

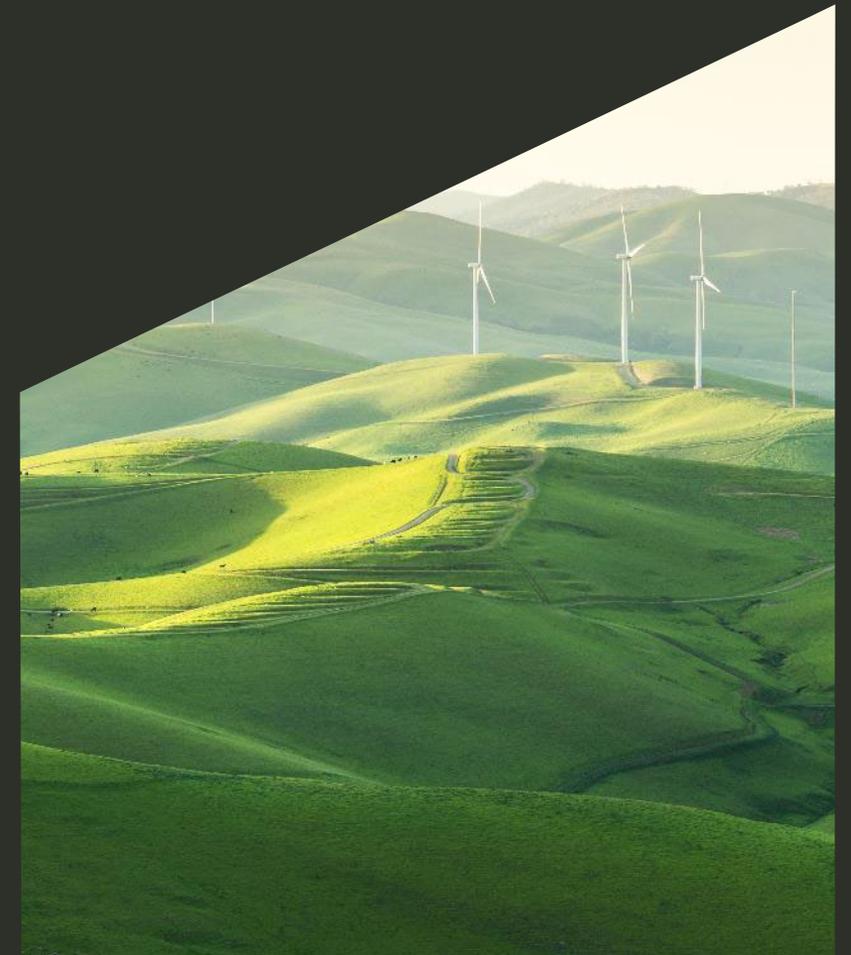


# RISKS, OPPORTUNITIES, AND DISCLOSURE IN AN ERA OF CLIMATE CHANGE

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**McDermott  
Will & Emery**

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# AGENDA

- Proposed SEC Rules on Climate-Related Risk Disclosure and Harmonization with International Sustainability Standards
  - David Cifrino
- The SEC's proposed greenhouse gas disclosure requirements
  - Jacob Hollinger
- The insurance industry's multiple perspectives on climate change risks
  - Thomas Dawson
- Opportunities for operating companies and investors in the transition to net zero
  - Carl Fleming

# “THE ENHANCEMENT AND STANDARDIZATION OF CLIMATE-RELATED DISCLOSURE FOR INVESTORS”

- **Separate non-financial “Climate-Related Disclosure” Section** in Annual Reports (10-K or 20-F) and in Registration Statements (material changes reported in Form 10-Q) covering:
  - Governance, Strategy, Risk Management, and Metrics/Goals related to climate risks (rules modeled on TCFD framework), including climate-related impacts on strategy, business model and outlook
  - GHG emissions metrics (see below)
  - Carbon offsets (if used by company)
  - Scenario analysis (if used by company)
  - Climate-related (e.g., decarbonization) transition plan (if adopted by the company)
  - Mini-MD&A on new required financial statement note on climate-related metrics (see below)
- **GHG emissions** - Scopes 1 and 2 and, if material or publicly disclosed, Scope 3 (rules modeled on GHG Protocol (“smaller reporting companies” exempt from Scope 3 disclosure requirement)).
  - Scopes 1 and 2 attested to by “GHG emissions attestation provider”
- **Financial Statement Climate-Related Metrics**
  - New note to financial statements, breaking out the climate-related portion for each applicable line item in the financial statements that has within it a greater than 1% portion that concerns climate-related impacts, expenditures, or estimates and assumptions.

