CLIMATE CHANGE & ESG REPORTING from the Public Company Perspective
In March 2021, the then-acting chair of the Securities and Exchange Commission (SEC) solicited public input on the current state of climate change reporting for public companies and what steps the SEC should take to ensure that investors are adequately informed about climate risks. The SEC is expected to soon propose a rulemaking that mandates a certain level of climate change reporting for all public companies listed in the United States.

The SEC’s request for information and expected rulemaking occur as investor demand for enhanced climate change disclosures has grown significantly over the last decade. Along with other regulators around the world, the SEC is prioritizing the development and implementation of a standardized reporting regime for climate risks. Although many public companies are disclosing more about climate change than they were in 2010, when the SEC adopted Commission-level guidance regarding climate disclosure, the SEC has made clear it believes the current principles-based approach employed in the 2010 guidance is insufficient and can only be remedied through mandated disclosure.

A niche industry of standard setters, third-party assessment providers, quasi-governmental bodies, nongovernmental organizations (NGOs), and others have also greatly influenced the way companies share this information and whether it is included in SEC filings or in voluntary sustainability or corporate social responsibility (CSR) reports. Public companies have had to navigate a complicated web of disclosure expectations, and little consensus exists regarding the role and authority that regulators such as the SEC have in mandating specific disclosure requirements related to climate change.

Climate change disclosures are typically viewed under the broader lens of environmental, social, and governance (ESG) disclosures. ESG is a frequently used but malleable term that encompasses climate change as well as an increasingly broad set of issues. While regulators and market participants sometimes use the terms climate change and ESG interchangeably, the SEC is expected in the coming months to issue rulemakings involving other topics under the ESG umbrella.

1. Commission Guidance Regarding Disclosure Related to Climate Change (effective February 8, 2010).
The U.S. Chamber of Commerce’s Center for Capital Markets Competitiveness (CCMC), Nasdaq, Nareit, The Real Estate Roundtable, National Investor Relations Institute, TechNet, BIO, and Silicon Valley Leadership Group have partnered to conduct a survey to learn more about current practices and the outlook for climate change and ESG reporting from the public company perspective. A total of 436 companies participated in the survey, with respondents encompassing a wide spectrum of roles including CEO, CFO, corporate secretary, general counsel, chief sustainability officer, investor relations, and corporate communications.

Notably, survey respondents represent a broad cross-section of industries and range from small to large in terms of market capitalization. In fact, 67% of survey respondents have less than $5 billion in market capitalization, including 32% below $700 million. We believe it is critically important that the views of these companies be heard by policymakers given that regulatory burdens have historically had a disproportionate impact on smaller issuers.

This survey is intended to inform policymakers as they consider the impacts that new mandates for climate change and other ESG disclosures would have on public companies and their shareholders.

**SURVEY PARTICIPANTS**

436 companies, with viewpoints encompassing various roles within these businesses: CEO, CFO, corporate secretary, general counsel, chief sustainability officer, investor relations, and corporate communications.

**MARKET CAPITALIZATION OF RESPONDENTS:**

- 32% Below $700 million
- 32% Between $700 million and $5 billion
- 36% Over $5 billion
INDUSTRIES REPRESENTED

AGRICULTURE

BIOTECHNOLOGY

CHEMICALS

CONSUMER GOODS

ENERGY: OIL AND GAS

ENERGY: RENEWABLE RESOURCES

FINANCIAL SERVICES

HEALTHCARE

INFORMATION TECHNOLOGY

MANUFACTURING

MATERIALS

MINING

REAL ESTATE INVESTMENT TRUSTS (REITs)

RETAIL

TELECOMMUNICATIONS

TRANSPORTATION

UTILITIES
Over the last decade, most companies have increased the amount of climate change disclosure they provide.

Roughly 59% report they are disclosing more information regarding climate change since the SEC issued its 2010 guidance; only 1% of companies report they are disclosing less information during that same period.

Companies are cautious about the term ESG.

Only 8% say ESG encompasses a generally understood set of issues and can be easily defined by regulators. 61% say it is a subjective term that means different things to different companies and is difficult to define by regulators.

Although companies have split opinions on whether the SEC should designate one ESG standard setter, multiple standard setters, or promulgate rules on its own, current use of third-party standard setters shows a wide divergence of choices made by companies: For companies that rely on one or more standard-setting bodies, 44% use the Sustainability Accounting Standards Board (SASB), 31% use the Global Reporting Initiative (GRI), 29% use the Task Force on Climate-Related Financial Disclosure, and 24% use CDP.
Companies are communicating with and incorporating input from their shareholders about climate change.

