

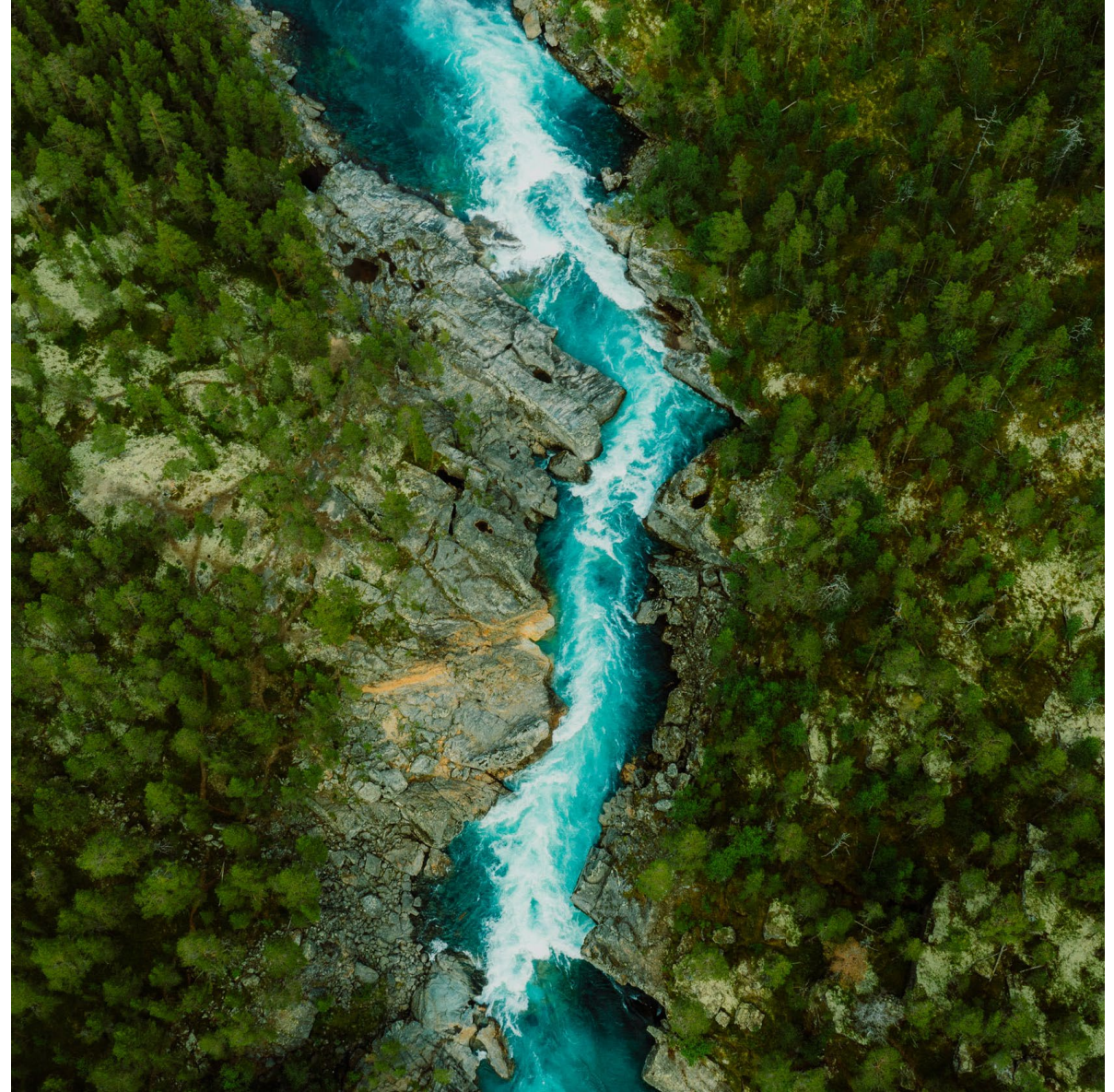


Preparing for Action:
Understanding California's Climate Rules

November 2024

Agenda

1. About us
2. Sustainability reporting landscape
3. California climate disclosure regulation: Senate Bill 219
 - Greenhouse gas reporting
 - Climate-related financial risk reporting
4. Preparatory activities
5. Case studies



About Us



Today's Presenters

Delivering tailored solutions that help clients build resilient businesses and contribute to a more sustainable future.



Nate White
Director
ESG & Climate Risk
Kansas City, MO



Kristin Dillavou
Senior Manager
ESG & Climate Risk
Ames, IA

Global Presence

Top 10

Global Network*

\$5bn

Combined Revenue (2023)

100+

Combined Countries & Territories

400+

Combined Offices & Locations

1,800+

Combined Partners

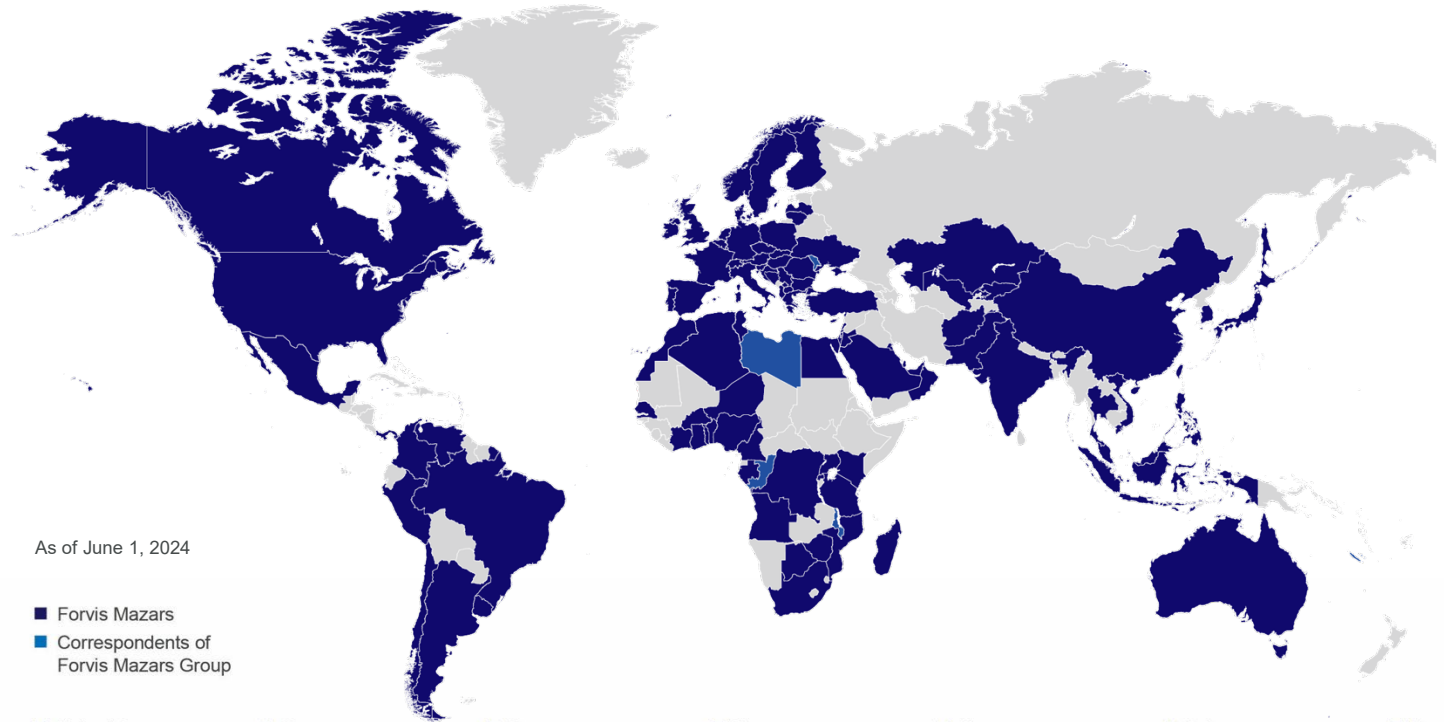
40,000+

Combined Employees

* Source: IAB World Network rankings, based on most recent rankings

2023 revenues: FORVIS \$1.7bn (€1.6bn), Mazars (expected) \$3bn (€2.8bn)

Forvis Mazars is the brand name for the Forvis Mazars Global network (Forvis Mazars Global Limited) and its two independent members: Forvis Mazars, LLP in the United States and Forvis Mazars Group SC, an internationally integrated partnership operating in over 100 countries and territories.



