GEMI SEC Disclosure Preparation Work Group
(GEMI SEC)

Vision

To bring together corporate EHS and Sustainability leaders from across sectors to identify, understand and develop strategies to prepare their companies for an increased level of regulatory disclosure and scrutiny of ESG risks and opportunities, especially focused on climate change, helping them ensure corporate integrity and earn and maintain the trust of a wide range of interested stakeholders.

Mission

Create a cross-sector forum to apply the lessons of earlier waves of liability disclosure to the more complex and larger issues of disclosing climate risks and opportunities, including mitigation, transition and adaptation. Identify and understand the evolving external drivers and expectations for risk and opportunity disclosure; the technical and analytical challenges of meeting those expectations especially in light of the uncertainties surrounding those issues; and the internal processes and collaboration needed to meet those expectations.

Background

The Securities and Exchange Commission (SEC) is actively considering expansive ESG-related rule-making. They are likely to raise the bar on the amount of disclosure required. The SEC is also likely to increase their scrutiny of the consistency both between climate disclosure and actual performance; and between climate disclosures and other financial disclosures. The SEC reports receiving a large volume of comments on this, with over 75% favoring more extensive SEC action on ESG. While the SEC's language addresses the full range of ESG explicitly including social issues, the focus so far is overwhelmingly on climate change. Specifically, SEC has identified a priority of looking at the clarity and detail on corporate climate claims, such as when companies announce plans to be "net zero" but do not provide any information that stands behind that claim.

Managing expanded SEC requirements for ESG reporting ultimately will be a strategic issue, not a purely legal or technical issue. The SEC is considering these changes because they believe the information in question is potentially "decision-useful" to investors. This is not just a "tick the box" exercise designed to make information comparable for its own sake. Both for the SEC and for those pressuring the SEC to act, the intention is precisely to drive corporate behavior in ways that will inform and influence investor behavior.

That makes this a strategic issue with intense technical elements (ESG, legal and financial), not a technical issue per se. It will pose challenges in balancing "the risks of knowing" (triggering further disclosure) and "the risks of not knowing" (trying to make smart business decisions without knowing the risks and consequences). In order to prepare for greater SEC disclosure requirements, EHS/Sustainability leaders will need to understand the underlying issues, but also to build effective cross-functional collaboration and processes.

What will the GEMI SEC Disclosure Work Group Do?

Through a mix of workshops and off-line tasks, the work group will help participants explore three areas:

1. **What will SEC expectations require?**
   Expanded SEC requirements could create substantial challenges for many companies. They may require much deeper analysis of all phases of climate change impacts, including mitigation, transition and adaptation. Companies may be required to spell out scenarios and financial impacts, including explanations of how they deal with climate uncertainties in their analyses.

2. **How will this affect all ESG reporting?**

   Even if SEC guidance is clear, it could be challenging to ensure that multiple different reports, done for different purposes and methodologies, are consistent with each other and with financial reporting. Currently, many companies provide a variety of data, estimates and explanations in answer to very different questions raised by different stakeholders and reporting regimes. Expanded SEC oversight is likely to include requirements to reconcile or justify any differences between information provided in different venue, regardless of the different questions to which companies may be responding. This could also bring a much higher level of senior management and Board liability for the content of reporting.

3. **How do you make this work inside your own company?**

   Expanded SEC requirements could create substantial challenges in working collaboratively across functions. The combination of regulatory, financial, marketing and stakeholder reporting will require understanding and cooperation across the business functions responsible for those areas. As a result, greater SEC attention will also require additional engagement by the C-Suite and the Board of Directors, both an explicit focus of SEC attention in regard to climate disclosures. Climate subject matter experts will need to work collaboratively with those functions rather than defaulting to siloed or even adversarial approaches.

Project participants will be encouraged to engage with others inside their own company including legal, finance/controller, investor relations, and marketing/PR. Members encouraged to bring some of those parties directly to the project.

How will the GEMI SEC Disclosure Work Group operate?

The GEMI SEC will be led by GEMI members and supported by GEMI's staff with the support of Scott Nadler, Nadler Strategy LLC. The work group activities will begin in the first quarter of 2022 and will be led and supported through virtual sessions throughout the year.

What will be the cost to participate in the GEMI SEC?

GEMI Members will be able to participate in the work group as part of their membership contributions to GEMI. GEMI dues are $12,500. Companies and organizations choosing not to become a member of GEMI may join as participants in the work group alone for 2022, for a fee of $4,500.

To learn more about how to participate, contact Steve Hellem at shellem@navista.net