Capital Markets Strategy

Essential inCights for the C-Suite

MUFG

ESG Disclosure Requirements

An Update on Regulatory and Private Sector Focus

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01 Expectations for the 2022 Proxy Season

The UN's Warning on Climate

In April, the UN's Intergovernmental Panel on Climate Change (IPCC) released the third and most contentious part of their latest climate assessment. While the report warns that the window to cap global warming to 1.5°C is rapidly closing, it also provides some reasons for optimism including the falling cost of clean energy.

Global climate finance will need to increase significantly to cap warming at 1.5 degrees

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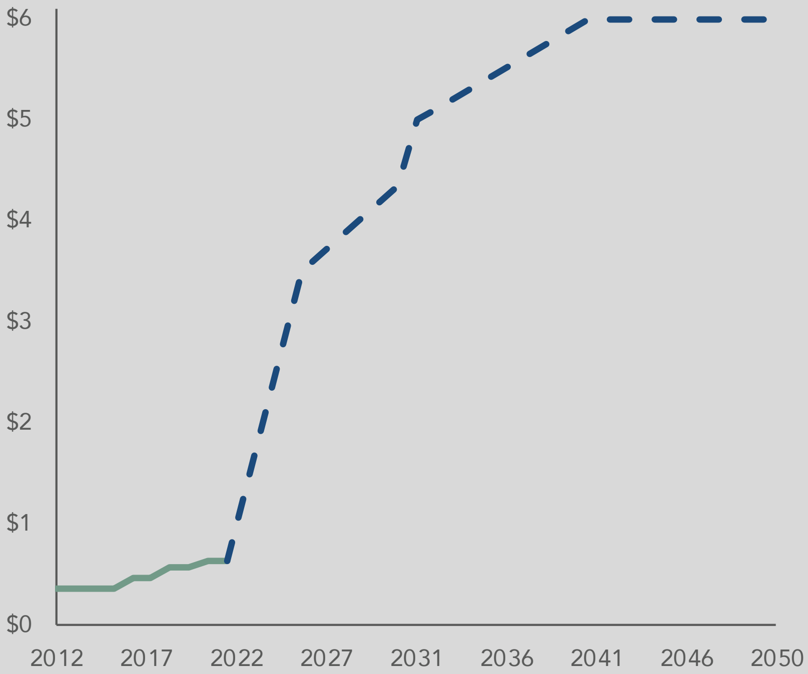


Key Takeaways from the IPCC's Report:

- **Window for 1.5°C closing**: The world is currently on track to warm by more than 3°C, double the goal of the Paris Climate Accord. In order to achieve 1.5°C, global GHGs must peak by 2025 and decline by 43% by 2030
- **Energy transition backsliding**: Countries seeking alternatives to Russian natural gas have turned to higher polluting options, including coal
- **Tools available to cap emissions**: Over a dozen countries have been shrinking emissions for over a decade using cost-effective methods of cutting carbon
- **Clean energy prices are falling**: Solar and wind costs fell 85% and 55% between 2010 and 2019 and are now cheaper than fossil-fuel-powered electricity in many places
- **1.5°C overshoot expected**: Carbon removal technology will be an "unavoidable" part of the path to net zero as the world is likely to surpass the amount of GHG emissions needed to limit warming. Carbon removal projects will range from reforestation to direct-air capture.

Source: (1) Bloomberg Green. UN IPCC.

Investor Priorities in 2022 Proxy Voting Season

Year-to-date, shareholders have filed a record 529 ESG related resolutions, with 145 related to climate (the largest sub-category, and up 60% since 2021)

