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Change in the Climate

Key findings from our survey measuring how U.S. business leaders are preparing for the SEC's Climate Disclosure Rule

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Executive Summary

In March 2022, the U.S. Securities and Exchange Commission (SEC) proposed sweeping changes for how U.S. companies disclose data and risks on climate change. These proposed rules[1] would require companies to disclose information on a range of climate-related issues, from their strategy to their emissions data.

After a delay in finalizing the changes due to an unprecedented number of public comments, the SEC recently announced the rule is currently expected to be finalized in spring 2023. While it is unknown exactly what the changes will be, one point is clear: the proposed rule changes are of seismic importance for U.S. companies' ESG efforts.

To get a sense of how businesses are thinking about—and preparing for—the final rule, Workiva and PwC commissioned a survey of 300 executives at U.S.-based public companies with at least $500 million in annual revenue.

In some respects, our research tells two different stories about ESG reporting. The first tells an encouraging story about how U.S. companies have embraced ESG reporting today. Most say that some ESG reporting is already fully implemented into their company's strategy and, despite the uncertainty, delayed publication, and anticipated challenges with the rule, are planning to push ahead with voluntary disclosure of their ESG data.

The second story is a little less encouraging. It's about the ESG reporting of tomorrow. Four in ten business leaders admit their company isn't fully prepared to meet the upcoming expected disclosure requirements. That lack of preparation isn't due to a lack of knowledge—our research found that leaders are acutely aware of the proposal and believe it sets clear expectations around what data and information needs to be disclosed. Instead, their difficulty stems from three key areas: technology, resourcing, and budgeting. The data also reveals that business leaders expect independent assurance of ESG reports to play a major role in meeting deadlines with reliable and confidence-inducing data.

Taken together, the stories carry a clear lesson about the changing climate on ESG reporting. While U.S. companies have come a long way in reporting ESG data, we have reached a tipping point where companies should address important technology and resourcing challenges to become compliant with the pending rule and other stakeholder demands for ESG transparency.

[1] SEC.gov, "The Enhancement and Standardization of Climate-Related Disclosures for Investors", 21 March 2022.

Key Takeaways

1. **Business leaders highlight three key challenges regarding compliance with the proposed SEC rule on climate disclosure: technology, resourcing, and budget.**
    - A full **85%** of executives are concerned their company "does not have the right technology in place," despite almost all **(97%)** anticipating technology playing an important role in meeting potential new requirements.
    - **More than one-third (36%)** of leaders are not very confident their company is staffed appropriately.
    - **More than three-in-five (61%)** business executives believe the rule will cost their company more than $750,000 in the first year of compliance.

2. **Subsequently, leaders report their businesses are not yet fully prepared to meet the expected new disclosure requirements and would prefer at least two more years to comply.**
    - **Four in ten (39%)** executives share that their companies are not fully prepared to meet new requirements.
    - **At least seven-in-ten** business leaders believe a reasonable timeline for filing data for currently proposed requirements is at least two years after the rule goes into effect.

3. **Nevertheless, business executives plan to proactively comply with the SEC's proposed climate disclosure rule and desire independent assurance as they do.**
    - Business executives recognize the importance of ESG reporting with **89%** already reporting some ESG data now.
    - **Seventy percent** of business leaders report their companies will "proceed with compliance" regardless of when the rule becomes U.S. law.
    - **Almost all (96%)** executives say they will proceed with independent assurance, whether it's required in the final rule or not.

