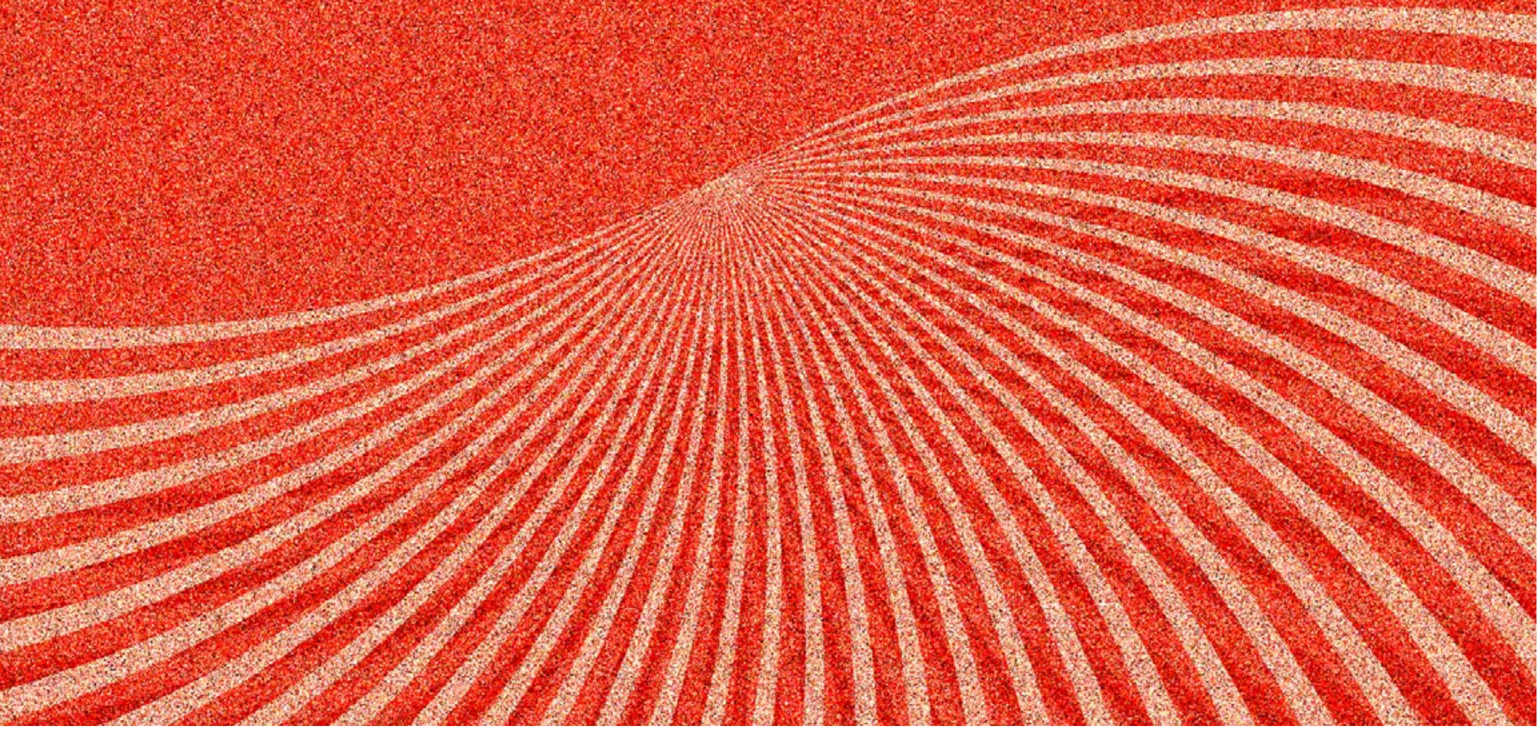
Navigating the Evolving Landscape of Climate Reporting



PERSEFONI ferf

SPRING 2024

Climate reporting is happening.

After nearly three years since the US Securities and Exchange Commission (SEC) made its first overture toward mandated climate reporting in financial statements, the Commission released its final rule. While scaled back from the original proposal, this final rule represents a significant challenge and opportunity for finance teams and financial leaders.

Adapting to constantly evolving investor demands and regulatory landscapes is not an unfamiliar practice for financial executives, especially as they are asked to apply their expertise from financial reporting to climate reporting. Over the past 18 months we have seen finance teams perform gap analyses and work to scale their efforts to meet the new challenge.

One of the most important developments is the creation of hybrid finance-sustainability positions such as that of the ESG controller. In this year's State of Sustainability study, the Financial Education & Research Foundation partnered with Persefoni to help finance teams benchmark their sustainability efforts alongside their peers. This work also provides practical insights from leading sustainability reporting experts and finance professionals directing some of the largest finance teams in the world on their climate reporting journey.

ADVANCED INSIGHTS FROM THE RESEARCH:

1. The various standards and regulatory requirements have created an unwieldy compliance burden.
   a. Over 90% of responding companies are planning to increase their reporting emphasis on the requirements under CSRD and the SEC's final climate rule;
   b. Just under 90% of responding companies are planning to increase their reporting emphasis on the requirements in the California climate bills (89%);
   c. The International Sustainability Standards Board is also receiving significant focus from finance teams at 69%.
2. Finance teams are dealing with diverse challenges.
   a. 57% reported difficulty in obtaining Scope 3 data
   b. 51% struggled without a clear reporting mandate
   c. 43% noted the complexity of their climate data as a key challenge.
3. Companies have made significant changes and investments to increase external and internal reporting capabilities in response to strategic demands and changes in the sustainability reporting landscape.
   a. 90% plan to increase their internal reporting efforts
   b. 61% plan to increase the integration of carbon data within existing risk management reporting
   c. 58% plan to add new scope 3 categories to their current Scope 3 reporting

Even before receiving the final rule from the SEC, finance teams were dealing with the patchwork of requirements. While some reported a lack of a clear mandate, they still worked to drive a cohesive reporting process with the requisite rigor.

Respondents in this year's study discussed obtaining limited assurance with their auditor for the first time, how they're effectively addressing the knowledge gap, and how they are working to translate business combinations and business transactions into climate reporting.

"In today's landscape, bridging the gap between sustainability and financial reporting requires a nuanced understanding of both realms. It's the financial skillset that will enable companies to implement the proper controls, navigate complex data sources, and oversee digital transformations," says Joseph Cavanaugh, CFO of Persefoni. "Moving forward, your CEOs and CFOs will be expected to review and sign off on information such as greenhouse gas emissions and climate risk with the same level of rigor as they do financial data in their reports, signaling a fundamental shift in our approach."