

PwC's ESG webcast

What finance teams need to know
July 22, 2021



ESG Overview



ESG accounting and reporting



Inside the financial statements

- Direct impacts
- Indirect impacts

Outside the financial statements

- 10-K
- Other parts of the SEC filing
- Corporate sustainability reports
- Press releases
- Etc.

Alphabet soup

SASB*	—● Sustainability Accounting Standards Board
IIRC*	—● International Integrated Reporting Council
	*Together now the Value Reporting Foundation
UNPRI	—● UN Principles for Responsible Investment
SDG	—● Sustainable Development Goals
TCFD	—● Task Force for Climate-related Financial Disclosures
GRI	—● Global Reporting Initiative
WEF IBC	—● World Economic Forum International Business Council

Common net zero strategies



Carbon offsets

A reduction of one ton of carbon dioxide or greenhouse gas emission from a verified offset program.

Accounting considerations:

- May account for an offset as inventory (if held for use or sale) or an intangible asset (if held for use)
- Expense when company surrenders offset to state or other agency



Renewable energy credits (RECs)

Created for each megawatt hour of electricity that is generated from a renewable energy resource.

Accounting considerations:

- May account for a REC as inventory (if held for use or sale) or an intangible asset (if held for use)
- Expense when company surrenders REC to state or other agency



Technology to reduce emissions

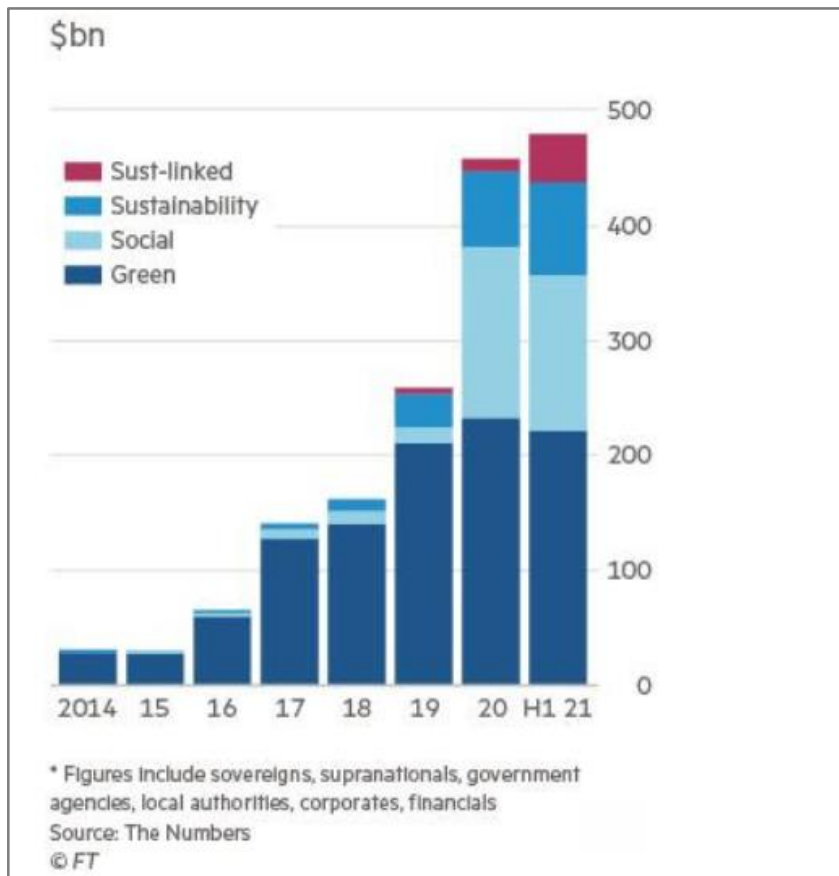
Examples: Electrifying operations to reduce reliance on fossil fuels, green certifying buildings, installing solar panels.