Investor priorities in 2022 proxy voting season

Climate change impacts on supply chain, employees & customers

Racial justice, gender equality, diversity and equity

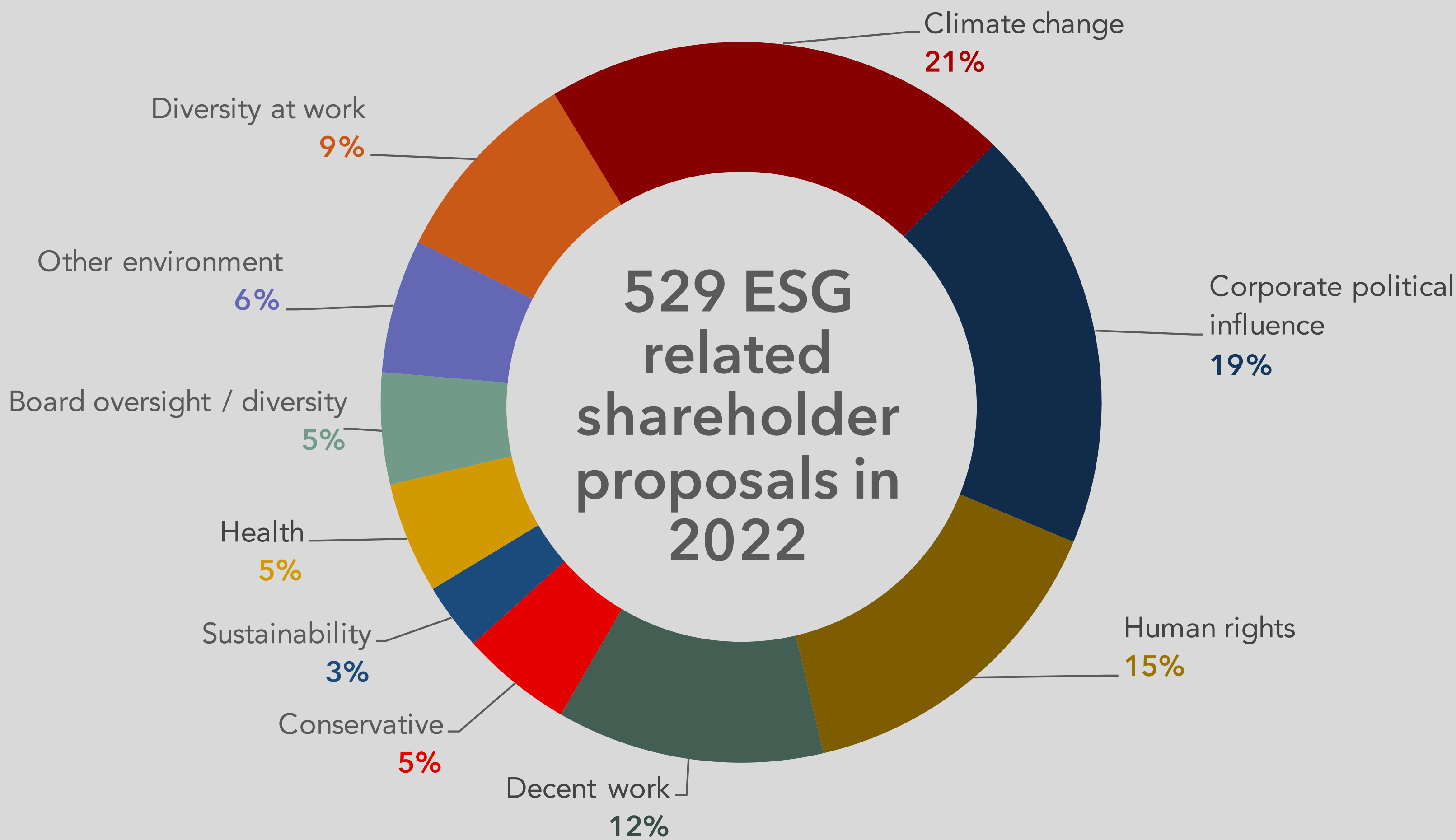
Political contributions and lobbying

Accurate & verified disclosures

Source: Proxy Preview "Proxy Preview 2022".

Record ESG Shareholder Resolutions

Shareholders have filed a record 529 ESG related resolutions in the 2022 proxy season, an increase of 20% vs. the same time in 2021. Importantly, 300 of these proposals are likely to be voted on in 2022, up nearly 60% from 2021.

