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The next transition for CIOs and CDOs:

preparing for climate risk reporting requirements

An Infosys Consulting Perspective

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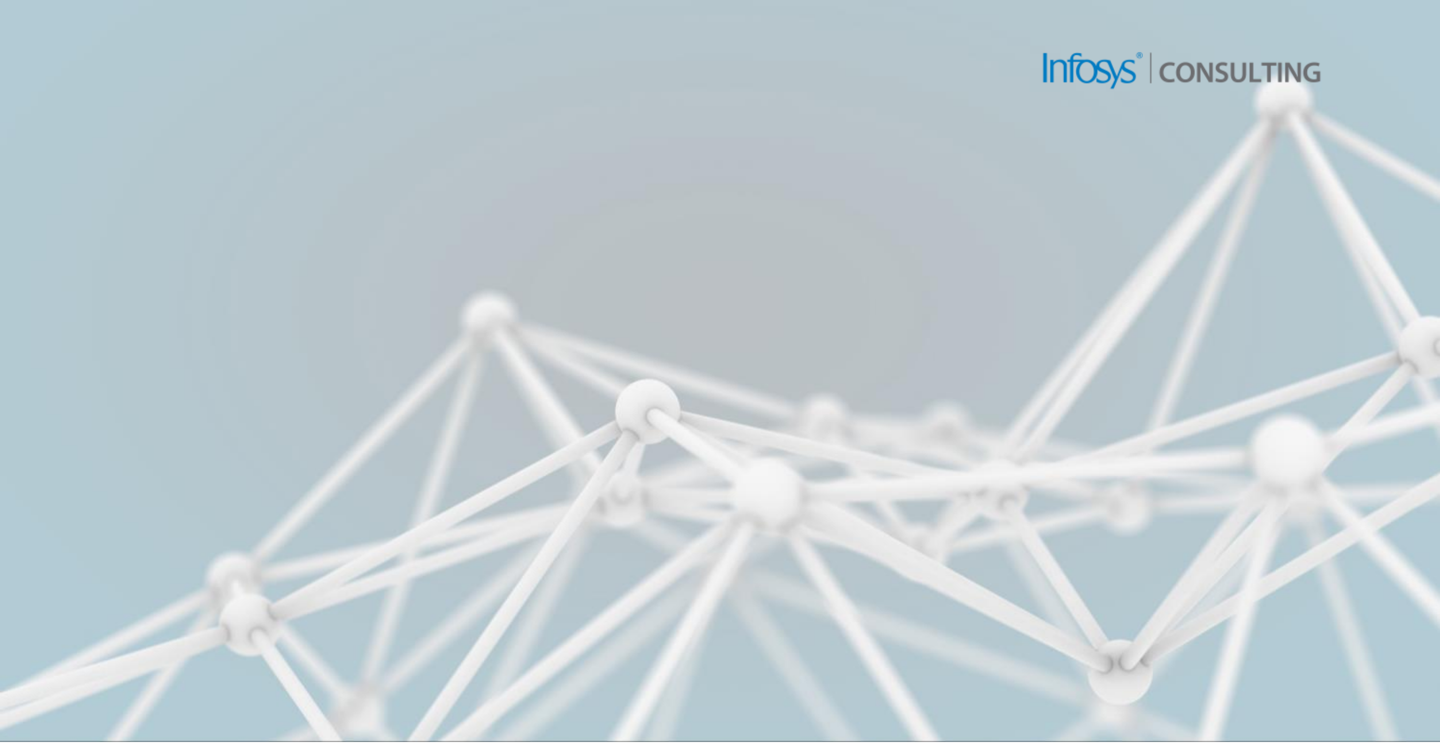


CIOs, CDOs, be prepared

Increasingly, companies are focused on meeting requirements of the Paris Climate accord, adopting energy transition and meeting consumer demands for actions reducing climate change. This focus results in activities which may have a material impact on company's business, results of operations or financial condition. Regulators are taking note of this impact and are framing requirements for mandatory climate related disclosures. The Securities and Exchange Commission has proposed amendments to its rules that would require registrants to disclose climate related risks including greenhouse gas (GHG) emissions and financial metrics in audited financial statements. The new requirement is likely to take effect in FY2023 and apply to SEC filings in FY2024. CIO's and CDO's will be well served to start planning and acting now to ready the IT infrastructure and data foundation that will enable data collection, calculation and reporting for climate-related requirements.

SEC climate disclosure requirements

The SEC is proposing to add a new subpart regulation S-K, 17 CFR 229.1500-1507 ("subpart 1500 of regulation S-K") to disclose climate related information and Green House Gas (GHG) emissions metrics that could help investors assess those risks. The SEC is also proposing to add a new article to Regulation S-X, 17 CFR 210.14-01 and 02 ("Article 14 of Regulation S-X") that would require certain climate-related financial statement metrics and related disclosure to be included in a note to a registrant's audited financial statements. The proposed rules would require an accelerated filer or a large, accelerated filer an attestation regarding disclosures of emissions and service provider. The content, presentation and attestation of disclosures are summarized below.