Detailed Findings

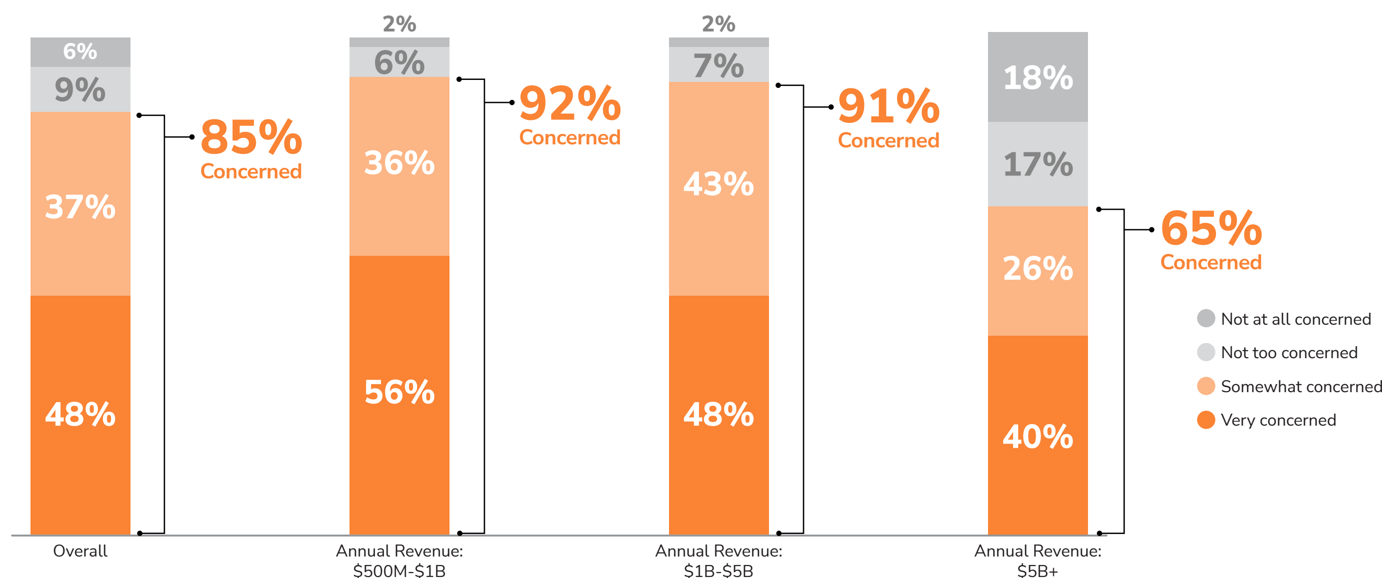
Business leaders highlight three challenges when it comes to compliance with the proposed SEC rule on climate disclosure: technology, resourcing, and budget.

Technology

A full 85% of business leaders are concerned their company "does not have the right technology in place to support ESG reporting that meets the potential new requirements," with roughly half of executives feeling *very* concerned. Furthermore, one-third (32%) of leaders report their company is not currently using technology to help with ESG reporting, which is particularly alarming considering that almost all (97%) anticipate technology playing an important role in their company meeting the potential new requirements of the SEC's climate disclosure rule. In fact, 59% say it will play a *significant* role. Yet only 40% have so far invested in ESG reporting technology in anticipation of the proposed rule.

Concern about having the right technology in place is highest among executives at smaller companies (92% concerned) and midsize companies (91% concerned). The apprehension drops to 65% among executives at larger companies.[1]

How concerned are you that your company does not have the right technology in place to support ESG reporting that meets the potential new requirements of the SEC's climate disclosure rule?



Relatedly, executives also express concerns around data, specifically around the consistency (stated by 19% as a big concern), accuracy (19%), and quality (17%) of data they are collecting and reporting. Participants shared they are worried about data that may not be comprehensive or up-to-date enough to accurately reflect the company's current ESG performance. They also cited challenges in gathering the data from disparate systems and understanding what should be included and what should not be.