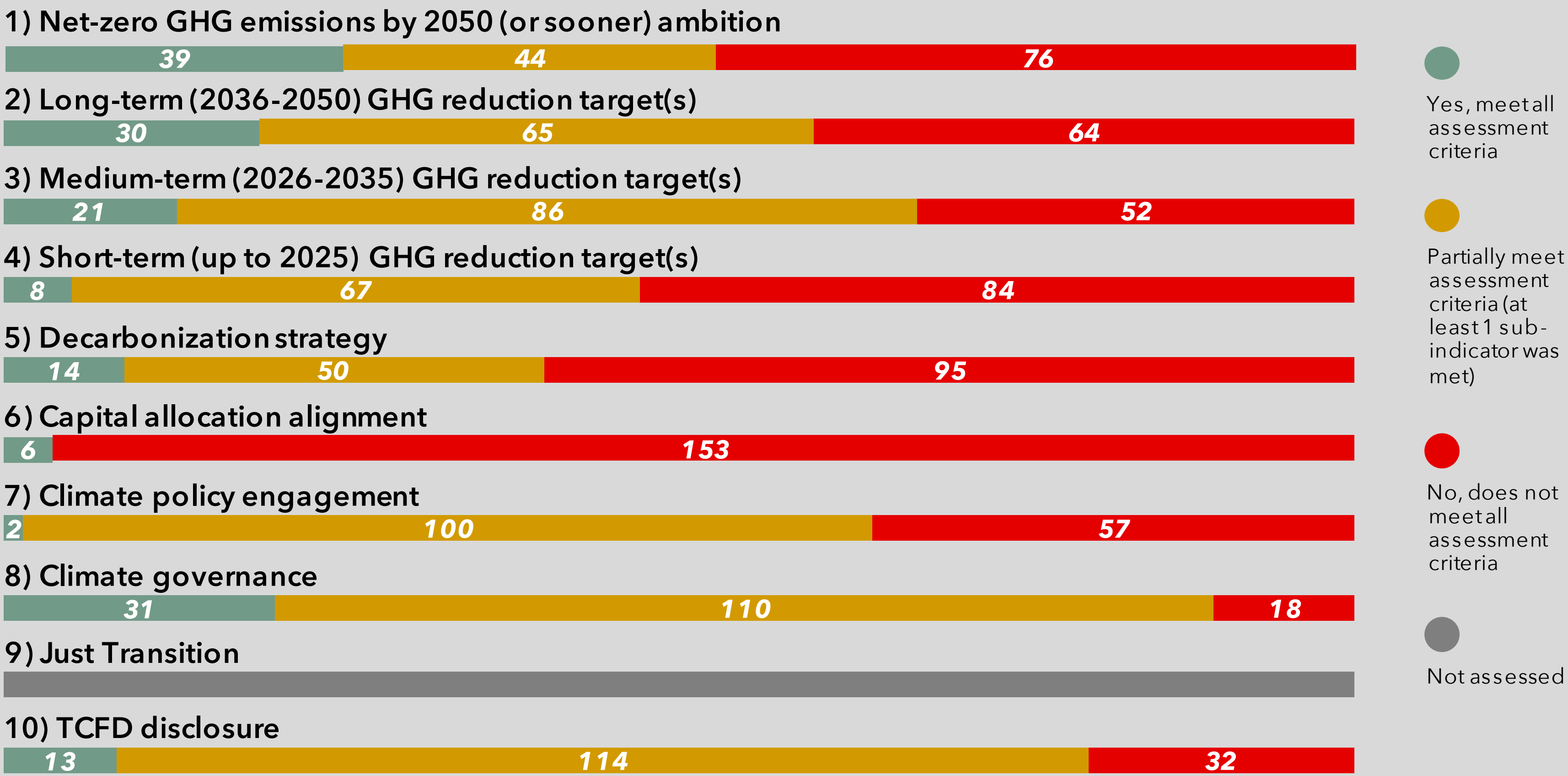


Source: (1) Proxy Preview, "Proxy Preview 2022."