Nearly two-thirds (63%) of companies communicate with their shareholders regarding the evolving risk of climate change, and 46% have increased the level of detail in climate change reporting due to shareholder input.

Many companies view third-party ESG standards with a fair deal of skepticism.

Half of the respondents (50%) say third-party standard setters provide frameworks that are difficult to understand, address immaterial information, and lack transparency.

Companies overwhelmingly support tailoring climate change and ESG disclosures for small issuers and phasing in new requirements for all public companies.

A full 89% support scaling disclosure for companies based on a metric of size; 74% support a phase-in for new requirements for all public companies.

Companies oppose the SEC mandating executive certification of climate change disclosures or a requirement for third-party assurance.

Only 24% of companies would support these requirements; 47% oppose CEO/CFO certification, and 57% oppose a requirement for third-party assurance.
CURRENT STATE OF CLIMATE CHANGE / ESG REPORTING

Public companies are required to disclose material information related to climate change or ESG in annual or quarterly reports filed with the SEC. The long-standing materiality standard applies to climate change and ESG just as it does to any other risk or issue that a company considers when disclosing information to investors.

That said, many companies choose to publish voluntary CSR, sustainability, ESG, or similar reports outside of their SEC filings—usually on an annual basis. Although shareholders are typically an intended audience for these reports, companies use them to communicate with other constituencies such as their employees, customers, vendors, and the communities in which they operate. For this reason, CSR, sustainability, ESG, or similar reports published by companies often include information that a company believes is important to provide but that may not necessarily meet the test of financial materiality under federal securities laws.
Just over half (52%) of companies already publish a CSR, sustainability, ESG, or similar report. Additionally, many companies stated they are planning to publish their first report in 2021 or 2022.

- Companies often do not receive much input or feedback on their annual CSR, sustainability, ESG, or similar report. Nearly one-third say they “seldom” hear feedback from shareholders or other entities on the report, with only another 41% saying they “sometimes” hear from shareholders or other entities about the report.

- For companies that do already publish an annual CSR, sustainability, ESG, or similar report, the vast majority (86%) include it as a separate report on their company website.

- Companies report a wide range of intended audiences for their annual CSR, sustainability, ESG, or similar reports. Though shareholders remain the top intended recipient (95% of companies say shareholders are an audience), companies state that other constituencies—including employees (89%), customers (82%), and ESG standard setters or rating firms (84%)—rank high. Companies are less likely to report that NGOs (52%), the press (60%), or regulators and elected officials (56%) rank high in terms of intended audiences.

- The content of annual CSR, sustainability, ESG, or similar reports also varies widely. When asked what issues or topics they cover in annual reports, companies responded as outlined below:

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PERCENTAGE OF COMPANIES INCLUDE IN REPORTS

Climate Change Mitigation Strategy: 57%
Emissions: 70%
Energy: 74%
Water: 59%
Waste: 65%
Environmental Policy: 69%
Supplier Environmental Policies: 35%
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Many companies also reported they include information on human capital management and diversity in their annual reports.
CLIMATE CHANGE / ESG INFORMATION IN SEC FILINGS

• A little more than half (59%) report that they are disclosing more information about climate change since the SEC issued its 2010 Commission-level guidance on climate change disclosures. Only 1% of companies say they are disclosing less information since that guidance was released.

• About a third (34%) of companies disclose information regarding risks related to climate change, greenhouse gas emissions, or energy sourcing in their annual or quarterly SEC filings.
  » For those companies that do include disclosures related to climate change, greenhouse gas emissions, or energy sourcing in their SEC filings, they are most likely to do so under Item 105 of Regulation S-K (Risk Factors). When asked to select all areas where they disclose this information, companies responded with the following:
    – Risk Factors (Item 105 of Regulation S-K): 82%
    – Management Discussion and Analysis (Item 303 of Regulation S-K): 26%
    – Description of Business (Item 101 of Regulation S-K): 19%
    – Legal Proceedings (Item 103 of Regulation S-K): 4%

• Nearly two-thirds (63%) of companies regularly communicate with their shareholders regarding the evolving risk of climate change.

• Companies have also made significant changes to the volume and detail of climate change disclosure, due to input from their shareholders over the years:
  » 46% have increased the level of detail in climate change reporting due to shareholder input.
  » 41% of companies have adopted standards established by a third-party standard setter due to shareholder input.
  » 15% have increased their reporting frequency about climate change.
• Companies are most likely to use their own internal research and analysis to identify material climate change or ESG issues to disclose. When asked to select all the methods they use to identify material climate change or ESG issues, companies responded with the following:
  » Third-party standard setters: 56%
  » Communication with shareholders: 46%
  » Internal research and analysis: 71%

• About 73% of companies report that the time and expenses they dedicate to meeting investor demand regarding climate change and ESG have increased over the last five years, with 37% reporting that time and expenses grew “significantly.”