As of June 1, 2024

- Forvis Mazars
- Correspondents of Forvis Mazars Group

- | | | | | | | |
|--------------------------|--|--------------|--------------|-------------------|----------------|------------------------|
| ■ Afghanistan | ■ Cameroon | ■ France | ■ Korea | ■ Morocco | ■ Qatar | ■ Togo |
| ■ Albania | ■ Canada | ■ Gabon | ■ Kosovo | ■ Mozambique | ■ Romania | ■ Tunisia |
| ■ Algeria | ■ Cayman Islands | ■ Germany | ■ Kuwait | ■ Netherlands | ■ Rwanda | ■ Türkiye |
| ■ Angola | ■ Chile | ■ Ghana | ■ Kyrgyzstan | ■ New Caledonia | ■ Saudi Arabia | ■ Uganda |
| ■ Argentina | ■ China | ■ Greece | ■ Latvia | ■ Niger | ■ Senegal | ■ Ukraine |
| ■ Australia | ■ Colombia | ■ Hong Kong | ■ Lebanon | ■ Nigeria | ■ Serbia | ■ United Arab Emirates |
| ■ Austria | ■ Congo | ■ Hungary | ■ Libya | ■ North Macedonia | ■ Singapore | ■ United Kingdom |
| ■ Bahrain | ■ Côte d'Ivoire | ■ India | ■ Lithuania | ■ Norway | ■ Slovakia | ■ United States |
| ■ Belgium | ■ Croatia | ■ Indonesia | ■ Luxembourg | ■ Oman | ■ Slovenia | ■ Uruguay |
| ■ Benin | ■ Cyprus | ■ Ireland | ■ Madagascar | ■ Pakistan | ■ South Africa | ■ Uzbekistan |
| ■ Bermuda | ■ Czech Republic | ■ Israel | ■ Malawi | ■ Palestine | ■ Spain | ■ Venezuela |
| ■ Bosnia and Herzegovina | ■ Democratic Republic of the Congo (DRC) | ■ Italy | ■ Malaysia | ■ Panama | ■ Sweden | ■ Vietnam |
| ■ Botswana | ■ Denmark | ■ Japan | ■ Malta | ■ Peru | ■ Switzerland | ■ Zimbabwe |
| ■ Brazil | ■ Egypt | ■ Jordan | ■ Mauritius | ■ Philippines | ■ Taiwan | |
| ■ Bulgaria | ■ Finland | ■ Kazakhstan | ■ Mexico | ■ Poland | ■ Tanzania | |
| ■ Burkina Faso | | ■ Kenya | ■ Moldova | ■ Portugal | ■ Thailand | |

U.S. Presence

Top 10

U.S. Public Accounting Firm*

\$2bn

Revenue (2023)

79

Markets

28

States

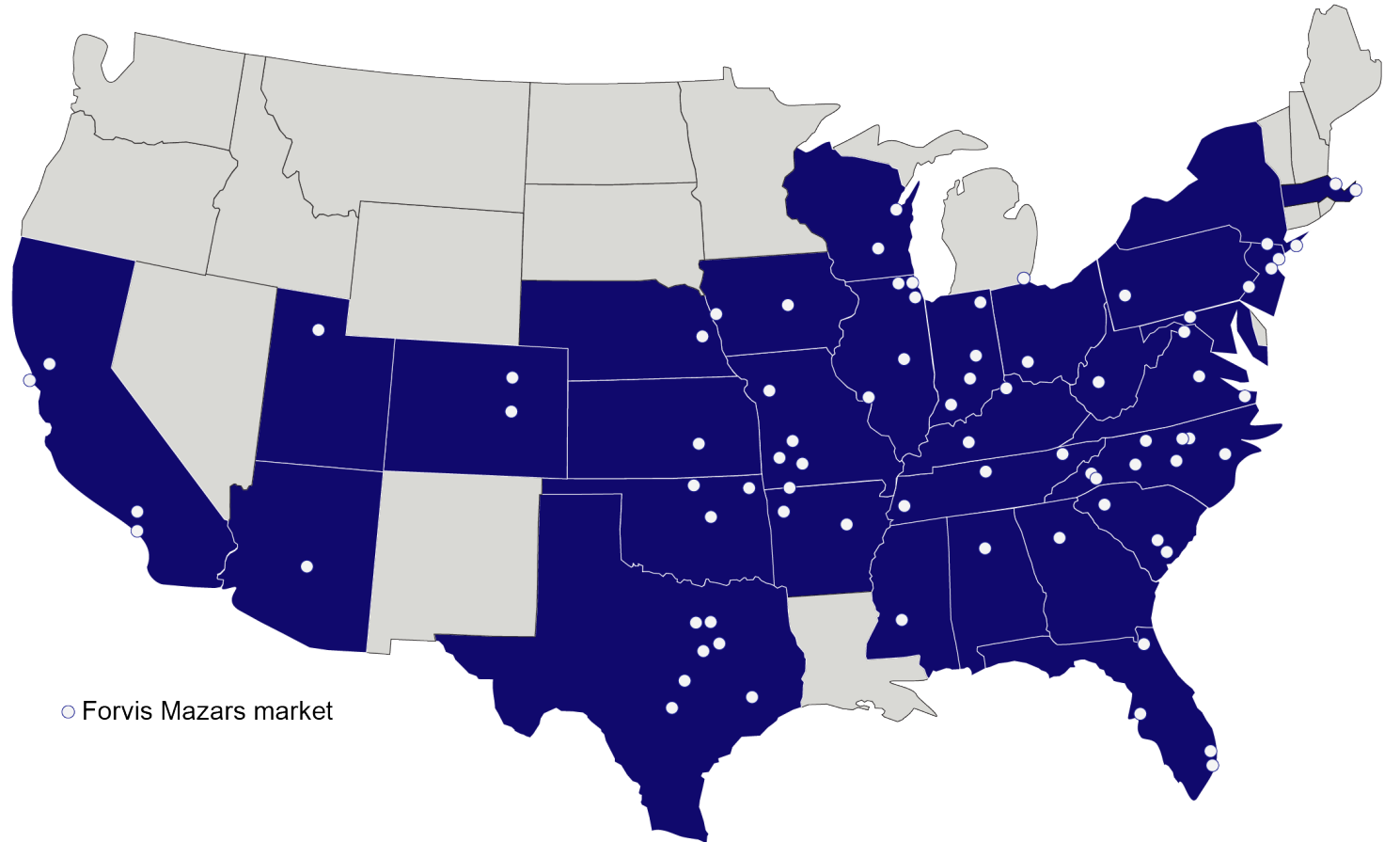
600+

Partners & Principals

7,000+

Employees

*Source: Inside Public Accounting, based on most recent rankings
2023 combined revenues: FORVIS \$1.7bn, Mazars USA (expected) \$305M



Full Suite of ESG & Climate Risk Solutions

Our global economy has evolved and allowed us to accomplish amazing feats, only dreamed about in generations past. We have changed the way we do business, the way we live, and how we interact with each other. At the same time, our interconnectedness as a global society has caused our symbiotic relationship with the planet to become taxed. Some of our greatest societal achievements have also led to some of our greatest future risks. Our offerings are designed to help clients achieve their goals in the backdrop of this new ESG landscape and contribute to the betterment of the world for generations to come.