Climate Action 100+ Net Zero Company Assessment

The Climate Action 100+'s assessment shows that although there is growing global momentum around climate commitments, most of the world's heaviest emitting companies are still in the early stages of the shift to a net zero economy

CA 100+ Net Zero Company Benchmark Indicator (Number of Focus Companies *)*



Source: Climate Action 100+

02 The SEC's Proposed Climate Disclosure Rule

Existing US ESG Disclosure Requirements

US Requirements:

Dodd-Frank disclosure provisions around conflict minerals, resource extraction payments, executive compensation and board diversity

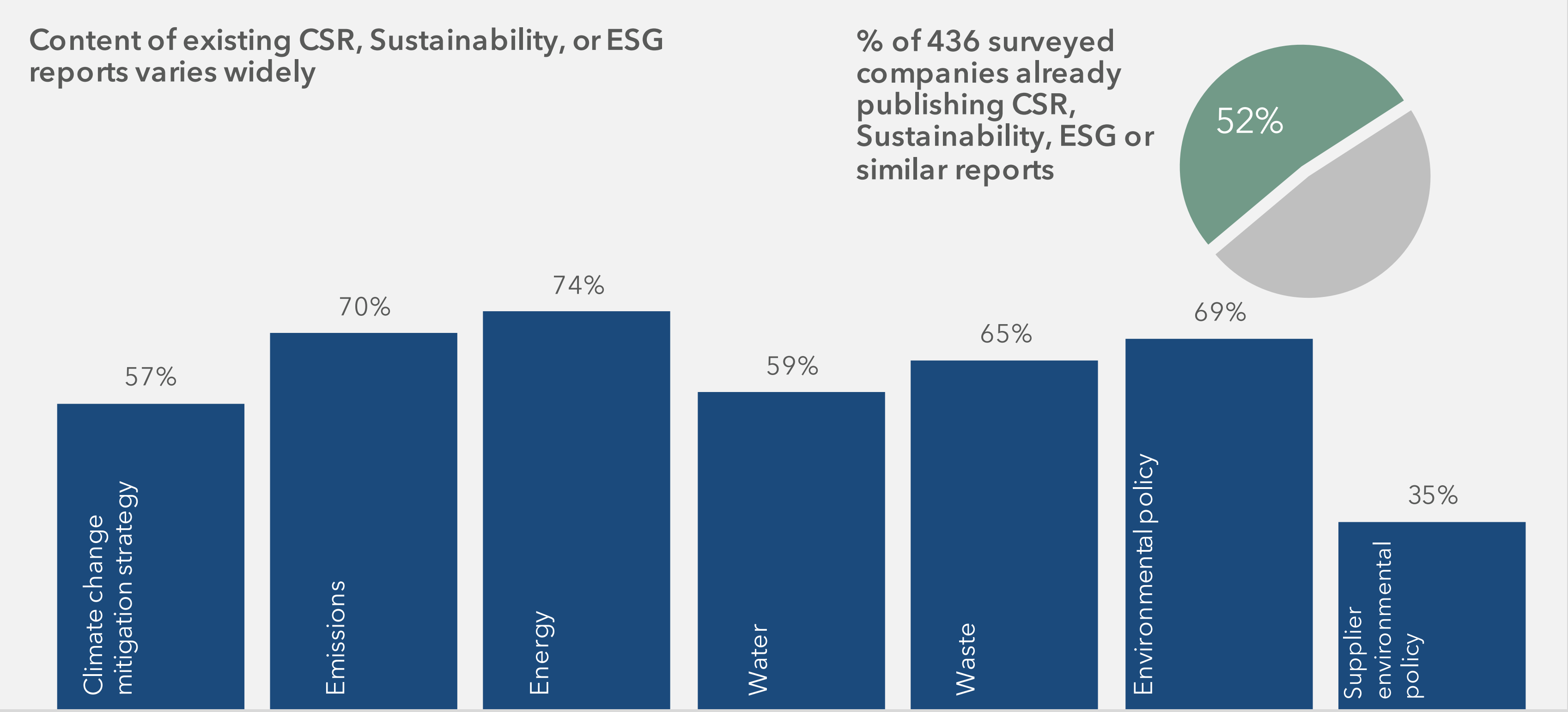
2010 SEC guidance on climate risk and opportunity disclosure

SEC regulation S-K financial materiality disclosure

EEO-1 demographic workforce data

Climate Disclosure in the US

A 2021 study showed that two thirds of Russell 1000 companies, and 90% of the 500 largest companies in the index, published sustainability reports in 2019. However, with no mandatory standardized reporting criteria and several different third-party standards available, comparability between companies' ESG disclosures is limited. The US already mandates some ESG disclosures, when material, but many investors are seeking more standardized and transparent information from companies.



