SEC CLIMATE DISCLOSURE POLICY AIMS TO STANDARDIZE CORPORATE REPORTING

Investors demanding more **consistency** and **accountability** from corporations

2030 is the first milestone year in the ambitious climate-change plans outlined by many developed countries and major corporations. That is only eight years away. This means the window to implement meaningful change appears to be closing more quickly than anticipated. More action is needed if these targets are to be met. And a recent report from the Earth Index found a shortfall between what countries say they will achieve and what progress they are making. As G7 leader President Emmanuel Macron reflects, "we should now turn from intentions to business – transform our industry, invest in technologies in the future."

Global emissions must be reduced by 45 percent by the end of the decade to reach carbon neutrality by mid-century. It is estimated that the investment needed for the clean-energy transition requires two percent of GDP over the next three decades. And while approximately 20 percent of the world's largest public companies have some kind of net-zero commitment, more needs to be done if the world is to meet the targets in the Paris Agreement.

The U.S. Securities and Exchange Commission (SEC) is proposing sweeping new rules to further integrate companies' climate-related metrics into their overall financial performance. While the SEC has mandated that companies disclose environmental risks in some form since the 1970s, this new policy standardizes climate-related disclosures to support current sustainability goals.

The SEC Climate Disclosure Policy will require public companies to report on the impact of climate-related risks on their financial performance and also that they pursue more transformational climate strategies and changes in business operations.

The proposal will provide additional transparent information to investors, which is more than just communicating sustainability goals or aiming to be net-zero by a particular date. Public companies will have clear and consistent reporting obligations that include disclosure of the following.

SEC POLICY ENHANCEMENTS	COMPANY DISCLOSURES
Climate-related impacts on strategy	How climate-related risks identified by the registrant have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term. How any identified climate-related risks have affected or are likely to affect the registrant's strategy, business model, and outlook.
GHG emissions	To report direct greenhouse gas (GHG) emissions (Scope 1) and indirect emissions from purchased electricity or other forms of energy (Scope 2). In addition, a registrant would be required to disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3), if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions.
Governance and oversight plans	The oversight and governance of climate-related risks by the registrant's board and management. Relevant data to indicate whether the registrant is making progress toward meeting the target or goal and how such progress has been achieved, with updates each fiscal year.
Quantitative financial-impact metrics	The impact of climate-related events (severe weather events and other natural conditions) and transition activities on the line items of a registrant's consolidated financial statements, as well as the financial estimates and assumptions used in the financial statements.
Capital or operating expenditures	If the registrant uses scenario analysis to assess the resilience of its business strategy to climate-related risks, a description of the scenarios used, as well as the parameters, assumptions, analytical choices, and projected principal financial impacts.
Risk assessments and underlying assumptions	If the registrant has adopted a transition plan as part of its climate-related risk-management strategy, a description of the plan, including the relevant metrics and targets used to identify and manage any physical and transition risks.

Source: SEC Fact Sheet: Enhancement and Standardization of Climate-Related Disclosures.

The climate-disclosure opportunity

This is not a requirement for carbon-intensive industries alone. The SEC's proposal will impact every industry. All public corporations will need to transform their approach to collaborating with members of their value chains to manage climate-related risks and achieve sustainability targets. While many companies are working to advance their climate agendas, this new SEC policy requires more communication and visibility across enterprises. Compliance with this disclosure will serve as a lever for increased partnership between corporations and cross-enterprise data transparency and communication.

The SEC Climate Disclosure Policy signals the growing importance of climate-related metrics in investment decisions. Some large investors are already demanding more climate-related information from companies, and this trend will continue. This creates the opportunity for companies to prioritize climate transition as a vehicle for creating financial value. So, as profits and purpose become inextricably linked, public corporations are free to pursue revolutionary sustainability strategies to achieve carbon-emission targets.

Technology represents a path to innovation at the intersection of corporate and environmental agendas. And data will serve a critical role in helping companies reach carbon neutrality. Research shows that 91 percent of companies fail to measure carbon footprint properly, and 61 percent do not have the necessary software for data collection or analysis. The SEC requirements will not be optional, so any stalled data projects must now become a priority. And if companies publicly make net-zero commitments, measurement and monitoring will serve as the only available means of validating them and meeting the SEC proposed rules.

Cross collaboration drives climate goals

The proposed SEC policy will likely evolve as the agency collects comments and feedback before implementation. Still, public companies should not wait until the rules are finalized before deciding how to manage the reporting requirements. Ultimately, the quality of corporate data will drive how easily the necessary information can be compiled and reported. And it will need to be cross-functional because a siloed approach will fail.

The SEC and investors are not the only factors influencing climate-related goals. Customers, partners, and employees are also putting pressure on companies to curb climate change. But this cross-functional requirement is the opportunity to drive real change. And companies should not underestimate the complexity of the project. It will mean a philosophical transformation in the way they communicate with partners. A team with multiple stakeholders from different business areas can provide a more accurate view of the existing capabilities, identify the risks, and perform a gap analysis on the company's ability to comply in both the near- and long-term with climate regulations. Developing a complete picture of emissions requires a new method of working with partners, technology, and data, but this is the first step in creating sustainable, positive change.

Many companies have already demonstrated a commitment to sustainability, but the proposed SEC policies will increase the demand for accurate monitoring and reporting. This will require additional administration, and companies can respond to this by ensuring they have a roadmap to attain sustainability and contribute to climate-related goals.

Capgemini's sustainability framework

We help organizations accelerate their net-zero transformation from commitment to sustainable achievements. We're ready to be the architects and orchestrators of your sustainable future.

We've designed our sustainability framework to empower and support you, helping you to speed up your **net-zero** journey across three stages: commit, act, and monitor and report. First, we support you to make a commitment to initiate your net-zero strategy and design related transformation pathways, including adapting business models. Second, we help you take action to design sustainable products and services, and implement sustainable operations and IT. And third, we enable you to monitor and report, generating insights and analyzing data to continually adjust your net-zero strategy and transformation.

About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of 325,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2021 global revenues of €18 billion (about $21 billion USD at 2021 average rate).

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