Climate risk management

- Climate Risk and Opportunity Assessment
- Risk Management Process Integration
- Supply Chain/Third-Party Risk Management
- Climate Quantitative Solutions – Physical/Transition Risk Modeling and Validation
- Scenario Analysis and Stress Testing
- Climate Risk Data Strategy
- Climate Risk Appetite Statement
- Business Continuity Planning
- Climate Change Adaptation



ESG-centric advisory

- Circular Economy and Resource Efficiency Management
- Diversity, Equity, and Inclusion (DEI) Assessment
- Corporate Social Responsibility (CSR) Development
- Environment, Health, and Safety (EHS) Support
- ESG Investment Policy and Process Development
- Life Cycle and Impact Assessments
- Sustainable Finance Methodology and Strategy
- B Corp Assessment and Certification Support
- Carbon Credit Advisory
- Capital and Green Financing Advisory



ESG strategy & governance

- ESG Materiality Assessment and Stakeholder Analysis
- End-to-End Program Design and Management
- Framework Assessment and Alignment
- Executive and Board Training and Education
- Sustainability Communications and Marketing
- ESG Strategic Development
- ESG Data and Technology Architecture Strategy
- ESG Policy Development



Corporate data & reporting

- ESG Data Sourcing Strategy
- ESG Internal Controls Readiness and Assurance
- Sustainability Reporting Copy and Design
- Data Governance and Data Quality Implementation
- ESG Data and Reporting Software Selection/Implementation
- Regulatory Disclosure Support and Requirements Management
- Sustainability KPI Identification and Dashboards



Sustainable performance improvement

- Carbon Accounting (Scope 1, 2, & 3)
- Market Insight and Performance Analysis
- Peer Benchmarking and Competitor Analysis
- ESG Ratings Review and Management
- Sustainability Goal Setting
- Net Zero Strategy and Decarbonization Pathways
- Science-Based Targets Initiative (SBTi) Submission Support
- GHG Emissions Reduction Strategy

Latest thinking

To educate, create opportunities for dialogue and provide exceptional service to clients, Forvis Mazars produces and disseminates Knowledge Share articles, podcasts, webinars and more. Samples of our recent material include:



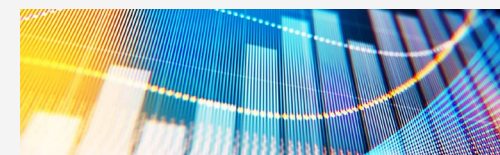
[California Affirms GHG Emissions & Climate Risk Reporting Deadlines](#)

Alert providing overview of Senate Bill (SB) 219, amending SB 253 and SB 261



[Counting Carbon: How the SEC Rule Approaches GHG Accounting](#)

Learn how to measure GHG emissions in alignment with the SEC Climate Rule



[Identifying Internal Controls for SEC Climate GHG Reporting](#)

Overview on implementing internal controls for compliance with GHG reporting

Thought leadership

Actively informing our clients



Preparing for the Corporate Sustainability Reporting Directive

Guide to the CSRD

January 2023



forv/s
mazars



European Sustainability Reporting Standards, Set 1

What companies should know to prepare



forv/s
mazars



Guide to the EU Corporate Sustainability Reporting Directive (CSRD)

For non-EU groups and their EU subsidiaries



forv/s
mazars



Guide to the Corporate Sustainability Due Diligence Directive

Preparing for the CSDDD



forv/s
mazars

Thought leadership

Actively informing our clients



Approaching the IFRS Sustainability Disclosure Standards

What companies can learn from IFRS S1 and IFRS S2



forv/s
mazars



IFRS Sustainability Disclosure Standards

Implementation challenges for preparers



forv/s
mazars



Responding to the Taskforce on Nature-related Financial Disclosures (TNFD)