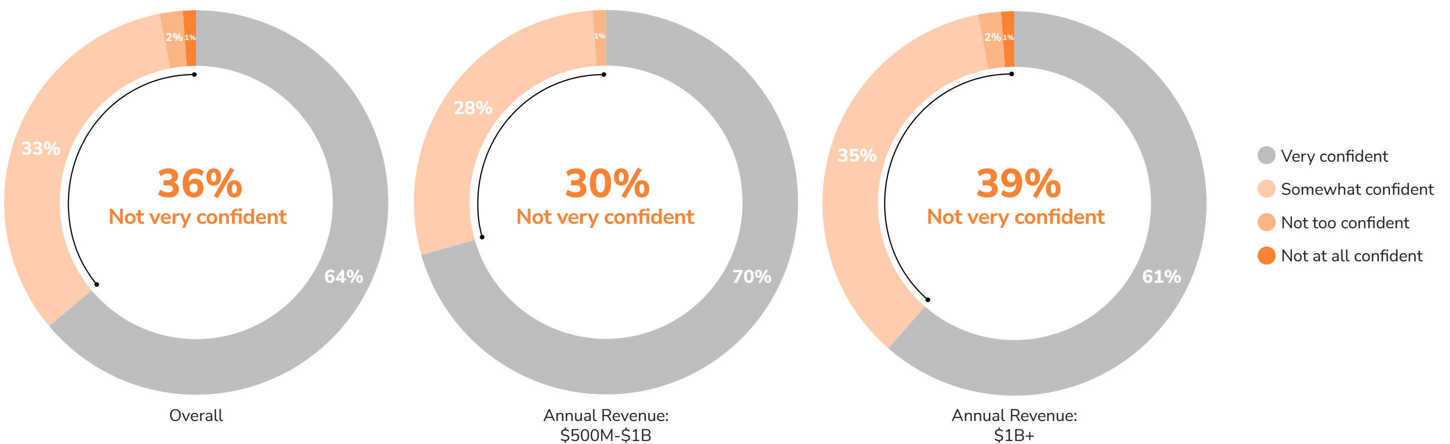
ESG reporting is complex, requiring the ingestion, capture, management, and reporting of financial and non-financial data from many disparate sources. Having the right technology in place is a critical step to confirming the information is trustworthy.

[1] "Smaller companies" refers to those with annual revenue between $500 million and $1 billion, "midsize companies" refers to those with annual revenue between $1 billion and $5 billion, "larger companies" refers to those with annual revenue more than $5 billion. See Methodology for a more detailed explanation.

Resourcing

More than one-third (36%) of leaders are not fully confident their company is staffed appropriately to meet potential requirements of the proposal. Confidence levels differ by company size and are contrary to what we see in terms of confidence in technology. While midsize and larger companies are more confident than smaller companies that they have the right technology in place, they are less confident that they are staffed appropriately to meet the potential new requirements of the rule. A shortage of talent at more than a third of companies could make compliance that much more of a challenge when the rule comes into effect.

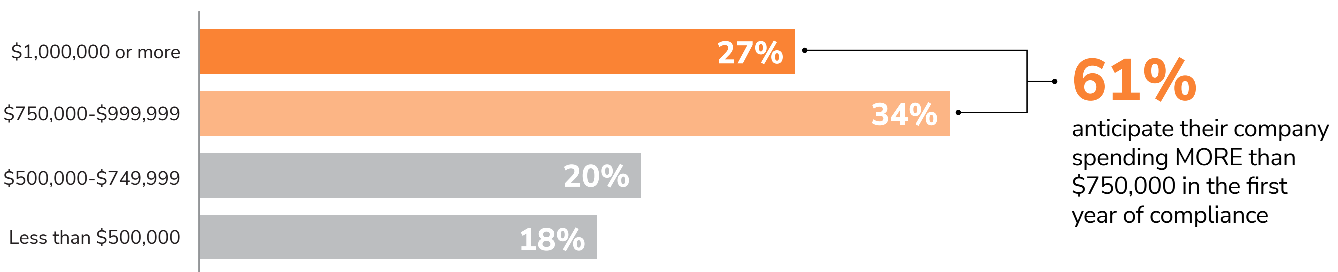
How confident are you that your company is staffed appropriately to meet the potential new requirements of the proposed climate disclosure rule?



Budget

More than three-in-five (61%) business executives believe the rule will cost their company more than $750,000 in the first year of compliance, more than the $640,000 the SEC estimates[2]. What's more, over one quarter (27%) of business leaders are anticipating spending more than one million dollars being compliant, indicating either potential unanticipated expenses or business executives who are overestimating the cost.

To the best of your knowledge, how much do you think this proposed climate disclosure rule, if enacted as is, will cost your company in total for the first year of compliance?