# CONSOLIDATION OF INTERNATIONAL SUSTAINABILITY STANDARDS BODIES

- Consolidation of the most internationally significant global sustainability disclosure frameworks and standards currently underway.
- In November 2021, the [International Financial Reporting Standards \(IRFS\) Foundation](#) (which administers the IFRS Accounting Standards that is used in most jurisdictions other than the United States) [formed a new International Sustainability Standards Board](#) (ISSB) that will develop a comprehensive global baseline of sustainability disclosure standards.
- The ISSB is expected to complete the consolidation of the [Climate Disclosure Standards Board](#) (CDSB) and the [Value Reporting Foundation](#) (VRF) in 2022, which itself resulted from the 2021 merger of the [Integrated Reporting Framework](#) and the [Sustainability Accounting Standards Board](#).
- The ISSB intends to sit alongside and work closely with the IASB, ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards, to be known as the IFRS Sustainability Disclosure Standards.
- The SEC's proposed rules signal harmonization over time of its climate-related disclosure rules with those of ISSB

# 2010 CLIMATE CHANGE GUIDANCE; COMMENT PERIOD FOR PROPOSED RULES

- Proposing release, and new rules will when adopted, augment, not supersede, SEC's 2010 Climate Change Guidance, which covers possible climate-related disclosure in
  - Description of Business (Regulation S-K, Item 101);
  - Legal Proceedings (Regulation S-K, Item 103);
  - Risk Factors (Regulation S-K, Item 105) and
  - Management's Discussion and Analysis of Financial Condition and Results of Operations (Regulation S-K, Item 303).
- See October 2021 Sample Comment Letter supplementing 2010 Guidance:
  - <https://www.sec.gov/corpfin/sample-letter-climate-change-disclosures>
- Comments on Proposed Rules Due May 20, 2022
  - Comments filed and link to submit comments available at:  
<https://www.sec.gov/comments/climate-disclosure/ccl12.htm>

# GREENHOUSE GAS REPORTING: THE SEC PROPOSAL VERSUS THE EPA GHGRP

- Registrant Emissions (SEC) v. Facility/Supplier Emissions (EPA)
- Scope 1, 2 and sometimes 3 emissions (SEC) v. None of the Above (EPA)
- No reporting threshold (SEC) v. 25,000 metric tons per year, with some exceptions (EPA)
- No mandatory calculation methodology (SEC) v. Detailed formulas and emissions factors (EPA)
- Third party attestation requirement (SEC) v. No third-party attestation requirement (EPA)
- Carbon intensity disclosure requirement (SEC) v. No carbon intensity disclosure requirement (EPA)

# U.S. INSURERS: CLIMATE CHANGE REGULATION AND RISK DISCLOSURE

1. States are the primary regulators for 5000+ Insurers
2. Of which approximately 110 are SEC registrants
3. Of these registrants approximately 66 are also required to file annual climate disclosures by their domicile state regulators
4. A subset of state insurance regulators have just finished revising the annual climate disclosure template, first used in 2010, to align more closely with TCFD format
5. 35 states do not require domestic insurers to prepare or file such disclosure
6. At its most recent National Meeting earlier this month the National Association of Insurance Commissioners (NAIC) did not take a vote of the full membership on the revised climate disclosure reporting form and did not allow any discussion of it

# U.S. INSURERS: CLIMATE CHANGE REGULATION AND RISK DISCLOSURE

7. New York is the only state with a comprehensive climate risk regulatory framework for insurers—addressing the “E” and “G” in ESG—finalized in 2021
8. On April 22nd Connecticut announced its proposed climate risk regulatory framework, to be finalized after a 30-day comment period; governance and organizational structure changes proposed to be effective as of January 1, 2023
9. Nevertheless, in all states, larger insurers and those that are members of insurance holding companies will need to evaluate whether and to what extent to include climate risk in annual enterprise risk and solvency assessment filings
10. While a complete rupture between opposing camps within the NAIC is unlikely (even if political fault lines become more defined as a result of 2022 and 2024 elections), expect limited progress by state insurance regulators toward a national approach to climate risk regulation and disclosures