Source: (1-2) Climate Change & ESG Reporting from the Public Company Perspective (2021). Survey of 436 companies across a broad cross-section of industries and range from small to large in terms of market cap. Numbers will not sum to 100% given some report using multiple methods of filing.

SEC Proposed Climate Disclosure Ruling

On March 21, the SEC released their highly anticipated proposed rule on climate-related disclosure. If passed, the rule would apply to both US based and foreign SEC registrants and would require companies to provide detailed climate-related information in registration statements and periodic reports. The proposed rule is open for comment until late May.

Key Takeaways from the SEC's Proposed Climate-Related Disclosure Rule:

Financial statements: Impact of climate-related events and transition activities must be disclosed on registrant's consolidated financial statements

Emissions disclosures: Scope 1 and Scope 2 emissions data must be disclosed in absolute terms (without including offsets) and in terms of intensity (per unit of economic value or production)

Scope 3 emissions: Must be disclosed if material to company's performance or if the company has set Scope 3 reduction targets. A safe harbor provision for liabilities related to Scope 3 emissions disclosures will be incorporated. Smaller companies exempt from Scope 3 disclosure.

Climate-related targets and goals: Companies that have set climate-related targets must describe their plan and include relevant baseline and interim targets and report progress annually

Disclosure attestation: Large companies required to obtain independent third party assurances on their emissions disclosures

SEC Proposed Climate Disclosure Ruling (Cont'd)

Key Takeaways from the SEC's Proposed Climate-Related Disclosure Rule:

Carbon offsets: Companies required to detail use of carbon offsets to reach GHG reduction goals

Carbon pricing: Companies that put a price on carbon to inform planning and business investment must disclose the price and how it is set

Governance: Companies to disclose oversight and governance procedures for climate-related risks. If a transition plan as been adopted, description of plan and relevant metrics and targets must also be disclosed.

Scenario analysis: If the registrant uses scenario analysis, a description of scenarios used, parameters, assumptions, analytical choices, and projected principal financial impacts must be disclosed

Phase-in period: A phase-in period will be included for all companies with compliance date based on registrant's filer status. An additional phase-in period for Scope 3 disclosures will be included.

Frameworks: The SEC proposed disclosures are designed to be similar to existing disclosure frameworks such as TCFD and the Greenhouse Gas Protocol

Phase in Schedule

If passed, the rule would include a phase-in period for all registrants, with the compliance date depended on the company's filing status

Proposed phase-in schedule assuming the rule is adopted with an effective date in December 2022:

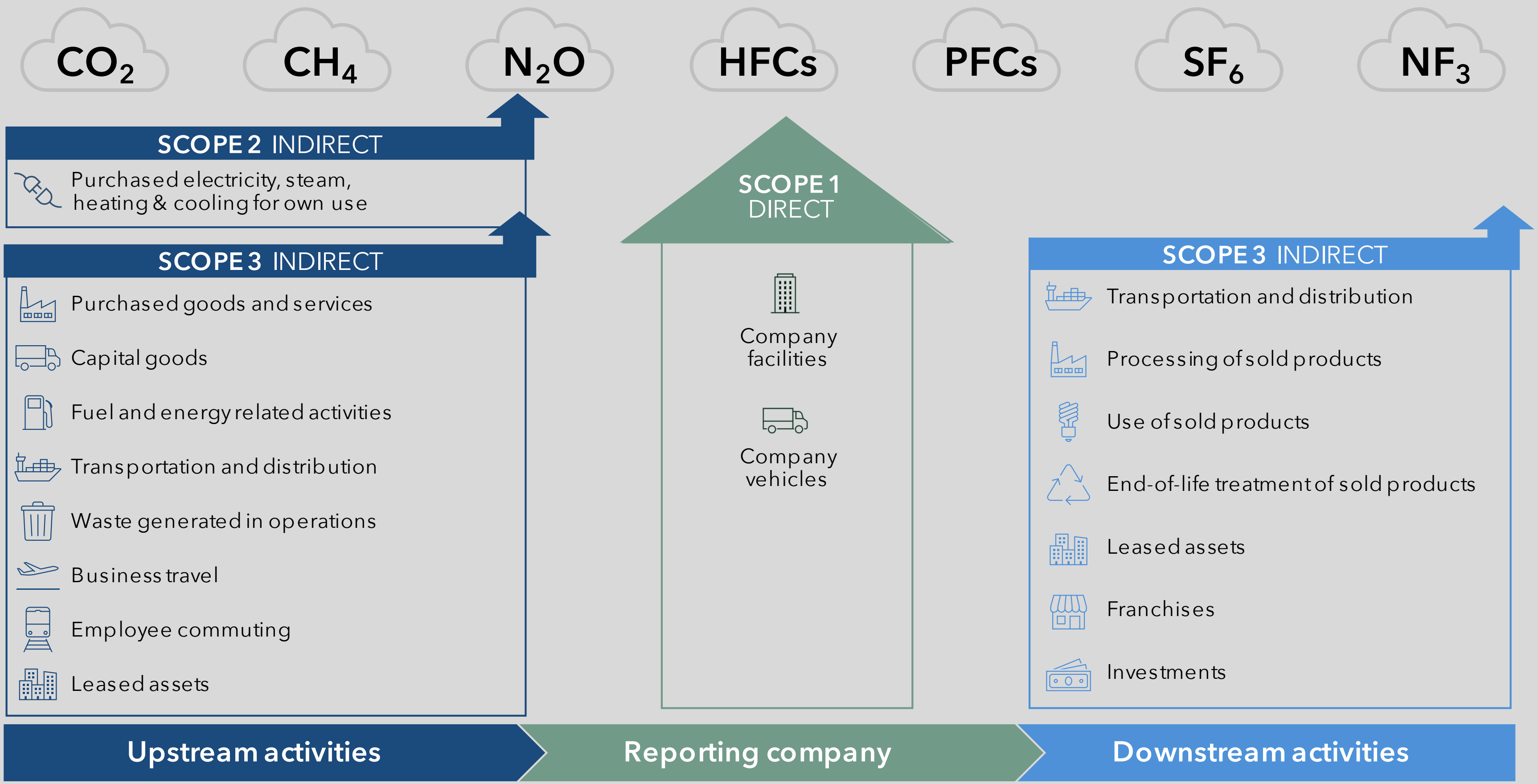
Registrant type	Disclosure Date (assuming Dec 31 fiscal year-end)			
	Proposed Disclosures & GHG Scope 1 & Scope 2 metrics	GHG Scope 3 metrics	Limited Assurance (for scope 1 & 2)	Reasonable Assurance (for scope 1 & 2)
Large Accelerated Filer (public float > $700mm)	FY23 (filed in 2024)	FY24 (filed in 2025)	FY24 (filed in 2025)	FY26 (filed in 2027)
Accelerated Filer (public float $75mm < $700mm)	FY24 (filed in 2025)	FY 25 (filed in 2026)	FY25 (filed in 2026)	FY27 (filed in 2028)
Non-Accelerated Filer	FY24 (filed in 2025)	FY25 (filed in 2026)	Exempted	Exempted
Smaller Reporting Company (< $250mm public float OR < $700mm float + < $100mm annual revenue OR No public float + < $100mm annual revenue)	FY25 (filed in 2026)	Exempted	Exempted	Exempted

Source: (1) SEC, "Fact Sheet: Enhancement and Standardization of Climate-Related Disclosures.". MUFG Analysis (Lim, Bancroft).

Calculating GHG Emissions

The Greenhouse Gas Protocol is the most widely used framework for reporting emissions. It was established by the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) in 2001.

Greenhouse Gas Emissions Sources and Scopes across the Value Chain



Source: (1) Greenhouse Gas Protocol.

03 International Sustainability Disclosure Standards

International Sustainability Standards Board

The International Sustainability Standards Board (ISSB) was launched by the IFRS Foundation at COP26. Their aim is to build on and replace the patchwork of voluntary disclosure frameworks already in place to create a "baseline" for global standards.

Source: EY "Three Dynamics to Watch on Global Climate Disclosure Standards" (August 12, 2021).

ISSB Proposed Global Baseline Sustainability Disclosure Standards

The ISSB recently released their first two proposed standards. The first sets out general sustainability-related disclosure requirements and the second specifies climate-related disclosure requirements. Both proposals are open for a 120-day consultation period which will end on July 29, 2022.

