THE INCREASINGLY URGENT NEED FOR REIMAGINED SUSTAINABILITY DATA

IS SUPPORTED BY SEVERAL SIGNIFICANT PENDING REGULATIONS.

PLANCKTON DATA

The writing is on the wall – methane taxes are looming on the horizon. Proverbial expressions aside, it's become increasingly clear that **significant changes to climate change-related regulations and reporting are just around the corner.**

While the news likely won't come as a surprise to anyone who is monitoring trends in the space, this expanding sustainability reporting directive is a sure sign to companies that now is the time to transform carbon data management. Having the right data at the right time is essential for compliance. Establishing a solid foundation of accurate, actionable, and auditable emissions data will be crucial to business success in the near future. The increasingly urgent need for reimagined sustainability data is supported by several significant pending regulations. Don't just take our word for it; a lot has happened since March.

In the U.S., the Securities and Exchange Commission (SEC) proposed climate disclosure will require designated companies to report Scope 1, 2 and 3 emissions on a quarterly basis. The Inflation Reduction Act (IRA) includes a $900-$1500 per metric ton tax on methane beginning in 2024. Additionally, a proposed amendment to the Federal Acquisition Regulation (FAR) requires all contractors to disclose GHG emissions, reduction targets and climate-based financial risks.

The pending European Council mandatory Corporate Sustainability Reporting Directive (CSRD) impacts nearly every large company in European Union, with expanded reporting requirements. And at the recent G20 meeting in Bali, the International Monetary Fund (IMF) and Data Gaps Initiative (DGI) agreed to develop a data foundation to drive global policy change – which includes climate change as a top priority. You can read more details about each of these below. But, to summarize, **expectations of improved emissions management are on the rise globally.**

Underpinning these recent changes to the policy landscape is the need for accurate information. This includes:

- A standardized data model.
- Automated data lifecycle for speed and efficiency.
- Interoperable data.
- An environment of data trust and transparency.
- Actionable sustainability data to drive operational change

A deeper dive into the pending and proposed policy changes:

SEC

With the goals of enhancing and standardizing climate-related disclosures for investors, the SEC proposed a rules to require registrants to include “certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.”

Disclosure would include:

- Governance of climate-related risks and relevant risk management processes.
- Identified risks that have or may have a material impact on business and consolidated financial statements, which may manifest over the short-, medium-, or long-term.
- How identified risks have affected or are likely to affect the registrant’s strategy, business model, and outlook.
- Impact of climate-related events and transition activities on consolidated financial statements, as well as estimates and assumptions used in financial statements.
- Phased-in assurance requirements for designated companies.

The proposed rules also would require quarterly disclosure of information about direct GHG emissions (Scope 1), indirect emissions from purchased electricity or other forms of energy (Scope 2) and value chain GHG emissions (Scope 3), if these are material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions.

Though the proposal initially called for disclosure requirements by some companies as early as 2023, these milestones are predicted to be delayed as public comments are reviewed, which gives companies more time to prepare. We will keep you updated as deadlines become clearer. In the interim, you can read more about the proposed SEC rules here.

IRA

Starting in 2024, all onshore oil and gas companies operating in the U.S. will be charged for applicable methane emissions under the IRA Methane Emissions Charge. The tax applies to petroleum and natural gas facilities currently subject to greenhouse gas (GHG) emission reporting per EPA regulations as defined in 40 C.F.R. Part 98, Subpart W. It will be the first time the federal government has imposed a fee on GHGs. Taxes will escalate, with 2024 tax of $900 per metric ton of methane, increasing to $1,200 in 2025 and $1,500 in 2026. You can read more in a previous blog entry here.

FAR

A collective proposal from the Department of Defense (DoD), General Services Administration (GSA), and National Aeronautics and Space Administration (NASA) amends the Federal Acquisition Regulation (FAR) to require specified federal contractors to "disclose their greenhouse gas emissions and climaterelated financial risk and set science-based targets to reduce their greenhouse gas emissions." The comment period for the proposed regulatory change ends mid-January 2023 and, if approved, the measure will impact companies by not only requiring disclosure of GHG emissions but also the setting of targets to reduce their GHG emissions in order to do business with the federal government. Approximately one out of every ten dollars of the federal government spends goes to contractors.[i] In 2022, the total was around $6.27 trillionii so the impact of this requirement is quite significant.

The plan will likely leverage existing third-party criteria, standards and reporting systems such as the Task Force on Climate-related Financial Disclosures (TCFD), CDP (formerly known as the Carbon Disclosure Project) and the Science Based Targets Initiative (SBTi) for assessment. The proposal may be read on the Federal Register website.

CSRD

The European Commission recently adopted the corporate sustainability reporting directive (CSRD) as part of the European Green Deal and the Sustainable Finance Agenda. The CSRD aims to provide financial markets “reliable, relevant and comparable” environmental, social and governance information. Applicable to nearly every large company in the European Union, the measure requires companies to report on sustainability elements that impact their operations, including Scope 1,2, and 3 emissions, to best equip stakeholders to make informed decisions about their financial and business relationship with the company. Currently, around 11,500 companies currently are required to disclose emissions data; this number will jump to around 50,000 starting in June 2023. You can read more about the CSRD directive here.

DGI & IMF

When global leaders from the G20 Data Gaps Initiative (DGI), the International Monetary Fund (IMF) Staff and the Financial Stability Board (FSB) Secretariat met in the Fall of 2022 to tackle issues impacting the world’s peace, health and economy, climate change was a key topic of discussion. Their resulting plan addresses data gaps relating to emerging policy needs – including climate change-related factors. This includes energy accounts, green debt and equity financing, and physical and transition risk indicators. Development of a task force workplan is anticipated in 2023, with a multi-year planning horizon. Read more about the findings from the G20 DGI summit in Bali here.

Driven by Data

It's been 20 years since the Sarbanes-Oxley (SOX) Act began requiring public companies to establish internal financial reporting controls – and for that data to be auditable. SOX was by no means easy to implement, generating extensive work for companies on both the data management side and the systems side. The new carbon emissions reporting requirements will be similar, so corporations can best position themselves by gearing up to meet the forthcoming regulations. In the interim, accurate and adaptable data provides insights to guide different actions and improvements. This ability to make data actionable – implementing changes based on findings – can further help streamline operations and position companies to best adhere to new regulatory requirements.

That's where we can help. Our automated data collection and conversion can inform financial and operational decisions while positioning your business to comply with forthcoming regulations. This includes the upfront data management side and also the platform that automates and helps with actions.

Reach out www.plancktondata.com today to start the conversation

i https://www.whitehouse.gov/omb/management/office-federal-procurement-policy/

ii https://fiscaldata.treasury.gov/americas-finance-guide/