# THE DECARBONIZATION MEGATREND – NAVIGATING OUR TRANSITION TO ALTERNATIVE ENERGY

- Global shift from coal to renewables
- Government and private sectors driving the transition
  - Public utility mandates
  - Corporation stakeholder demand
  - Tech companies accelerating
- Impacts valuations, operations, employees and markets for all
- Explain how utilities, corporations, and governments can anticipate
- Demonstrate via McDermott's work across: generators, corporations, private equity funds, storage, electric vehicles, and hydrogen, carbon capture and other clean technologies

# ACCELERATING THE JOURNEY TO NET ZERO – WHAT IS DRIVING THIS TRANSITION?

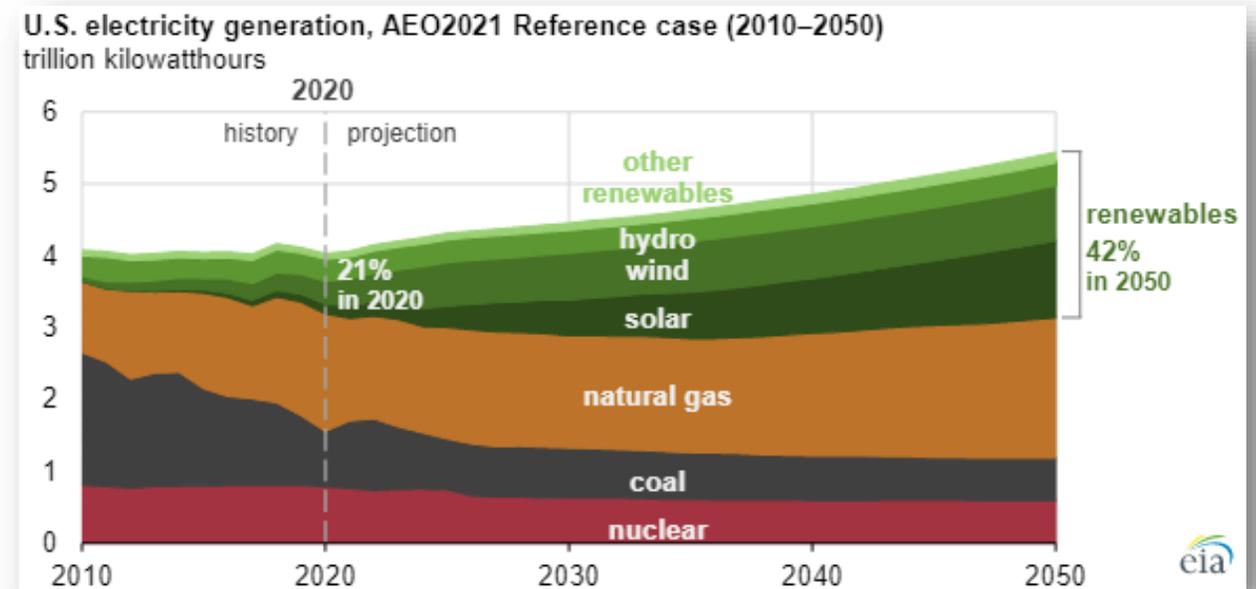
➤ Renewable energy has grown at record pace and will continue through 2050

➤ Numerous factors driving tremendous growth

- Technology improvements
- Decreasing cost of renewable energy resources
- Improved battery storage
- Supportive policy environment

➤ Federal, state, city and municipal level commitments

➤ Utility commitments



# COP26 AND THE PARIS AGREEMENT – WORLD LEADERS AGREE TO ACCELERATE TRANSITION FROM A COAL BASED ECONOMY TO A GREEN ECONOMY

- COP26
  - 190 countries agreed to phase down coal power
  - 76% decrease in planned new coal power plants
  - Over 40 countries, several states and organizations declared their support
- The Paris Agreement
  - International treaty
  - Aims to limit the rise of global average temperatures to well below 2 degrees Celsius
- Renewable Energy and Energy Efficiency Advisory Committee
  - Secretary of Commerce
  - Implement US strategy on reaching COP26 agreements

# INDEPENDENT POWER PRODUCERS

- Enabling Fortune 100 Companies, Tech Giants, and Governments “Go Green”
  - Record 31.1 gigawatts of clean energy in 2021
  - Up nearly 24% from the previous year’s record of 25.1GW
  - more than 137 corporations in 32 different countries in 2021
- Case Studies
  - McDonald’s
  - Facebook
  - Amazon, Microsoft and Google
  - Verizon
  - US Department of Defense