• A little less than a third (28%) of companies engage a third party to provide auditing on assurance regarding climate change or ESG disclosure.
USE OF THIRD-PARTY STANDARD SETTERS

• Just under half (41%) of companies report that they do not rely on any standard-setting body when developing climate change and ESG disclosures for SEC filings or to be included in annual CSR, sustainability, ESG, or similar reports.

  » For those companies that do use at least one standard-setting body, the below table outlines which standard setters are most likely to be used:

  - Sustainability Accounting Standards Board (SASB): 44%
  - Global Reporting Initiative (GRI): 31%
  - Task Force on Climate-Related Financial Disclosure (TCFD): 29%
  - CDP: 24%
  - International Financial Reporting Standards (IFRS): 6%
  - United Nations Principles for Responsible Investment (UNPRI): 6%
  - EU Non-Financial Reporting Directive: 5%

  » Additionally, several companies report using standards that have been developed by industry-specific organizations—for example, the Edison Electric Institute’s sustainability reporting template.

• Many companies have a negative view of standard setters for climate change and ESG, with 50% saying that standard-setter frameworks are difficult to understand, address immaterial information, and lack of transparency. Only 9% of companies believe that standard setters provide consistent, easy-to-understand metrics.

• Companies also have skepticism regarding the term ESG, with 61% saying it is a subjective term that applies to different companies in different ways; another 20% saying that ESG is used too broadly, and they are concerned about “greenwashing.” Only 8% believe ESG encompasses a generally understood set of issues and can be easily defined by regulators.

  » Companies overwhelmingly (82%) agreed with the following statement: “Companies should be afforded the flexibility to determine how ‘ESG’ issues apply to them and what material information they should be required to disclose.”
SEC REQUEST ON CLIMATE CHANGE DISCLOSURE / FORTHCOMING RULEMAKING

- Most companies (84%) know that the SEC recently solicited public comments on climate change disclosure and is contemplating new mandates on the issue.

84% AGREE THAT CLIMATE CHANGE DISCLOSURE RULES ADOPTED BY THE SEC SHOULD BE FLEXIBLE

- Companies overwhelmingly (84%) agree that any climate change disclosure rules adopted by the SEC should reflect the differences between various industries.

- Nearly a third (31%) of companies disagreed with the statement of the then-acting chair of the SEC that investor demand for climate change and ESG information is “not being met by the current voluntary disclosure framework”—33% of companies agreed with the statement, while 36% didn’t know or had no opinion.

- Companies are about evenly split on the idea of the SEC adopting uniform standards for climate change information, with 36% of companies supporting the adoption of uniform climate change standards by the SEC and 36% opposing the idea. Almost half (43%) of companies believe the SEC should adopt a comply-or-explain approach to climate disclosure; 33% are opposed.

- If the SEC were to mandate uniform climate disclosures, 27% of respondents prefer that the SEC designate one existing standard setter to establish standards, while 21% would support the SEC designating multiple standard setters. Another 24% believe the SEC should develop and maintain the standards directly.

SUPPORT SCALING DISCLOSURE REQUIREMENTS BASED ON SIZE AND/OR TYPE OF REGISTRANT 89%

- Companies also overwhelmingly support scaling disclosure requirements based on the size and/or type of registrant. A considerable 89% of companies support such scaling based on market capitalization, revenue, type of registrant (e.g., emerging growth company, smaller reporting company), or other metric.
• Companies also overwhelmingly support phasing in any new disclosure requirements, with 74% supporting phase-in for all issuers and another 14% supporting a phase-in for smaller companies.

• Companies largely oppose the SEC requiring a certification by the CEO, CFO, or other corporate officer of a company regarding climate disclosures: Only 24% support this concept, while 47% oppose.

• Many companies would oppose a requirement by the SEC to mandate an audit or other form of third-party assurance on climate change disclosures. Only 22% support this idea; 57% oppose it.

CONCLUSION

Climate change and the broader category of ESG involve fundamentally complex issues and challenges—particularly when it comes to corporate disclosure. Promulgating rules that provide for effective disclosure without overburdening public companies and their shareholders will be an enormously difficult task for the SEC. The wide spectrum of public company opinions on these issues show why the SEC must proceed cautiously and include the input of those who will be most affected by new regulations.

CCMC, Nasdaq, Nareit, Real Estate Roundtable, National Investor Relations Institute, TechNet, BIO, and Silicon Valley Leadership Group hope this survey contributes to the ongoing public debate about climate change and ESG. We look forward to continuing to work with the SEC, Congress, and market participants to promote an effective system of corporate disclosure in the United States.