The ISSB's draft General Requirements for Disclosure of Sustainability-Related Financial Information extends the TCFD framework to include sustainably-related risks and opportunities beyond those related to climate:

Governance

Information to enable investors to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities

Strategy

Information to enable investors to assess a company's strategy for addressing significant sustainability-related risks and opportunities, whether these risks and opportunities are incorporated into its strategic planning, including financial planning; and whether they are core to its strategy.

Risk Management

Information to enable investors to understand the process by which a company identifies, assesses and manages current and anticipated sustainability-related risks and opportunities and whether that process is integrated into its overall risk management process. This information helps an investor evaluate the company's overall risk profile and risk management processes.

Metrics and Targets

Information to enable investors to understand how a company measures, monitors and manages significant sustainability-related risks and opportunities and assesses its performance, including progress towards the targets it has set.

Source: (1) IFRS "Exposure Draft – Snapshot: IFRS Sustainability Disclosure Standards". Deloitte "ISSB: General Requirements for Sustainability-related Financial Information"

ISSB Proposed Global Baseline Sustainability Disclosure Standards (Cont'd)

Applicability and additional details on the draft General Requirements for Disclosure of Sustainability-Related Financial Information	
Reporting Entity	The same boundary used for financial statements and general purpose financial reporting
Timing	An entity would report is sustainability-related financial disclosures at the same time and for the same time period as its related financial statements
Location	Sustainability related disclosures would be included as part of general purpose financial reporting, including but not limited to management commentary
Estimations	When sustainability-related financial disclosures cannot be directly quantified, reasonable estimates can and should be used as long as they are clearly and accurately described and explained

Source: (1) IFRS "Exposure Draft – Snapshot: IFRS Sustainability Disclosure Standards". Deloitte "ISSB: General Requirements for Sustainability-related Financial Information"

ISSB Proposed Climate-Related Disclosures

In addition to the general sustainability disclosures, ISSB outlines specific climate-related disclosures to enable an investor to asses the effect of climate-related risks and opportunities on an entity's enterprise value. The Climate proposal uses the same framework as the General disclosures framework and would center around governance, strategy, risk management and metrics and targets. The proposal requires companies to disclose information on both physical and transition related risks and opportunities.

Metrics and targets included in the draft Climate-Related Disclosures

GHG emissions:

Absolute gross Scope 1, 2 and 3 GHG emissions calculated using the GHG Protocol. Consolidated groups would show GHG emissions by associates and JVs separately from the consolidated group

Industry-based disclosures:

Companies would be required to disclose certain specific information based on industry, business model and associated activities. The proposal includes 77 industry classifications across 11 sectors derived from the SASB Standards.

Source: (1) IFRS "Exposure Draft – Snapshot: IFRS Sustainability Disclosure Standards". Deloitte "ISSB: General Requirements for Sustainability-related Financial Information"

ISSB Proposed Climate-Related Disclosures (Cont'd)

ISSB metrics & targets example disclosure

Disclosure topic - example

A company in the automobiles industry might review the requirements and determine that the disclosure topic, "Fuel Economy and Use-phase Emissions," is relevant to its circumstances. The disclosure topic notes that "more stringent emissions standards and changing consumer demands are driving the expansion of markets for electric vehicles and hybrids, as well as for conventional vehicles with high fuel efficiency."

The disclosure topic identifies:

- a transition risk – if the company needs to mitigate the risk of changing buyer preferences and adapt its business model; or
- A climate-related opportunity – if the company innovates to meet or exceed regulatory standards and capture an increasing share of an evolving market

Industry-based metrics – example

One proposed requirement is to disclose information about how a company plans to achieve its climate-related targets. If an automotive company has established an emissions reduction target, it could demonstrate progress towards that target by disclosing the metrics associated with the "Fuel Economy and Use-phase Emissions" disclosure topic which include:

- The fuel economy of the company's fleet; and
- Sales of zero emissions vehicles

These metrics are set out in the disclosure requirements for the automobiles industry in Appendix B of the proposed Standard.