61%
anticipate their company spending MORE than $750,000 in the first year of compliance

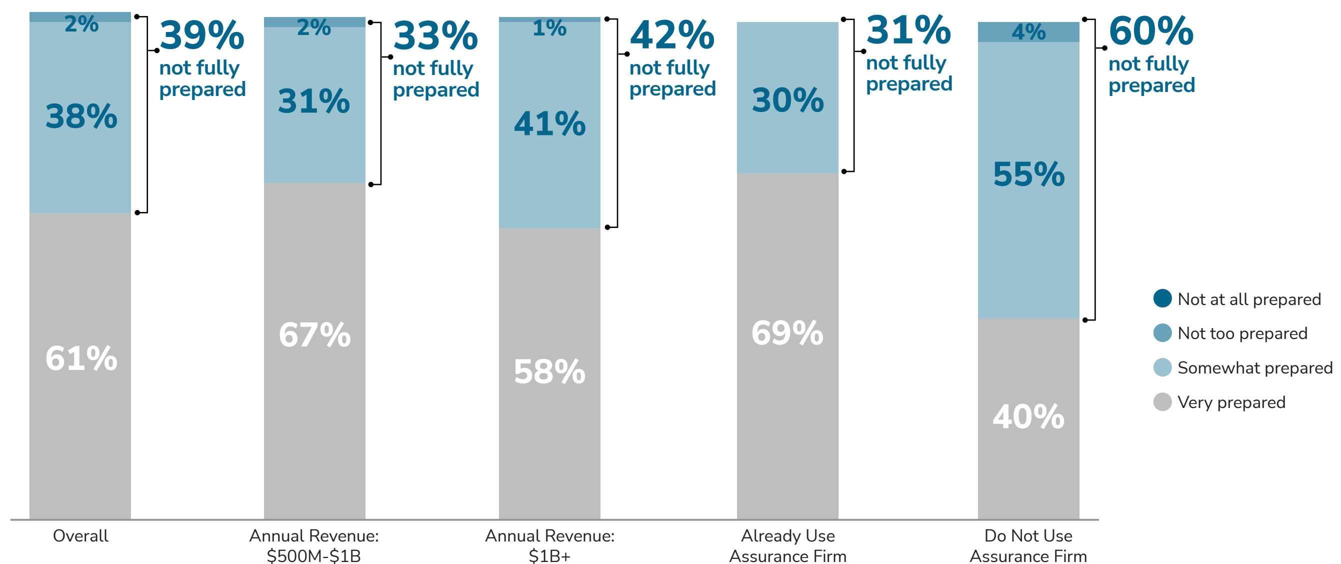
[2]Pg. 373 of "The Enhancement and Standardization of Climate-Related Disclosures for Investors" Proposed Rule

Business leaders report their companies are not yet fully prepared to meet the expected new disclosure requirements and would prefer at least two more years to comply.

Four-in-ten (39%) executives report their company is not very prepared to meet the anticipated requirements.

Likely due to a larger overall footprint and more extensive supply chain, business leaders at midsize and larger companies say their company is less prepared to meet the expected requirements than their counterparts at smaller companies—42% of midsize and larger companies are not fully prepared vs. only 33% of smaller companies.

How prepared would you say your company is to meet the requirements of the proposed climate disclosure rule?



Consequently, at least seven-in-ten business leaders believe a reasonable timeline for reporting data for currently proposed requirements is at least two years after the rule goes into effect. Readiness to report within one year of the initial disclosure requirement is very low across the breadth of potential requirements – ranging from 33% on the high end to 20% on the low end.

Executives report being most ready for "disclosure of prospective risks and material impacts on business, strategy, and outlook caused by climate change" (33% believe it is reasonable to disclose within one year of the initial disclosure requirement) and "disclosure of Scope 1 and 2 greenhouse gas emissions" (27% within one year of the requirement). Companies of all revenue sizes are most ready to report on these two requirements, with executives at smaller companies saying they are somewhat more ready to report on these two requirements (36% and 30%, respectively) than executives at larger companies (28% and 27%, respectively).

Conversely, business leaders would like the most time for "disclosure of detailed plans to comply with advertised environmental claims," with 23% saying they would like three or more years to file data after the initial disclosure requirement.

*What timeline do you think is reasonable for each potential reporting requirement?**

	Within 1 year of initial disclosure requirement	Between 1 and 2 years after initial disclosure requirement	Between 2 and 3 years after initial disclosure requirement	More than 3 years after the initial disclosure requirement
Disclosure of prospective risks and material impacts on business, strategy, and outlook caused by climate change	33%	31%	21%	15%
Disclosure of Scope 1 and 2 GHG emissions	27%	34%	23%	16%
Disclosure of Scope 3 GHG emissions, if material or company has relevant reduction target	19%	33%	27%	20%
Disclosure of additional qualitative and quantitative climate risk disclosures	22%	35%	20%	21%
Disclosure of governance of climate-related risks and risk-management processes	23%	31%	24%	21%
Disclosure of detailed plans to comply with advertised environmental claims	21%	37%	19%	23%
Limited assurance for accelerated filers and large accelerated filers	20%	36%	20%	22%
Reasonable assurance for accelerated filers and large accelerated filers	20%	30%	28%	21%

*Respondents were shown more fulsome language before answering questions.