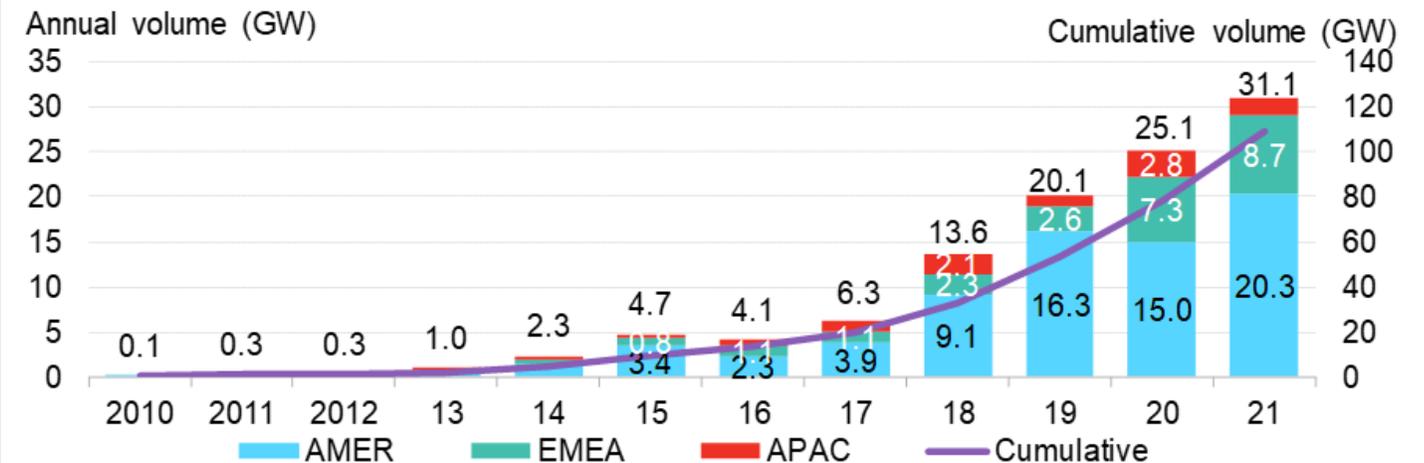
# CORPORATE POWER PURCHASE AGREEMENTS

- Generating Alternative Energy to Energize the Grid
  - Power-generation sector has a central role to play
  - Responsible for one-third of total global carbon emissions
  - Switching from fossil-fuel-fired power generation to predominantly wind and solar

## ➤ Case Studies

- NiSource, Inc.
- Algonquin Power & Utilities
- Starbucks
- Google

**Figure 1: Global corporate PPA volumes, 2010-2021**



Source: BloombergNEF. Note: Onsite PPAs excluded. APAC volume is an estimate. Pre-reform PPAs in Mexico and sleeved PPAs in Australia are excluded. Capacity is in MW DC.

# PRIVATE EQUITY AND INFRASTRUCTURE FUNDS

- Mobilizing Capital for Large Scale Investment into Alternative Energy and ESG Funds
  - Global decarbonization is a more than \$50 trillion opportunity for private capital
  - Global decarbonization efforts over the next three decades will require a \$100 trillion investment
  - The International Energy Agency last year estimated that reaching global net-zero emissions by 2050 will require an annual investment of around \$4 trillion by 2030
  - For example, Blackstone \$15BB over several years now predicts \$100BB in next ten
- Case Studies
  - Specialized ESG and Renewable Infrastructure Funds - Quinbrook Infrastructure Partners
  - Large Infrastructure Funds - Global Infrastructure Partners
  - Portfolio Companies of Large Private Equity Funds - Ares/Apex Clean Energy

# ENERGY STORAGE

- Unlocking the Rubik's Cube for Energy Markets
  - Standalone storage, demand from commercial and industrial (C&I) customers and new types of grid services
  - Optimize your energy bill
  - Batteries have numerous roles other than backup power
- Case Studies
  - A leading infrastructure fund in the acquisition of a portfolio of about 30 standalone energy storage projects in Texas
  - Algonquin Power & Utilities
  - NIPSCO