Content

- Oversight and governance of climate related risks
- How short, medium, long-term risks are likely toimpact business and financial statements
- How climate related risks may affect registrant's strategy, business model and outlook
- Processes for identifying, assessing, and managing climate related risks
- Impact of climate-related events, transition activities on financial statements, related expenditures
- Scope 1 and 2 GHG emission metrics expressed in aggregate, disaggregated constituents in absolute and intensity terms
- Scope 3 GHG emissions and intensity if material or part of GHG emissions reduction target
- Climate-related targets or goals and transition plans, if any

Presentation

- Provide climate-related disclosure in registration statements and Exchange Act annual reports
- Provide Regulation S-K mandated climate-related disclosures in a new or existing section of reports
- Provide Regulation S-X mandated climate-related financial statements metrics and related disclosure in a note to audited financial statements
- Electronically tag both narrative and quantitative climate-related disclosures in inlines XBRL
- File rather than furnish climate-related disclosure

Attestation

The proposed rules would require an accelerated filer or a large, accelerated filer to include an attestation report covering the disclosure of its Scope 1 and Scope 2 emissions and the service provider. The proposed rules would be phased in for all registrant's dependent upon the status of the registrant as a large, accelerated filer, accelerated or non-accelerated filer, or Smaller Reporting Company. Registrants subject to the proposed Scope 3 disclosure requirements would have one additional year to comply.

Implications for CIOs and CDOs

The SEC has estimated the burden associated with its proposed climate-related reporting requirements. The SECs estimates for non-SEC Registrants across different sectors range from 3,600 to 4,400 hours annually. This range is 2,800 to 3,300 for SRC registrants. These hours comprise activities such as gathering data, preparing, and providing disclosures for governance, strategy, risk management and metrics and targets. This burden will be determined by the maturity of the registrant's people, processes, and systems to collect, calculate, and report climate-related risks that materially impact thecompany's business, operations, and financial statements:

- Skills and experience of people
- Sophistication and completeness of processes for climate-related corporate data collection, calculation, and reporting
- Readiness and flexibility of IT and data systems

CIOs and CDO's will play in key role in this transition for reporting climate-related risk reporting requirements by equipping people and shaping processes through an IT and Data led solution. This solution will enable:

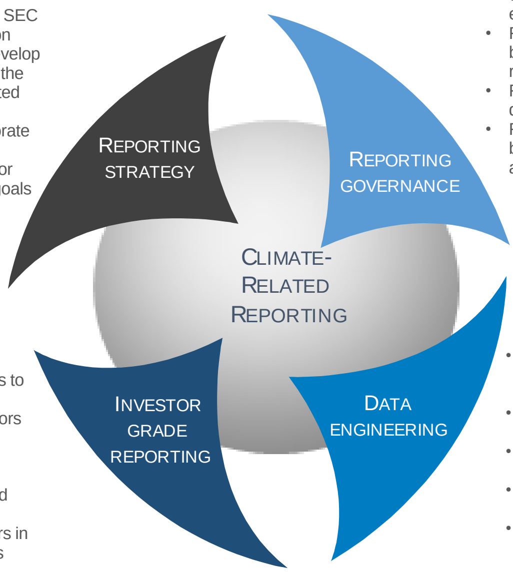
- Consistent process across companies to collect, store, calculate and report climate-related data
- Reducing number of sources to gather data/documents from
- Eliminating redundancy and reinvention of tasks and systems
- Tracking and tracing changes to data / documents
- Data-munging capabilities, automation, and self-service reporting toolkits
- Developing capability to catalogue and govern such data generated at a high volume/velocity
- Operations staff to focus on core activities while reducing the burden of climate related risk reporting

Climate-risk data and reporting platform

A cloud-based platform solution will help meet requirements of climate-related risk disclosures by providing powerful tools to equip companies, streamline processes, and enable comprehensive and rapid reporting. The appropriate solution can be derived using a comprehensive approach that spans Strategy, Governance, Data Engineering and Reporting. Strategy begins with making solution choices and developing a road map for modifying people, processes and systems after understanding the gaps between SEC requirements and current reporting. This is followed by defining a Governance structure to implement and maintain climate related processes and systems. Data Engineering provides the foundation to leverage reporting requirements and build the reporting structure. Reporting enables the company to publish investor grade reports that are auditable.