Guide to the new nature framework



forv/s
mazars



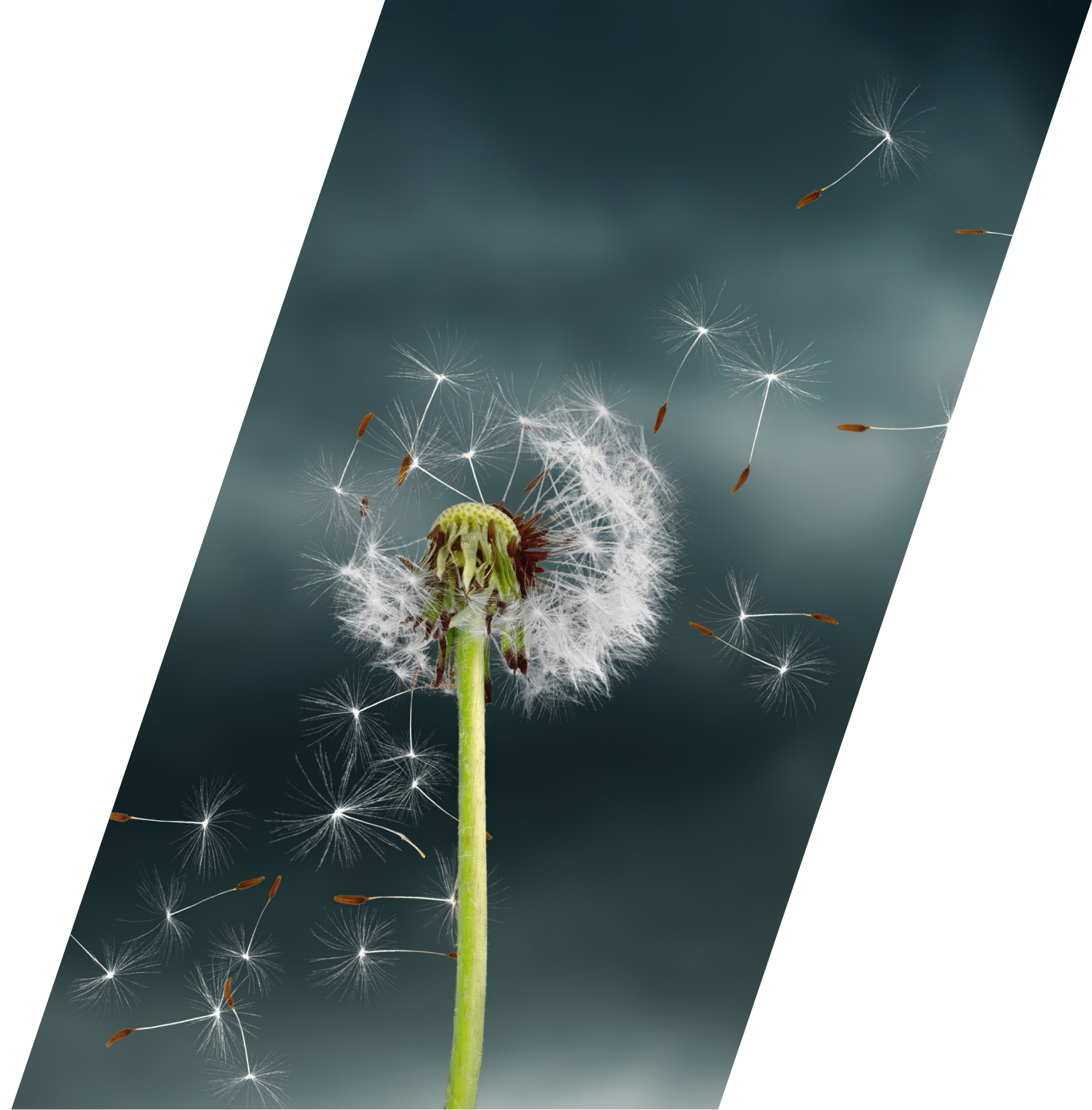
EU Taxonomy guide

Navigate the EU Taxonomy and related regulations



forv/s
mazars

Sustainability Reporting Landscape



ESG Reporting Landscape

Key Trends

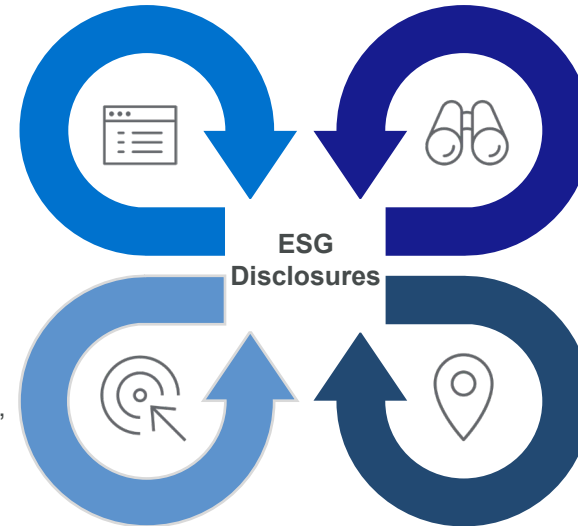
- Ongoing evolution from market and investors' driven, industry-developed, voluntary ESG disclosures frameworks to regulatory requirements
- Convergence among standards underway but will take time; divergence among certain regulations
- ESG disclosures moving from standalone to integrated financial reporting; ESG considerations expected to be embedded in risk, financial and strategic processes
- ESG metrics are non-financial in nature and hard to measure; ESG data often fragmented, incomplete, inaccurate, or simply unavailable (reliance on estimates)
- Expectations for audit-ready data, robust control frameworks, & Board oversight; while ESG control frameworks still nascent
- Explicit and implicit assurance requirements
- Quickly expanding role of Finance organizations in the ESG disclosures planning and execution processes

Frameworks

- **TCFD** – Taskforce for Climate-Related Financial Disclosures
- **ISSB** – International Sustainability Standards Board
- **GHG Protocol** – Greenhouse Gas
- **CDP** – Carbon Disclosure Project
- **ISO Standards** – International Organization for Standardization
- **GRI** – Global Reporting Initiative
- **TNFD** – Taskforce Nature-Related Financial Disclosures
- **COSO** – Committee of Sponsoring Organizations

Topics

- GHG emissions (Scopes 1, 2, & 3)
- Climate-related risks, opportunities, and remedies
- Nature-related impacts, risks, and opportunities
- Science-based reduction targets
- ESG standards and disclosures (subject to materiality)
- Double materiality
- ESG internal controls and governance standards
- Limited/reasonable assurance



Regulations

- **U.S.:** SEC Climate Disclosures Rule (*Stayed*); California Climate Disclosures SB 219 and AB 1305; FRB/FDIC/OCC Principles for Climate-Related Financial Risk; SEC Fund Names Rule; *Federal Acquisition Regulation**
- **Canada:** OSFI Guideline B-15
- **EU:** ECB Climate & Environmental Risk Guide; EU Taxonomy; SFRD; CSRD/ESRS; CSDDD; + local regs
- **UK:** FCA ESG Rule; UK Taxonomy
- **International:** Multiple regs in APAC/LATAM/Africa/Middle East

Scope & Location

- Asset size/global revenues size
- Country/location of domiciliation and business activity
- Size of contractors' awards
- Supervisory jurisdiction

* Proposed Rule

Sustainability Voluntary Disclosure Frameworks

The lengthy list of acronyms referring to all ESG and sustainability-related standards, frameworks, initiatives, and guidelines has been referred to as an “alphabet soup.” However, stakeholders have been pushing for consolidation and standardization across frameworks, resulting in a few common disclosures listed below. Although most reporting has been voluntary to date, mandatory regulations are emerging around the world and leveraging these frameworks to structure requirements.

Global Reporting Initiative (GRI) [1997]	Taskforce on Climate-Related Financial Disclosures (TCFD) [2015]	Taskforce on Nature-Related Financial Disclosures (TNFD) [2023]	Sustainability Accounting Standards Board (SASB) [2011]	International Sustainability Standards Board (ISSB) [2021]
<ul style="list-style-type: none"> • International framework for voluntary sustainability reporting • Most widely used sustainability reporting standards globally • Focuses on external environmental, societal, and economic impacts • Independent and multi-stakeholder process for standard development 	<ul style="list-style-type: none"> • Disclose climate-related financial information • TCFD aims to improve company and investor engagement, across four thematic areas: Governance, Strategy, Risk Management, and Metrics and Targets • Focuses on providing decision-useful information surrounding material climate topics • The information covers short-, medium-, and long-term time horizons as well as across future climate scenarios 	<ul style="list-style-type: none"> • Direct capital to nature-positive outcomes • Mirrors the TCFD framework, with similar language across recommendations • Based on 7 principles across usability, science, nature, purpose, integration, climate, and inclusivity • Intended to inform investment decision-making and drive behavioral change • Aims to cover all aspects of nature across land, ocean, freshwater, and atmosphere 	<ul style="list-style-type: none"> • Develop industry-specific standards for financially material sustainability information • SASB was incorporated into the Value Reporting Foundation (VRF) and now into ISSB • Focus on internal impact of ESG risk on an organization’s financial performance • Aimed to bring value to investors 	<ul style="list-style-type: none"> • Develop standards to disclose sustainability and climate-related financial information • ISSB is a working group formed by the IFRS Foundation to develop International Sustainability Reporting Standards (currently, IFRS S1 and IFRS S2) • ISSB will take over the role of TCFD, and will work with GRI and EFRAG to align standards; SASB standards have been absorbed by ISSB

Example Climate & Sustainability Regulations

Organizations of all sizes are increasingly required to report sustainability metrics. The emergence of these regulations is pushing companies to adopt internal control environments around their sustainability data. Failing to accurately report sustainability data could lead to regulator penalties and investor litigation.

SEC Climate Disclosure Rule <i>(stayed pending litigation)</i>	California Senate Bill 219 (formerly SB 253 & SB 261)	Corporate Sustainability Reporting Directive (CSRD)	Carbon Border Adjustment Mechanism (CBAM)	Proposed Australia Treasury Regulations	Singapore Emissions Reporting Requirements
<ul style="list-style-type: none"> • Final rule adds new sections to both S-K and Regulation S-X • Requires disclosures relating to climate-related risks and risk management/governance of risks • Requires disclosures on financial effects of severe weather events and other natural conditions in audited financial statements • Requires large accelerated filers (LAFs) and accelerated filers (AFS) to report Scope 1 and Scope 2 GHG emissions with assurance requirement 	<ul style="list-style-type: none"> • Requires annual GHG emissions reports and assurance and climate-related financial risk disclosure • Mandatory for companies with \$1B revenue doing business in CA to submit reports on Scope 1, 2, and 3 GHG emissions • Mandatory for companies with \$500M revenue doing business in CA to submit biennial reports of climate-related financial risks (TCFD aligned) • Reasonable assurance on Scope 1 and 2 emissions and limited assurance on Scope 3 GHG emissions 	<ul style="list-style-type: none"> • Disclose sustainability-related information • Incorporates double materiality • Aims to expand sustainability reporting and information availability by requiring more sustainability-related disclosures • Supports insight into an organization’s decision-making on sustainability topics 	<ul style="list-style-type: none"> • EU Carbon assessment and tax on specific goods imported into the EU • Mandatory for importing entities that meet importing industry requirements • Encourages reduction of carbon emissions in the production process • Aligns with the EU Free Allowance phaseout 	<ul style="list-style-type: none"> • Requires annual Scope 1 and 2 GHG emissions reports and assurance • Mandatory disclosure climate-related risks and opportunities • Scope 1 and Scope 2 GHG emissions required the first year of reporting • Scope 3 reporting required the second year of reporting • Likely assurance requirements for Scopes 1 and 2 	<ul style="list-style-type: none"> • Requires annual GHG emissions reports and assurance • Singapore Exchange listed companies will report FY 2025 Scope 1 and Scope 2 emissions • Non-Singapore Exchange listed companies will report FY 2027 Scope 1 and Scope 2 emissions • Scope 3 emissions reported in the second year of emissions reporting • Limited assurance for Scope 1 and Scope 2 emissions two years after starting reporting