# ELECTRIC VEHICLES

## ➤ Electrifying Our Roadways and Commerce

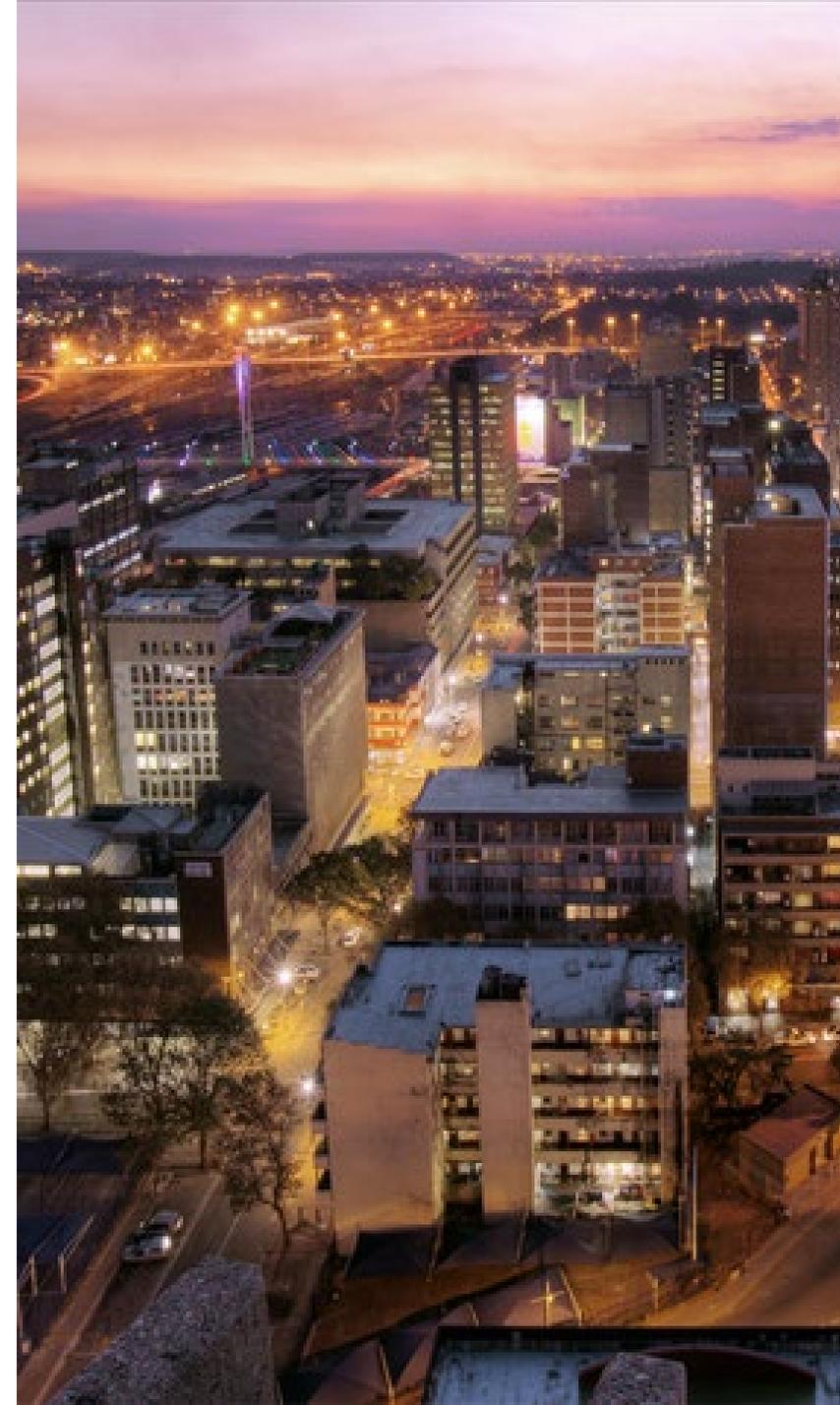
- Mainstream EVs will transform the automotive industry and help decarbonize the planet
- The industry has attracted more than \$400 billion in investments over the last decade.
- About \$100 billion of that coming since the beginning of 2020.

## ➤ Case Studies

- Advising numerous clients in the direct investment in electromobility technology and electric vehicle companies, as well as in the development of EV charging stations and charging station networks
- Vivo Energy Reunion
- WABCO Holdings Inc.

# OTHER

- Hydrogen, Carbon Sequestration, Carbon Capture, and Any Other Technology Helping Advance the “Green Ecosystem”
  - Hydrogen and Carbon Capture are “most exciting”
  - Need more than just electric for industrial processes
  - Can be added onto coal or gas
- Case Studies
  - Forklift and long-haul trucks
  - Carbon Capture and Carbon Sequestration
  - Energy Efficiency
  - Artificial Intelligence



# THANK YOU FOR JOINING! QUESTIONS?



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