Source: (1) IFRS "Exposure Draft – Snapshot: IFRS Sustainability Disclosure Standards". Deloitte "ISSB: General Requirements for Sustainability-related Financial Information"

Appendix:
Comparing TCFD and the SEC's Proposed Disclosure Rule

TCFD Framework

In December 2014, the Financial Stability Board (FSB) launched the Taskforce on Climate-related Financial Disclosures (TCFD) to formulate guidelines for voluntary & consistent climate-related financial risk disclosures.

TCFD's recommended disclosures span four categories and are designed to be widely adaptable, solicit forward-looking information and focus on both risks and opportunities in the transition to a net zero economy

Governance

- Board's oversight of climate-related risks & opportunities
- Management's role in assessing and managing risks & opportunities

Strategy

- Identify and describe risks & opportunities over short, medium and long term
- Impact on business, strategy & financial planning
- Strategy's resilience given different climate-related scenarios

Risk Management

- Process for identifying and assessing climate-related risks
- Processes for managing / mitigating risks
- Integration of climate-risk management into organization's risk management function

Metrics & Targets

- Disclose assessment metrics for risks and opportunities
- Disclose Scope 1, 2 and 3 GHG emissions
- Set targets and report progress regularly

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Source: Task Force on Climate-related Financial Disclosures Overview Report.

Comparing TCFD and the SEC's Proposed Rule

The SEC's proposal is modeled off of the widely adopted TCFD disclosure framework. While the SEC's guidance is not organized into the TCFD categories, as displayed below, the similarities should ease the compliance burden for reporters already leveraging TCFD or similarly-aligned frameworks.

	TCFD Recommendations	Proposed SEC Climate-Disclosure Rules
Governance	• Board's oversight of climate-related risks & opportunities • Management's role in assessing and managing risks & opportunities	• Board's oversight of climate-related risks & opportunities • Management's role in assessing and managing risks & opportunities • How the Board sets climate-related targets and oversight
Strategy	• Climate-related risks and opportunities the organization has identified over the short, medium and long term • Impact of climate-related risks and opportunities on the organization's business, strategy, and financial planning • Resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	• How reasonably-likely material climate-related risks will impact registrant's strategy, business model and outlook and how the registrant has considered above impacts in financial planning, capital allocation and business strategy • Transition plan details, if any, and annual progress • Scenario Analysis, if used • Internal carbon price, if any, and how it is used • Carbon Offsets/REC, if used

Source: (1) SEC Proposed Climate Related Disclosure (March 2022). TCF Implementing Guidance (2022). TCFD Website. MUFG Analysis (Lim, Bancroft, Rakowitz).

Comparing TCFD and the SEC's Proposed Rule (Cont'd)

	TCFD Recommendations	Proposed SEC Climate-Disclosure Rules
Risk Management	• Processes for identifying and assessing climate-related risks • Processes for managing climate-related risks • Integration of climate-risk management into the organization's overall risk management	• Process for identifying, assessing and managing climate-related risks • How any identified risks have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term • How climate-related risks are integrated into overall risk management system or process
Metrics & Targets	• Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process • Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks • Targets used by the organization to manage climate-related risks and opportunities and performance against targets	• Disaggregated climate-related financial statement metrics (financial impact metrics / expenditure metrics / financial estimates and assumptions) • GHG Emissions metrics • Climate-related targets / goals, baseline, interim targets and current performance

Source: (1) SEC Proposed Climate Related Disclosure (March 2022). TCF Implementing Guidance (2022). TCFD Website. MUFG Analysis (Lim, Bancroft, Rakowitz).

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Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Tom has over 25 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Tom resides in New Canaan, CT with his wife and four sons, where he coaches youth basketball and serves on the Board of Trustees of the New Canaan Library, the Board of the New Canaan Football (Soccer) Club and the Holy Cross College President's Council.

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Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".

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MUFG's Capital Markets Strategy Team

The MUFG Capital Markets Strategy team provides monthly publications and weekly policy notes, presenting to Boards and C-Suite executives, on a broad range of transformative themes driving the FX, rates and credit markets including: the COVID-19 recovery, ESG's acceleration, tax code policy changes, US-China decoupling, corporate strategy, geopolitical risk and central bank monetary policy.

MUFG's Capital Markets Strategy Team

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