be adopted by delegated act (effective 2023).</td>
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<tr>
<td>Dec 22</td>
<td>National CSRD enacted into law.</td>
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</table>

**Timeline:**
- **2022:** National CSRD enacted into law.
- **2023/2024:** CSRD and likely SEC reporting requirements will apply; first reports with assurance issued in 2024.
REGULATORY LANDSCAPE

SEC developments happening at pace

**Latest news:** SEC staff questions quality of climate disclosures

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Likely early 2022</th>
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<tbody>
<tr>
<td>Statement issued: Division of Corp. Fin. to enhance focus on climate-related disclosures in public company filings (based on 2010 guidance)</td>
<td>— Division of Examination review of ESG investing observes deficiencies and internal control weaknesses</td>
<td>— Sample comment letter highlights staff’s extensive questioning of the quality of public companies’ climate disclosures (09/22)</td>
<td>— Climate change</td>
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<tr>
<td>Climate-related disclosures added to enforcement priorities</td>
<td>— Gary Gensler confirmed as SEC Chair</td>
<td>— Human capital, including diversity</td>
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<td>New enforcement taskforce to focus on climate and ESG issues</td>
<td>— Executive Order directs regulators to climate risk quantification, disclosure and mitigation</td>
<td>— Cybersecurity risk governance</td>
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<tr>
<td>Public consultation on climate change disclosures announced</td>
<td>— Speech: Living in a Material World: Myths and Misconceptions about “Materiality” (Commissioner Allison Herren Lee)</td>
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<td></td>
<td>— Regulatory agenda announced</td>
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<td></td>
<td>— Public consultation closed</td>
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</tbody>
</table>

Select developments in 2021 shown.

Disclosure proposals expected: — SEC resource page

Q1 Likely early 2022

Q2 Q3

— Sample comment letter highlights staff’s extensive questioning of the quality of public companies’ climate disclosures (09/22)

Read more and stay up to date:

- KPMG IMPACT
- KPMG ESG Assurance
- KPMG Financial Reporting View (ESG)
- SEC resource page

SEC climate proposals likely early 2022

SEC Chair Gary Gensler has asked the staff to consider the following:

- Should disclosures be in the 10-K?
- What qualitative disclosures should be required? E.g. how does company leadership manage climate-related risks and opportunities?
- What quantitative disclosures should be required? E.g. in addition to Scope 1 and 2 emissions, should Scope 3 be required?
- Should there be metrics for specific industries?
- Should scenario analyses be required?
- Specific to emissions reduction goals, what metrics should be required?
- Particularly for funds that market themselves as ‘green’, what disclosures should be required?

Other points to watch out for:

- Management responsibility: Will certification be required?
- Reporting period: Regardless of placement, same reporting period as financial statements or with a lag?
- Safe harbor: Depending on the nature of the disclosures, will there be any liability protection?
- Assurance: Will limited or reasonable assurance be required?
- Transition: How much time will there be to prepare for rigorous and timely reporting?
- Scaling: Will ‘small’ registrants have a longer transition period and/or the ability to scale any of the disclosures?

Task Force on Climate-related Financial Disclosures emerging as the way forward
EU proposal: Corporate Sustainability Reporting Directive (CRSD)

To which companies will it apply?
• Large companies that meet two of the following three criteria:
  - > 250 employees;
  - > €40M turnover (revenue);
  - > €20M total assets.
• Listed companies other than micro-companies. Small and medium-sized listed companies would have an additional three years to comply.

How many companies are in scope?
• Approximately 49,000, covering > 75% of total EU companies’ turnover (revenue).

What ESG reporting is required?
• In relation to the areas already reported on, additional disclosures about:
  - Strategy, governance and resilience;
  - Information that is material to ‘other stakeholders’ as well as investors (so-called ‘double materiality’);
  - Process of selecting material topics for stakeholders;
  - Forward-looking information, including targets and progress thereon;
  - Intangibles (social, human and intellectual capital);
  - Reporting in line with sustainable finance disclosure regulation (SFDR) and the EU taxonomy regulation.

When will it apply?
• Standards would be developed by a new European standard setter (under delegated authority from the Commission).
• By December 1, 2022: adoption of EU Directive in member states legislation.
• 2023: First period for which companies would need to report under the standards.

Where will information be reported?
• In the management report, which would include separate sustainability statements.
• The management report would need to be published together with the financial statements in a single document (paper or electronic).

Is third-party assurance mandatory?
• Mandatory (limited level of assurance).
• Limited assurance is usually a negative form of expression stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

Federal ESG developments happening at pace

Biden Administration has identified climate and racial equity as ‘immediate priorities’.