Generally speaking, the larger the company, the longer the time frame an executive believes is needed for their company to meet disclosure requirements. On average, 20% of executives would like three or more years to file data after the initial disclosure requirement across the potential requirements tested. But this average differs by size—14% of executives at smaller companies would like three or more years after the initial disclosure requirement to file, compared to 21% of executives at midsize companies and 25% of executives at larger companies.

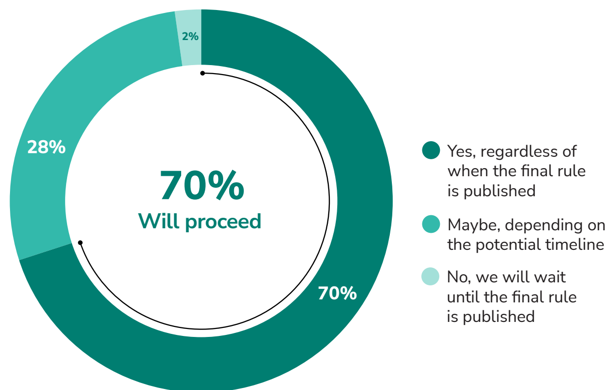
Business executives plan to proactively comply with the SEC's proposed climate disclosure rule and desire independent assurance as they do.

Though business leaders foresee challenges with compliance, they clearly appreciate the importance of ESG reporting as evidenced by the fact that 89% say their company already reports some ESG data, including 57% who say they already formally file data with the SEC. Among the majority who report some ESG data, 84% view ESG as "already a part of our culture and fully implemented into our strategy."

Given this corporate embrace of ESG reporting, together with the political climate and media coverage, it isn't surprising that executives report a high level of familiarity with the SEC's proposed rule—98% of executives consider themselves familiar with it, with 67% saying they are "very familiar" with it. Accordingly, 91% of executives agree it "sets clear expectations around what data and information needs to be disclosed."

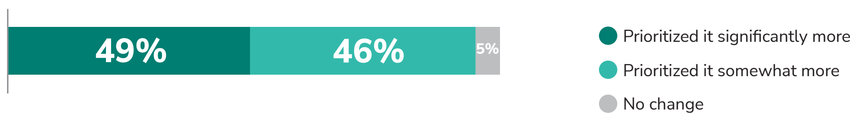
Despite uncertainty over when the rule will become U.S. law, 70% of business leaders say their company will push ahead and "proceed with compliance" with the proposed changes. The remainder say their company will reevaluate pending any developments in the timeline (28%) or wait entirely until the rule is final (2%).

If the final rule is delayed, will your company proceed with compliance before it is published?