California Climate Disclosure Regulation: Senate Bill 219



California’s Climate Rules Require Major Action for Companies “Doing Business” in the State

Senate Bill 219, signed into law September 2024, consolidates and amends Senate Bills 253 and 261 requirements.

The most significant messages include:

- No change in reporting timeline, although there could be slight revisions to Scope 3 within the 2027 reporting year
- California Air Resource Board (CARB) has until July 1, 2025, six additional months, to provide detailed implementation regulation
- GHG emissions reporting (under former Senate Bill 253) can occur at parent level
- Timing of filing fees to be determined by CARB



Senate Bill 253 (SB 253) – Climate Corporate Data Accountability Act

Who is impacted?

- >5,000 U.S. companies
- Public and private
- >\$1B total revenue
- Doing business in California

What is it?

- Annual reports of emissions based on GHG Protocol
- Public disclosure on digital platform
- Attestation required

When is it effective?

- FY2025 Scope 1 & 2 emissions reported in 2026
- Limited assurance 2026 to 2029
- Reasonable assurance starting in 2030
- FY2026 Scope 3 emissions reported in 2027
- Limited assurance starting in 2030

Senate Bill 261 (SB 261) – GHGs: Climate-Related Financial Risk Act

Who is impacted?

- >10,000 U.S. companies
- Public and private
- >\$500M total revenue
- Doing business in California

What is it?

- Biennial reports of climate-related financial risks – Task Force on Climate-Related Financial Disclosures (TCFD) aligned; to be published on website
 - Framework: Governance, Strategy, Risk management, Metrics and targets
 - Mitigating measures
 - No attestation required

When is it effective?

- Initial disclosure by January 1, 2026

PENALTIES FOR NON-COMPLIANCE:

SB 253 – up to \$500k per year in penalties. Penalties assessed on Scope 3 reporting, between 2027 and 2030, shall only occur for nonfiling, and will not be incurred for misstatements so long as Scope 3 disclosures were made with a reasonable basis and disclosed in good faith.

SB 261 – up to \$50k per year in fines

Factors impacting the ultimate penalties: (i) If the company undertook good faith measures to comply. (ii) Company’s past and present compliance.

Scope 1: Direct GHG emissions from owned or controlled sources
Scope 2: Indirect GHG emissions from purchased or acquired electricity, steam, heating, or cooling
Scope 3: Indirect GHG emissions from upstream and downstream activities in the value chain

“Doing Business in California” Definition

CARB will need to confirm the definition of “doing business in California” but is expected to rely on existing ones.

California [Franchise Tax Board’s definition](#) of “doing business in California” under Cal. Rev. and Tax Code § 23101 is any company that meets any of the following:

- Engages in any transaction for the purpose of financial gain within California
- Are organized or commercially domiciled in California
- California sales, property, or payroll exceed the following amounts for 2024
 - California sales exceed 25% of sales or \$735,019
 - California real and tangible personal property exceed 25% of total property or \$73,502
 - California payroll compensation exceeds 25% of payroll or \$73,502

[Cal. Corp. Code § 191\(a\)](#) has a somewhat narrower definition: “entering into repeated and successive transactions of its business in [the] state, other than interstate or foreign commerce.”



Greenhouse Gas (GHG) Emissions

GHGs are gases that trap heat within the earth's atmosphere. Accumulation of GHGs in the atmosphere – mostly caused by human activities such as burning fossil fuels & deforestation – lead to the impacts of climate change seen across the globe, with more projected in the future.

Overview of GHG Protocol scopes & emissions across the value chain

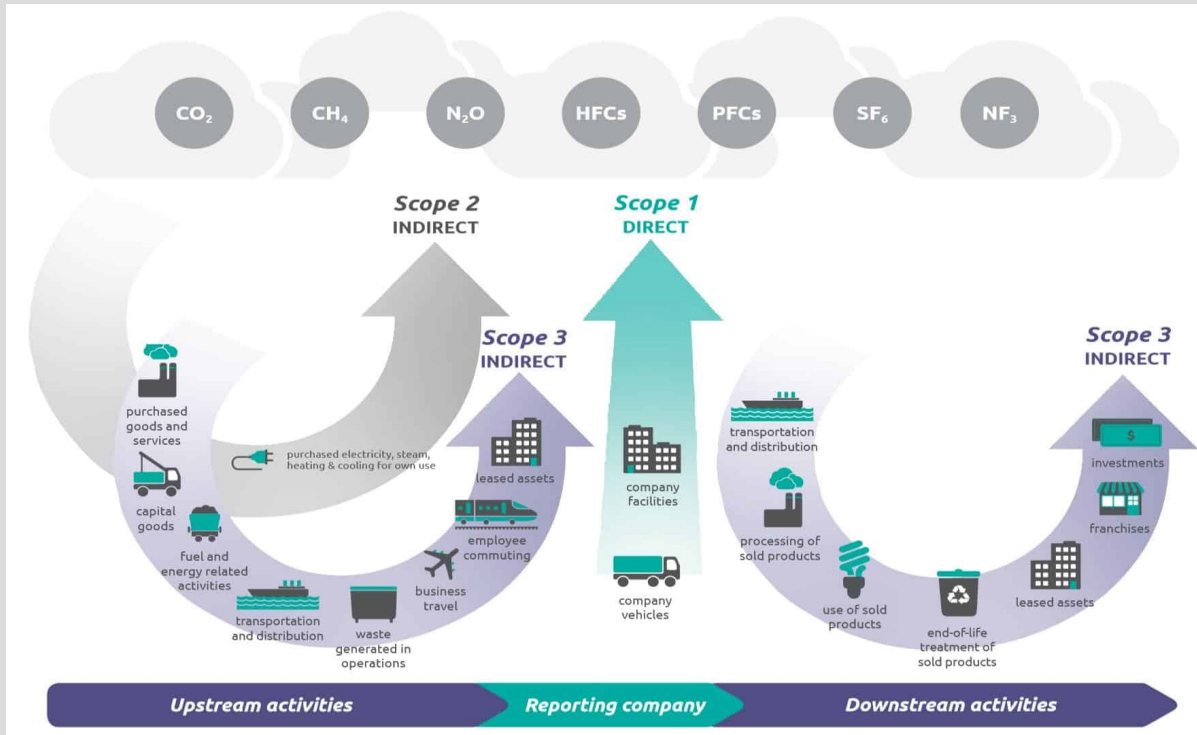


Figure [1.1] Overview of GHG Protocol scopes & emissions across the value chain” from the Greenhouse Gas Protocol’s “Corporate Value Chain (Scope 3) Accounting & Reporting Standard

The GHG Protocol categorizes GHG emissions into three scopes:

Scope 1 emissions:

Direct emissions from owned or controlled sources

Scope 2 emissions:

Indirect emissions from the generation of purchased energy

Scope 3 emissions:

Other indirect emissions that occur in a company’s value chain, including both upstream & downstream emissions. There are fifteen Scope 3 categories.

