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Four ways media & telecom financial executives are preparing for the SEC's proposed climate rule

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As the U.S. Securities and Exchange Commission (SEC) looks to finalize its climate proposal, media & telecom issuer companies are preparing for regulated disclosure of the impact of climate change on their financial statements. They are increasingly measuring their carbon footprints, assessing their environmental, social and governance (ESG) risk factors and gearing up for timely, rigorous ESG reporting.

Media & telecom finance executives who are in front of these changes are keeping four things top of mind:

1. Data, processes and controls

One of the leading motivations behind the SEC's climate proposal is the desire to provide investors with climate-related information that is consistent, comparable and therefore decision-useful.[1] Until now, companies have operated under different and largely self-determined reporting standards. The SEC's proposal is designed to level the playing field by creating clear requirements for ESG disclosures, which starts with collecting consistent, reliable data. Based on our experience, here are the key questions to ask:

- How is data collected today? Currently, media & telecom companies are tracking limited financial information aligned with ESG metrics. As for climate data more broadly, there is diversity in practice in how it is collected and where it is stored. Most media & telecom companies are manually inputting data from meter readings, utility invoices and other raw data sources into spreadsheets. However, there are some leading-edge companies employing automated technologies and platforms — such as Enablon, Workiva, Persefoni or ServiceNow — to aggregate and calculate ESG metrics, track process governance and serve as a single source of truth. Because data is coming from all over the organization, and primarily from nonfinancial accounting systems, consistency remains a challenge, as does obtaining data in a timeframe consistent with financial reporting.
- Who is responsible for data collection? Media & telecom executives are evaluating who is responsible for the oversight of data collection and analysis. As the climate-related risks and opportunities in business become clearer, it will be easier to translate them into financial impacts and establish governance frameworks. In the meantime, we're seeing a range of data collection models. While board oversight of ESG is common across the sector, some companies have climate-specific working groups in place, while others rely on operations teams to procure data and deliver it to finance teams. Still others are at the beginning of their ESG journey with nascent approaches to data collection. And most recently, regardless of who has historically been capturing ESG data, we are beginning to see controller groups inserted into

[1] U.S. Securities and Exchange Commission, "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," March 21, 2022, https://www.sec.gov/news/press-release/2022-46.

the process, largely because of their ability to design and operate controls over the completeness and accuracy of ESG data.

- What about foreign subsidiaries? Large media & telecom companies typically have multinational operations, adding layers of complexity. An overseas presence complicates data collection, as it requires companies to gather information from subsidiaries that may utilize different processes and controls for data management. Additionally, companies may find themselves required to comply with varying international regulations. After all, the SEC's proposal is not the only one. In fact, there has been significant progress from the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG) as we move toward the future of ESG reporting.[2] In thinking through how best to comply with future SEC regulations, multinational media & telecom companies need to establish policies and processes that will address all relevant regulations.

2. Scope 3 emissions

Even for media & telecom companies that are further along in their ESG reporting journeys, a key component continues to generate uncertainty: Scope 3 greenhouse gas (GHG) emissions, which are emissions incurred from upstream and downstream activities in a company's value chain. The SEC proposal would require issuer companies to report Scope 3 emissions if they are material or if they are part of stated emissions targets or goals.[3]

For many large media & telecom companies, Scope 3 emissions make up a significant portion of their overall GHG emissions, necessitating reliable tracking and reporting. That process of working with others in the company's value chain as part of measuring Scope 3 emissions may also reveal business partners that are less mature in curbing their emissions, resulting in a larger than expected increase in the company's reported carbon footprint. This is not only a future compliance risk but a reputational risk as well. And for highly decentralized media & telecom companies that operate in different regions under different management structures, calculating Scope 3 emissions may be even more logistically challenging.

In the immediate future, it is safe to assume most Scope 3 emissions disclosures will be reasonable estimates. But over time, they will likely need to achieve the accuracy and precision of Scope 1 and 2 emissions. Media & telecom financial executives are considering how best to collect accurate readings of Scope 3 emissions across decentralized operations and how to report that data to meet the timeliness and rigor required by future regulations.

3. The 1% financial impact disclosure threshold

The SEC-proposed 1% threshold would require issuer companies to disclose the financial impact of climate events and transition activities on their consolidated statements if the aggregate impacts are 1% or more of a line item in their financial statements. They would also need to disclose related costs or expenditures if the aggregate impact exceeds a 1% threshold.[4] This threshold is particularly pertinent as media & telecom companies review how severe weather events brought about by climate change may impact their assets — especially physical assets — and balance sheets.

For media companies whose main assets are studios and programming, climate-related risks may not meet that threshold. The infrastructure of telecom companies, on the other hand, can be more susceptible to severe weather events, such as big storms, wildfires or other natural disasters. Historically, the outages

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[2] KPMG LLP, *Comparing ESG Reporting Proposals*, June 2022, https://frv.kpmg.us/reference-library/2022/talkbook-comparing-esg-reporting-proposals.html.
[3] KPMG LLP, *SEC Proposes Climate Reporting and Assurance Rules*, March 2022, https://frv.kpmg.us/reference-library/2022/sec-proposes-climate-reporting-requirements.html.
[4] KPMG LLP, *SEC Proposes Climate Reporting and Assurance Rules*.

incurred by these weather events have not typically resulted in material impacts to the consolidated financial statements. However, with a 1% reporting threshold, these companies could find themselves encountering new reporting obligations.

4. Scaling resources to meet reporting deadlines

In keeping with the threat posed by climate change, the SEC's bold proposal comes with an ambitious timeline. Under current regulation, a large accelerated filer with a December 31 fiscal year-end, for example, is required to file its Form 10-K within 60 days of that year-end. Today, sustainability reports are typically filed long after this deadline — often several quarters into the next fiscal year. To advance ESG reporting to the timeliness of financial reporting, companies would need to significantly accelerate their data collection and reporting processes. For those early in their ESG journeys, this could require them to aggressively build out their reporting infrastructures and stand up related teams almost immediately.

We are hearing that one of the biggest barriers to meeting the SEC's proposed timeline would be resourcing. Since ESG reporting to date has largely been a voluntary exercise determined by companies' resources, size and public affairs approach, ESG infrastructure varies widely across, and even within, companies. If the SEC proposal is enacted, successful compliance could hinge on a company's ability to rapidly scale and bolster its ESG functions to meet what could be wide-ranging reporting requirements.

As the regulatory environment continues to evolve, it will be important for finance leaders across the sector to ensure they have either in-house or external environmental experts who can determine whether and to what extent they face material risks from climate change. However, there is a finite amount of ESG expertise in the market today, so expanding resources will mean upskilling employees with quantitative backgrounds in ESG reporting or contracting ESG consultants, vendors and experts, many of whom are already overbooked and still making sense of the proposed regulations.

Conclusion

Elevating ESG reporting to the level of financial reporting is a grand undertaking. While a number of factors may impact when the SEC's final rules go into effect, media & telecom companies should prepare now. For those companies just beginning to think about ESG, conducting a reporting readiness assessment is an essential first step, followed by designing and implementing an actionable roadmap. Scaling the resources and bandwidth to tackle ESG reporting will take time, so getting up to speed now, before final regulations are enacted, could make all the difference. And while the SEC's proposal is focused on climate, media & telecom companies should not forget about the opportunities ESG reporting presents for driving growth and unlocking shareholder value. ESG reporting is not just a compliance exercise — it is an opportunity to engender trust and gain a competitive advantage in the market.

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