- Understand SEC requirements for investor grade climate related reporting
- Define climate related strategy to address the SEC requirements that are relevant for organization
- Identify the skills, resources and budget to develop the understanding and accountability across the organization to implement timely climate related reporting
- Benchmark against best-in-class and incorporate them into the reports
- Develop a value-based, prioritized roadmap for achieving the SEC climate related reporting goals

- Formalize the climate related governance model to ensure alignment between leadership, investors and execution teams
- Review climate related industry standards, define the business processes for data collection and baseline the reporting metrics, associated standards and processes
- Review the baseline with stakeholders and auditors to drive alignment on what is being collected and reported
- Refine climate related processes, standards and metrics based on stakeholder feedback, drive improvements and publish the baseline

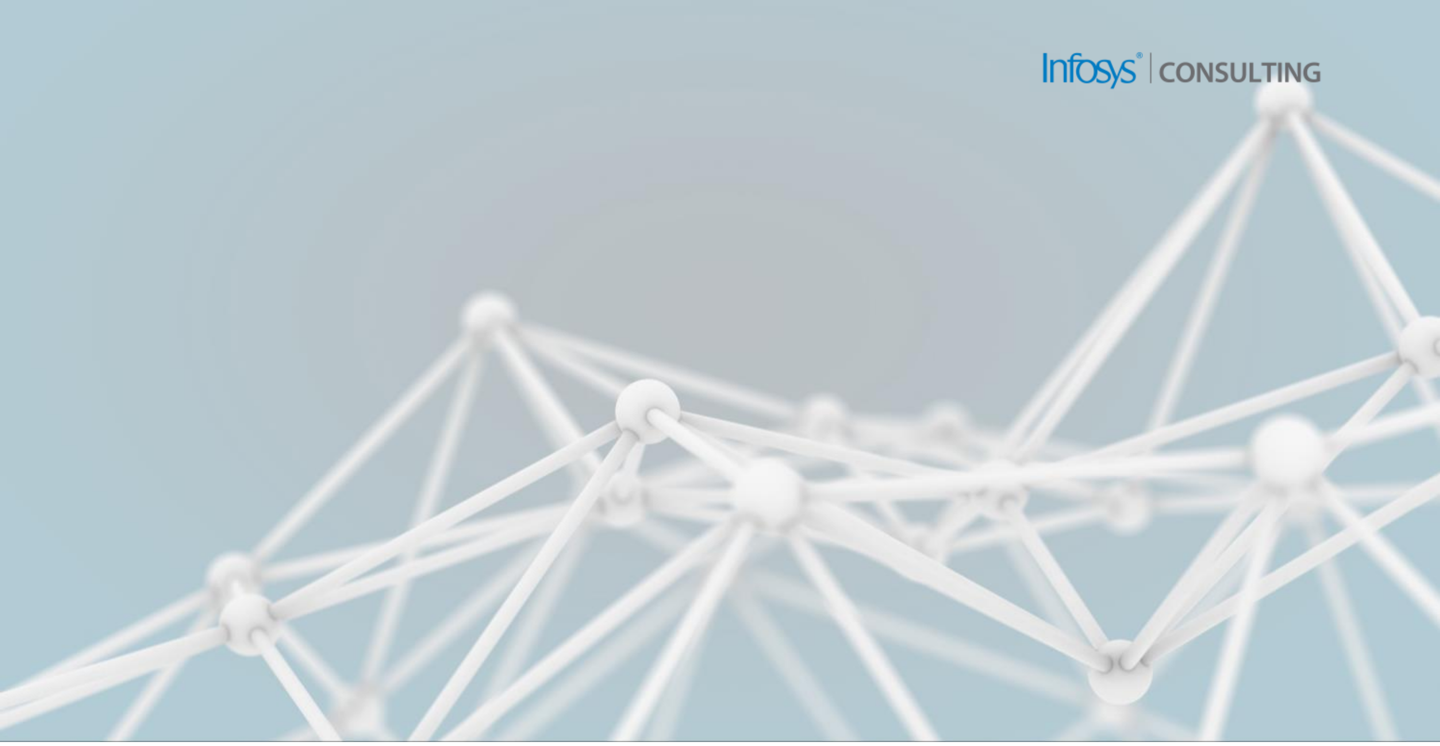


- Publish the climate related reports and insights to leadership and investors on a regular basis
- Collect feedback from stakeholders and auditors to improve processes
- Enable 3rd party audits of the processes and reports and make the audit trail visible to stakeholders to build confidence in reports and insights
- Incorporate reporting best practices that factors in accuracy, balanced, and comparability across reporting periods

- Define data engineering practices for collecting data necessary for climate related reporting: develop strategies to address data gaps
- Build robust data infrastructure for processing, curating, analyzing data from enterprise repositories
- Eliminate manual data collection and automate to speed up the entire climate related reporting process
- Implement solid quality assurance and audit processes to build trust in data sources
- Implement data security and governance policies to address risks and quality gaps

Sources:

1. SEC Regulation S-K, S-K: https://www.sec.gov/divisions/corpfin/ecfrlinks.shtm
2. SEC Proposed Rule, Fact Sheet, Comments Received: https://www.sec.gov/news/press-release/2022-46



CONCLUSION

Climate related reporting is gaining importance. Regulatory bodies such as the SEC are also showing increased interest in including climate-related disclosures in financial statements. Climate related reporting requirements are very extensive and detailed. These can be addressed effectively only through a strong IT infrastructure and a Data foundation. CIO's and CDO's can proactively take a lead in building this foundation while collaborating with other functions such as finance, operations, and HR to build and maintain this reporting platform. The transition from the current state of reporting to the new state that includes climate related reporting will take time and effort and needs to start now.

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