Upstream

1. Purchased goods and services
2. Capital goods
3. Fuel- and energy-related activities
4. Upstream transportation and distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets

Downstream

9. Downstream transportation and distribution
10. Processing of sold products
11. Use of sold products
12. End-of-life treatment of sold products
13. Downstream leased assets
14. Franchises
15. Investments

Task Force on Climate-Related Financial Disclosures (TCFD) Overview

CA SB 219 requires disclosure of climate-related risks and opportunities, in alignment with the TCFD (or International Sustainability Standards Board – ISSB) recommendations. Below is a summary of the TCFD framework’s content and recommendations.

- Widely adoptable and applicable to organizations across sectors and jurisdictions.
- Designed to solicit decision-useful, forward-looking information.
- **Recommended Disclosures** under four topics:
 - Governance
 - Strategy
 - Risk Management
 - Metrics and Targets
- **Guidance for All Sectors:** context and suggestions for implementing the recommended disclosures for all organizations.
- **Supplemental Guidance for Certain Sectors:** considerations and potential impacts for sectors potentially most affected by climate change.
- **Seven Principles for Effective Disclosures** underpinning the recommendations.

Recommendations and Supporting Recommended Disclosures			
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization’s governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board’s oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization’s processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management’s role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	b) Describe the organization’s processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

How to Prepare

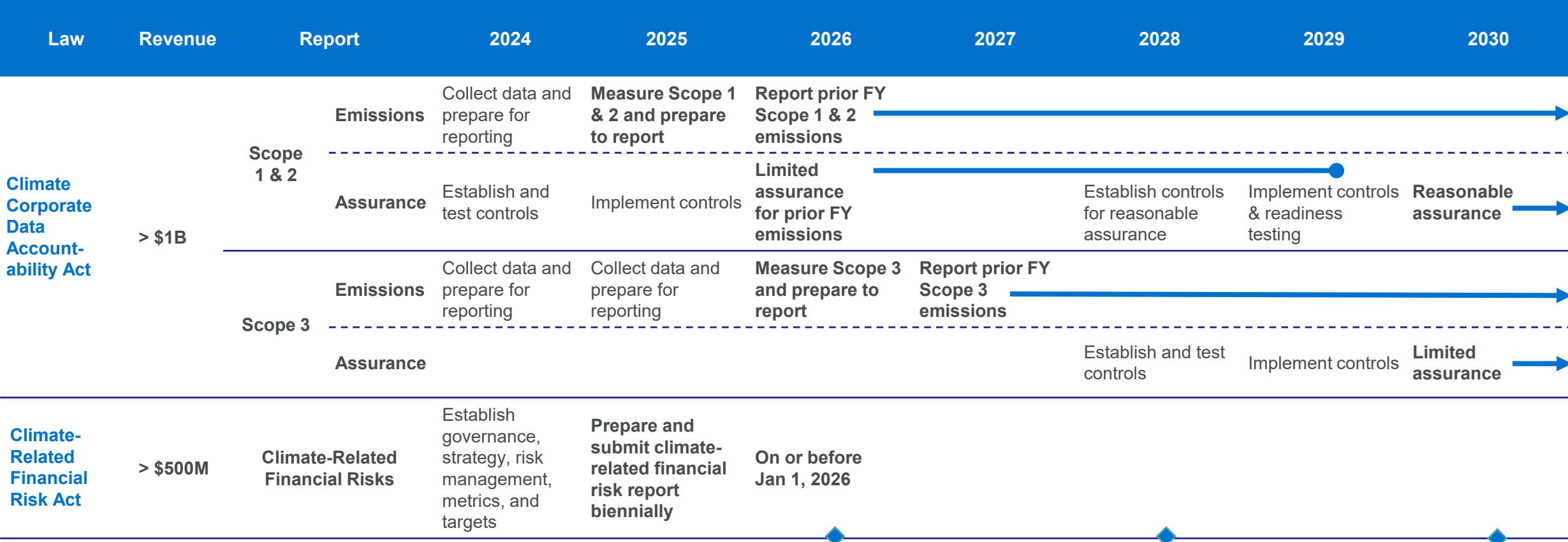


Readiness Planning

- Perform gap analysis towards target state
 - Compliance with California and other disclosure requirements
 - Maximize use of existing disclosures
 - Define scope, objectives, and timeline
- Develop action plans and timeframes estimates
 - Identify priorities and tactical vs. strategic action items for phased-in maturity levels
 - Identify resources needs and availability
- Develop compliance roadmap
- Review and sign off plans with internal stakeholders and receive governance approvals
- Establish project management team and kick off implementation process



California SB 219 Reporting Timeline


















GHG Scopes 1 & 2 Calculation Methods and Data Needs

Data availability may influence the emissions calculation approach used to calculate Scope 1 and 2 emissions. The tiers below rely on assumptions to varying degrees, resulting in reduced accuracy of output and ability to influence reduction efforts.

Scope	Definition and common sources	Data approaches		
		Tier 1	Tier 2	Tier 3
Scope 1	Direct emissions from owned or controlled assets <ul style="list-style-type: none"> Stationary combustion (facilities): Natural gas, diesel, propane consumed by owned or leased assets, such as for space heating, generators, forklifts Mobile combustion: Gasoline, diesel, LPG, etc., consumed by owned or controlled leased vehicles Fugitive emissions Refrigerants consumed by owned or leased assets for space cooling or industrial processes 	Stationary/Facilities – Consumption method <ol style="list-style-type: none"> Type(s) of energy (fuel, electricity, steam, etc.) consumed by facility Amount of energy consumed by facility Energy-specific emissions factor (EF) 	Stationary/Facilities – Average-data method <ol style="list-style-type: none"> Facility floor area Facility type Type(s) of energy used by facility Industry standard energy intensity Energy-specific EF 	Stationary/Facilities – Spend-based method <ol style="list-style-type: none"> Total spend on utilities for each facility Environmentally-extended input output (EEIO) EF
	Indirect emissions from the generation of purchased energy <ul style="list-style-type: none"> Electricity consumed by owned or controlled leased facilities Heat or steam consumed by owned or controlled leased facilities, such as for space heating or industrial processes Chilled/cooling water consumed by owned or leased facilities, such as for space cooling or industrial processes 	Mobile – Fuel AND distance method <ol style="list-style-type: none"> Type(s) of energy (gasoline, electricity, diesel, propane, etc.) consumed by each equipment Amount of energy consumed by each equipment Distance traveled by each equipment Energy-specific EF 	Mobile – Fuel OR distance method <ol style="list-style-type: none"> Collect only one of following: <ul style="list-style-type: none"> Type and amount of fuel consumed by each equipment Distance traveled by each equipment Equipment make, model, and year Fuel economy Energy-specific EF 	Mobile – Spend-based method <ol style="list-style-type: none"> Total spend on fuel for each equipment Convert spend to fuel consumption based on published fuel/energy prices Energy-specific EF

Scope 3 Categories and Data Needs

Scope 3 consists of 15 categories, which will not all be relevant to every organization. Organizations should start with a relevancy assessment to determine which categories to include in a GHG inventory, considering factors such as contribution to overall emissions, ability to influence change, contribution to risk exposure, stakeholder expectation, and sector guidance. Scope 3 categories can leverage different calculation methods-based emissions sources and on data availability.