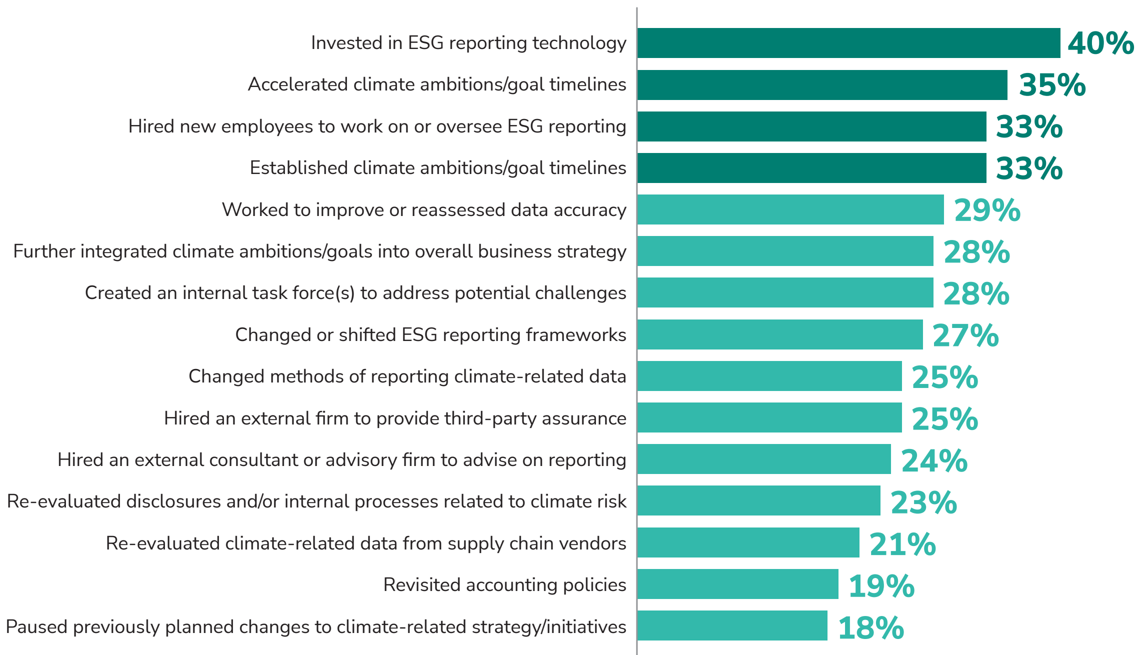
In fact, many companies are prioritizing ESG reporting—95% of business leaders say their company is prioritizing ESG reporting more now than before the rule was proposed—and taking proactive, compliance-related measures.

To what extent has the SEC climate disclosure rule proposed in March 2022 to enhance and standardize climate-related disclosures for investors changed how your company has prioritized ESG reporting?



All executives shared that their company has taken at least one action in anticipation of the rule becoming law, with many taking more than one. While these actions vary, the most common actions to date include investments in ESG reporting technology (40%) and people (33%), and accelerating (35%), or establishing, if necessary (33%), climate ambitions or goal timelines. Having the right technology and people will be critical to complying with the proposed rule changes.

What actions has your company taken to date in anticipation of the proposed climate disclosure rule?



Impact of Assurance

Acquiring independent assurance is expected to play a major role in companies managing their risk and meeting expected requirements, regardless of whether it is required in the final rule for Scope 1 and 2 greenhouse gas emissions. Seventy percent of executives report their company "already uses independent assurance and would continue," while almost all others (27%) report their company "will likely seek assurance even if it's not required."

Independent assurance has already played a critical role in preparing for the rule. Executives at companies who already use an independent assurance firm report much higher levels of preparedness—69% of those who use an independent assurance firm feel very prepared vs. 40% of those who do not use an independent assurance firm.

Conclusion

Although ESG reporting is well underway for many public companies, our study results reveal that preparedness for the SEC climate disclosure ruling varies and there is a lot more for companies to do ahead of the new rules going into effect.

There are several steps that companies should take right now to make sure their organizations are prepared, including confirming they have the right technology in place to help meet ESG reporting requirements, staffing appropriately, and utilizing independent assurance.

Even with delays, a final rule from the SEC may be published soon. It is imperative that forward-thinking organizations begin tackling their ESG data strategy now.

Methodology

Workiva and PwC jointly commissioned a study to capture corporate executives' level of preparedness and anticipated actions around the SEC's proposed climate disclosure rule. In total, 300 corporate executives were surveyed online with fieldwork conducted from December 2022 through January 2023.

Corporate executives are defined as senior-level decision makers with knowledge or responsibility for ESG reporting at U.S.-based public companies with at least $500 million in annual revenue. Executives range in seniority from C-Suite to Vice President and represent teams or departments that play a role in ESG reporting (i.e., Business Strategy/Risk Management, Communications, Corporate Affairs, Executive Management, Finance/Accounting, Human Resources/Personnel Management, Investor Relations, Legal/Compliance, Operations/Facilities, Sustainability/ESG).

Where appropriate, data comparisons are made between companies of differing revenue size. For the purposes of clarity in this report, companies with annual revenue between $500 million and $1 billion are referred to as "smaller companies," companies with annual revenue between $1 billion and $5 billion are referred to as "midsize companies," and companies with annual revenue more than $5 billion are referred to as "larger companies."

Totals in this report may not appear to sum correctly due to rounding.