Accounting considerations:

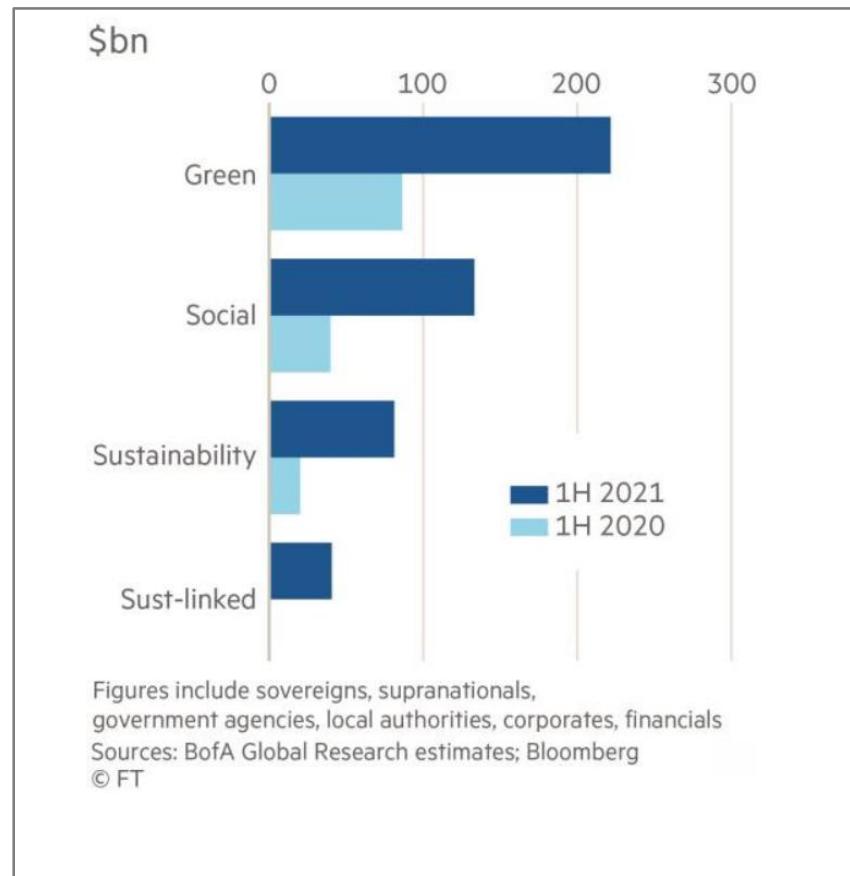
- Whether or not to capitalize the improvement
- Whether research and development costs should be expensed or capitalized
- Whether government grant accounting applies

ESG-related bond issuances in 2021

ESG-related bond issuances by year



ESG-related bond issuance growth compared to 2020



ESG financing and investing



Green bonds

- Use of proceeds is restricted for green projects
- Consider operational issues



ESG-linked instruments

- Interest rate changes based on achievement of an ESG target
- Consider accounting issues (e.g., embedded derivatives)

SEC current climate disclosure requirements



- S-K items 101 (Description of Business), 103 (Legal Proceedings), 105/503c (Risk Factors), and 303 are potentially applicable to climate-change related disclosures.
- Depending on its particular facts and circumstances, registrants should evaluate the following topics that highlight some ways climate change may trigger disclosure required by these rules and regulations.
 - Impacts of legislation and regulation (e.g., greenhouse gas emissions laws).
 - Impacts of treaties or international accords. Legal, technical, political and scientific developments may present new opportunities or risks.
 - Physical impacts of climate change. Climate change effects on the severity of weather, sea levels, the arability of farmland, and water availability and quality, have the potential to affect operations and results.

SEC staff comments on climate change disclosure



“...Please reconcile this assertion [on regulatory risks around air and greenhouse gas emissions] in your proxy statement with your description of the climate change risks from your CDP Report...” – 9/16/2016



“Please add a risk factor addressing the risk that climate change could have a negative impact on your business or please tell us why this is not necessary.” – 10/25/2013



“...provide the disclosure...regarding climate change, including regulatory or physical impacts of global warming on companies.” – 6/14/2010




“To the extent that you believe your business may be vulnerable to climate related events, please revise your disclosure to describe these risks.” – 5/27/2011


Human capital disclosure analysis


Overview of PwC analysis

PwC reviewed 2,139 Form 10-Ks

- Most quantitative disclosures included the employee headcount and gender representation in the workforce
- Diversity numbers and management levels were not disclosed as frequently as gender
- Employee demographics and employee lifecycle were the most referenced topics across all industries

 **75%** of the Form 10-Ks reviewed referred to COVID-19 and the impact to Human Capital

 **89%** of the Form 10-Ks reviewed were both qualitative and quantitative in nature

 **70%** of the Form 10-Ks reviewed were over eight (8) sentences in length



Thank you!

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