 <p>Category 1: Purchased Goods & Services</p>	 <p>Category 2: Capital Goods</p>	 <p>Category 3: Fuel & Energy Activities</p>	 <p>Category 4: Upstream Transportation & Distribution</p>		
<ul style="list-style-type: none"> • Spend by activity • Amount of material consumed • Supplier-specific emissions data 	<ul style="list-style-type: none"> • CapEx by asset type • Lifespan of capital goods • Supplier-specific emissions data 	<ul style="list-style-type: none"> • Fuel type and volume consumed • Power consumed • Supplier-specific emission factors 	<ul style="list-style-type: none"> • Spend by mode • Distance and mode of transportation • Mass by mode • Volume of fuel consumed 		
 <p>Category 5: Waste Generated in Operations</p>	 <p>Category 6: Business Travel</p>	 <p>Category 7: Employee Commuting</p>	 <p>Category 8: Upstream Leased Assets</p>	 <p>Category 9: Downstream Transportation & Distribution</p>	 <p>Category 10: Processing of Sold Products</p>
<ul style="list-style-type: none"> • Waste type and quantity • Waste disposal method • Emission Factors by waste type 	<ul style="list-style-type: none"> • Mode of travel • Distance traveled • Accommodation data 	<ul style="list-style-type: none"> • Mode of commute • Average commuting distance • Frequency of commute 	<ul style="list-style-type: none"> • Energy consumption by asset • Lease duration • Usage hours 	<ul style="list-style-type: none"> • Transportation mode and distance • Product weight and volume • Emission Factors for distribution partners 	<ul style="list-style-type: none"> • Energy intensity of processing • Processing location and method • Emissions data from processors
 <p>Category 11: Use of Sold Product</p>	 <p>Category 12: End-of-Life Treatment of Sold Products</p>	 <p>Category 13: Downstream Leased Assets</p>	 <p>Category 14: Franchises</p>	 <p>Category 15: Investments</p>	
<ul style="list-style-type: none"> • Product usage duration • Energy consumption during use • User-specific emissions data 	<ul style="list-style-type: none"> • Product disposal method • Material composition • End-of-life Emission Factors 	<ul style="list-style-type: none"> • Operational data of leased assets • Lease duration and usage rates • Emissions from downstream lessees 	<ul style="list-style-type: none"> • Franchise specific operational data • Standard franchise emissions • Geographical data 	<ul style="list-style-type: none"> • Portfolio emissions • Ownership Percentage • Industry-specific Emission Factors 	

Maturity Model for California Climate Reporting Requirements

Evolution of Organizational Attributes

While all disclosure for California's Climate-Related Financial Risks Act must address the four categories of Governance, Strategy & Climate Scenario Analysis, Risk Management, and Metrics & Targets, there are a range of activities organizations may report based on maturity and objectives of their sustainability program. The scale below offers sample actions in line with TCFD guidance to help organizations assess current state and determine desired and/or potentially required progression

Initial

Leading

	Reporting is primarily geared toward compliance and will capture existing activities that can easily incorporate climate issues	Reporting demonstrates progress and captures new or developing activities to better address climate issues	Reporting highlights advanced practices to embed climate-related considerations into the business and decision-making
Governance	<ul style="list-style-type: none"> • Instill climate expertise to Board and leadership • Incorporate into routine reviews • Define explicit roles and responsibility 	<ul style="list-style-type: none"> • Assigned responsibility assigned to Board committee • Integrate into leadership KPIs • Publish policy or commitment on climate change 	<ul style="list-style-type: none"> • Report directly and frequently to Board • Include climate-related performance in remuneration policy
Strategy & Climate Scenario Analysis	<ul style="list-style-type: none"> • Conduct high-level climate risks/opportunities assessment over defined time horizons • Benchmark against peers, customers, and suppliers 	<ul style="list-style-type: none"> • Quantify impact of material climate risks/opportunities across value chain • Incorporate into strategy through defined initiatives to mitigate and adapt to climate change 	<ul style="list-style-type: none"> • Develop a formal transition plan • Incorporate into financial planning, e.g., cost of carbon • Perform scenario analysis with clear connection to decision-making
Risk Management	<ul style="list-style-type: none"> • Current risk identification and risk management processes may consider climate-related activities even if not explicitly labelled as such, e.g., natural disasters, insurance • Provide targeted training to lines of defense 	<ul style="list-style-type: none"> • Integrate climate-related risks/opportunities into ERM or establish new policies • Identify key risk indicators to assess climate risk impacts 	<ul style="list-style-type: none"> • Integrate climate-related risks into applicable risk types and internal risk reporting • Integrate climate-related data fully into risk data • Establish climate-related risk management activities inclusive of entire value chain
Metrics & Targets	<ul style="list-style-type: none"> • Identify common metrics that may inform or be influenced by climate considerations • Measure and disclose required Scopes for compliance using high-level estimates and obtain an assurance readiness-assessment 	<ul style="list-style-type: none"> • Disclose Scopes 1-3, enhancing data quality and management • Establish activity-based targets • Define climate-related data strategy and plan for data availability and quality enhancements 	<ul style="list-style-type: none"> • Set and validate science-based target(s) • Use an internal carbon price to inform decision making • Obtain a COSO gap assessment for climate-related reporting

Case Studies



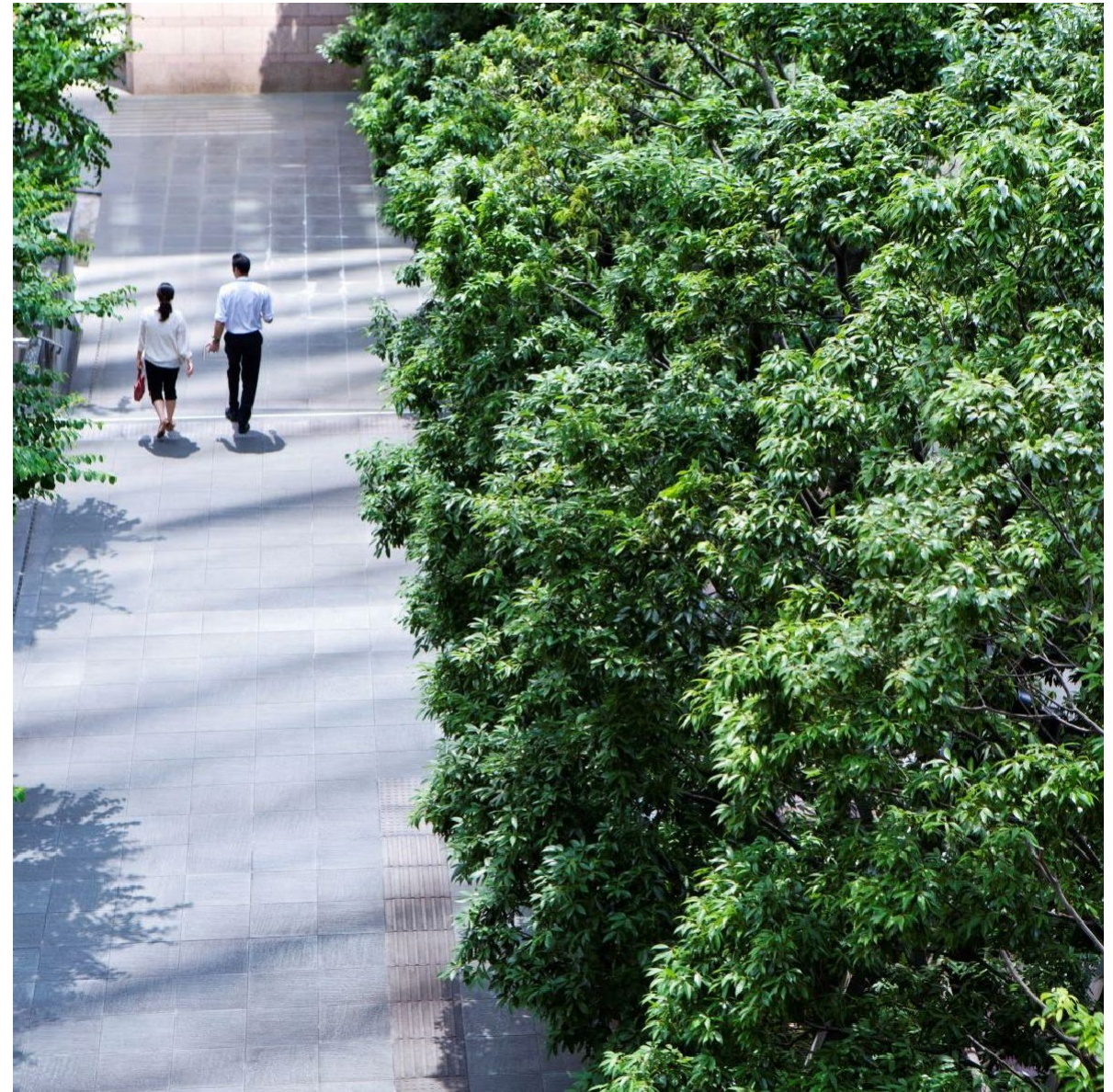
GHG Assurance Readiness Assessment Case Study