— Executive Order (14008) directing agencies to set whole government approach to address Risks from climate change
— Key agencies, including DOD, are to report on ways security implications of climate change (Climate Risk Analysis)

— Executive Order (14030) directing agencies to develop, and execute on, a strategy to quantify, disclose, and mitigate financial risk of climate change on assets held by the Federal government.
— Within 120 days: Identify, measure, mitigate, and disclose climate-related financial risks to federal government programs, assets, and liabilities.

— Response to Executive Order 14008: 20 agencies issued Climate Adaptation and Resilience Plans.
— Focused on steps agencies will take to adapt to and be resilient to climate change impacts
— Financial Stability oversight council (FSOC) released report and recommendations on climate-related financial risk

— Infrastructure Investment and Jobs Act passed.
— Will include:
  • Tackle the climate crisis
  • Advance environmental justice
  • Expand access to clean drinking water
  • Modernize infrastructure, including energy grid and network of EV chargers

Expected response to Climate-related financial risk
    Executive Order (EO 14030).

Read more and stay up to date:
• Climate Crisis
• Federal ESG initiatives and plans
• Expected outcomes
The ESG Journey

**Establish**
- Alignment of material ESG topics to standards and metrics for reporting and benchmarking current disclosures, targets, and industry-leading practices
- Evaluation of existing ESG reporting strategy and establishment of ESG program governance

**Assess**
- Assessment of current capabilities, including ESG reporting strategy, reporting structure, controls, data management, and governance measured against industry-leading standards/target operating models to identify gaps

**Design**
- Development of ESG reporting program and target operating model, including processes, controls, technology, and organizational structure based on results of an assessment and gap analysis

**Implement**
- Execution of the designed ESG reporting target operating model, including activating training and communications

**Sustain**
- Continuous monitoring of ESG reporting requirements, processes, and assessments, ongoing reporting enhancements, and continual improvement to enhance reporting, promote best practices, and improve ongoing training

**Assure**
- External assurance over ESG reporting and data
Common challenges and pain points

- Confusion about different frameworks and standards
- Getting buy-in from management and employees
- Disconnect between ESG goals and business strategies
- Establishing materiality
- Frustration with disparate ratings & rankings
- Too much time and resources spent on data collection and verification
- No process and controls in place on data gathering and validation, and reporting
- Specificity of information disclosed within the report

The role of Finance
What role can finance play in driving sustainability?

There are three key areas where finance can drive the organization’s sustainability agenda:

- **Investments:** Driving sustainability for both external institutional investments and internal capital appropriations.
- **Corporate strategy:** Delivering an overall corporate strategy that includes current and future sustainability commitments.
- **Reporting:** Owning both the data required and ultimate completion of sustainability reporting.

Finance can leverage existing skills and frameworks to drive the organization’s sustainability agenda:

- **Internal and external reporting:** Finance is uniquely positioned to leverage the quantitative and qualitative data required to report sustainable efforts internally and externally.
- **Financial management:** Finance professionals possess the skills required to collect, interpret, and react to the impacts of sustainability efforts on the bottom line.
- **Process efficiency:** Finance can use existing proven and streamlined policies and procedures to quickly define and implement the frameworks required to deliver the organization’s sustainability initiatives.
- **Cross-functional integration:** Finance can use existing relationships (e.g., with sourcing, supply chain and strategy) to drive and monitor sustainable practices throughout the organization.
- **Governance and risk management:** Finance can employ leading governance and risk management practices to create the controlled environment required to ensure sustainability practices are accurately implemented, tracked and reported.
- **Investor relationships:** Finance can leverage relationships with investors to bring them along in the sustainability journey and implement the practices deemed most important by customers, shareholders and institutional investors.
ESG stakeholders

Leading organizations are creating new executive positions dedicated to overseeing ESG initiatives

**Traditional leaders:**
- Chief Financial Officer
- Chief Accounting Officer
- Chief Risk Officer
- Chief Compliance Officer
- Chief Technology Officer
- Chief Audit Executive
- Chief Controller
- Chief Executive Officer
- Head of Asset Management
- Board of Directors
- Corporate Development

**ESG responsibilities:**
- Building impact into organizational strategy and optimizing alignment of activities with values
- Partnering with key stakeholders to determine the areas where the organization can deliver impactful ESG initiatives
- Assessing and managing ESG risk within investment portfolios
- Developing and implementing responsible investment strategy and policies
- Instilling project management, tracking and monitoring systems, and reporting KPIs and milestones
- Measuring the return on investment of initiatives and conduct cost/benefit analyses

**Emerging leaders:**
- Chief Sustainability Officer
- Chief Value Officer
- Chief Diversity Officer

Questions