ENVIRONMENTAL, SOCIAL AND GOVERNANCE DISCLOSURE

FREQUENTLY ASKED QUESTIONS

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In light of an increased focus on environmental, social and governance (ESG) disclosures for public companies, the Schneider Downs Environmental, Social and Governance consulting team has compiled a list of commonly asked questions and answers to help organizations better prepare for the U.S Securities and Exchange Commission's (SEC) proposed Greenhouse Gas reporting requirements.

What is environmental, social and governance?

ESG stands for "Environmental," "Social" and "Governance," and represents a stakeholder-centric approach to reporting, outside of just the financial results. Demand for ESG reporting has been seeing increasing demand from consumers, employees, investors and now regulatory authorities.

Why is ESG important?

ESG provides additional insight into an organization's impact on the world broken into three categories: Environmental, Social and Governance. Elements of each can include:

» Environmental - climate change, carbon emissions, water and air pollution
» Social - working conditions, equal opportunities, human rights, community relations
» Governance - corporate structure, ethics, hiring practices, compensation structure

Given how quickly ESG is gaining significance, organizations should start to build their ESG strategy as part of their core corporate strategy.

When does the public comment period expire?

The public has until May 20, 2022, to provide comment on the proposed Greenhouse Gas reporting requirements. The SEC has stated that they want to incorporate feedback into the required metrics and financial reporting.

What are the key deadlines associated with the proposed ESG disclosure requirements?

The proposed SEC timeline envisions rules being finalized by December 2022 with Scope 1 and 2 emission metrics for 2023 to be included in 2024 filings for large, accelerated filers. Scope 3 emissions would then be phased in the following year. Accelerated filers and non-accelerated filers would have one additional year for each deadline. Smaller reporting companies would have two additional years. The requirements will also be mandatory by foreign private issuers.

Does the ESG disclosure requirements apply to private companies?

No. However, there is significant movement towards private companies voluntarily disclosing ESG from customers, employees and other organizations within their value chain.

Will ESG disclosure requirements apply to international countries?

The SEC's regulation will extend to any company listed on a U.S. Exchange, including foreign issuers. In addition, the European Union (E.U.) has proposed its own revised set of required disclosures covering ESG reporting titled the Corporate Sustainability Reporting Directive. The scope of organizations under this proposal extends well beyond those proposed by the SEC's greenhouse gas requirements for public companies. This could have a significant impact to organizations with operations in E.U. member countries.

What is Corporate Sustainability Reporting Directive?

The Corporate Sustainability Reporting Directive (CSRD) is the E.U.'s proposal to establish mandatory disclosure requirements to drive ESG initiatives as organizations must report targets and progress towards achieving their goals. This aligns with Europe's goal of achieving climate-neutrality by 2050.

What is the threshold for reporting under CSRD?

This will have an impact on E.U. subsidiaries of U.S. companies. The current proposal would cover most companies publicly traded on E.U. exchanges as well as all large private E.U. companies. However, the "large" threshold is lower than might be expected; defined as meeting two of the following thresholds:

- » Total assets over €20m for two consecutive years end
- » Revenue (net turnover) over €40m for two consecutive fiscal years
- » Average employees exceeding 250 for two consecutive fiscal year

What are the frameworks under ESG?

Currently there are a number of competing frameworks including:

- » Value Reporting Foundation
- » Global Reporting Initiatives (GRI)
- » Task Force on Climate Related Financial Disclosures (TCFD)
- » Climate Disclosures Standards Board (CDSB)
- » International Sustainability Standards Board (ISSB)

However, the industry is seeing significant revisions to these frameworks and convergence is expected. Organizations looking to adopt ESG should start with the regulations under the SEC's proposal or the E.U.'s CSRD proposal. ISSB is being developed by the International Financial Reporting Standards (IFRS) Foundation in conjunction with the E.U. and is receiving most of the current focus.

Environmental, Social and Governance Resources

- » **Schneider Downs 'Our Thoughts On' ESG Articles**
- » **SEC Response to Clime and ESG Risks and Opportunities**
- » **SEC Fact Sheet – Enhancement and Standardization of Climate-Related Disclosures**

About Schneider Downs Environmental, Social and Governance Consulting

With our industry expertise and extensive knowledge of the risk advisory landscape, the Schneider Downs team can help your organization prepare for the proposed disclosure requirements and additional ESG-related risks by developing an ESG strategy that aligns with your overall corporate strategy.

Learn more about our ESG consulting services at **www.schneiderdowns.com/esg** or contact the team at **contactsd@schneiderdowns.com**.

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