Engagement overview

Conducted a GHG assurance readiness assessment for a \$2 billion in revenue professional services firm who will need to comply with California climate reporting requirements

Delivering an Unmatched Client Experience

- Conducted a dry run of assurance for Scope 1, 2, and 3 emissions
- Identified GHG reporting misstatements
- Provided recommendations for future periods, including exclusions, process & systems, and policies
- Presented to leadership, including the CEO and chair of the governing board, with background on the readiness assessment, our adjustments, and recommendations.
- Participated in discussions with leadership about GHG reporting best practices and techniques for GHG reduction



Alignment with CA SB 253 & SB 261

Case Study

Engagement overview

Created a regulatory compliance roadmap to the California 2023 SB 253 and 261 climate-related reporting laws for a \$20+ billion bank in the US South and Southern Plains

Delivering an Unmatched Client Experience

- Conducted 7 executive-level interviews to understand readiness of compliance with the TCFD-related reporting provisions found in California 2023 Senate Bill 261 for climate related disclosures
- Examined 20+ company documents to review current state of bank policies to understand reporting readiness
- Reviewed company's current utility tracking software to explore whether it could accommodate GHG emissions
- Compiled 60+ recommendations needed to facilitate a transition from current-state to future-state compliance readiness and created an idealized timeline for executing on those recommendations



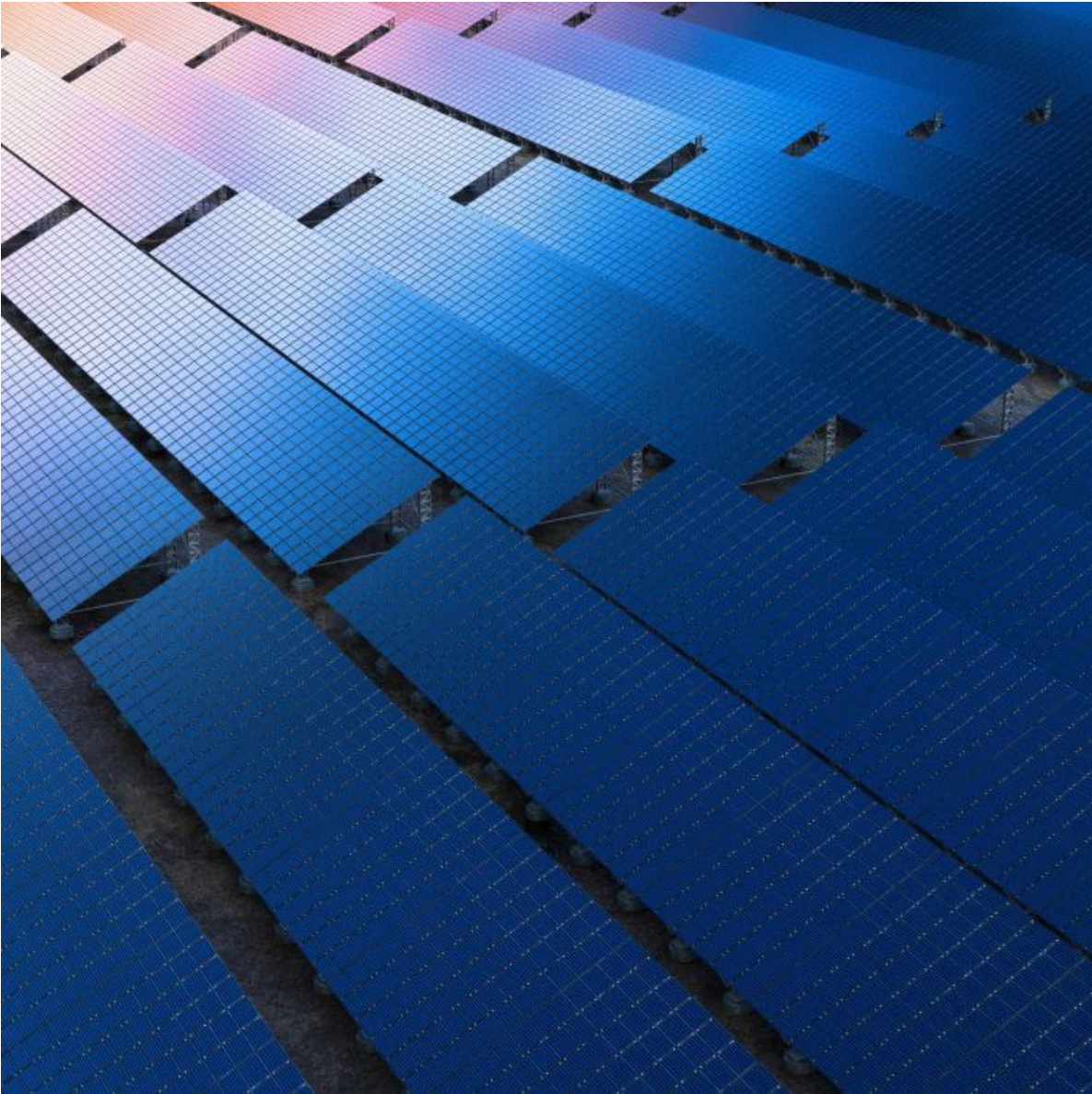
ESG Materiality Assessment Case Study

Engagement overview

Completed a gap assessment for a semiconductor manufacturer and supplier, based in California

Delivering an Unmatched Client Experience

- The client wanted to know exactly what they could do relating to sustainability to keep up with the expectations of their customers and competitors in the American market
- The project included an analysis of their current status, translating an existing sustainability report from another region of operations, mapping stakeholder expectations, an initial materiality assessment, and a roadmap for suggested improvements



Contact

Forvis Mazars



Nate White, CPA
Director, ESG & Climate Risk
nate.white@us.forvismazars.com



Kristin Dillavou, CPA
Senior Manager, ESG & Climate Risk
kristin.dillavou@us.forvismazars.com

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis and form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information and legal authorities.

© 2024 Forvis Mazars, LLP. All rights reserved.