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A Review of the Proposed Federal Contractor Greenhouse Gas (GHG) and Climate Risk Disclosure Requirements

In recent years, the public and private sectors have exponentially increased their attention to Environmental, Social and Governance (ESG) data, risk management, and programming. Driven by stakeholder pressure, transparency and disclosure have become among the most foundational tenets underpinning ESG program development. To date, a bevy of reporting frameworks and standards have served as vehicles for measuring, improving, and disclosing corporations' performance along sustainability metrics. Some of the leading standard setters have included the Sustainability Accounting Standards Board (SASB), recently merged into the IFRS Foundation and ultimately the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD). To further champion corporate transparency, the federal government has now proposed a series of disclosure requirements that will formalize reporting processes for both Securities and Exchange Commission (SEC) registered companies and federal contractors.

SEC Disclosure Requirements

It is anticipated that in 2023, the SEC will issue a finalized ruling titled The Enhancement and Standardization of Climate-Related Disclosures for Investors. This proposal will likely require publicly traded organizations to disclose more granular climate-related information in their registration statements and annual reports. These disclosures will cover climate-related risks that are reasonably likely to have a material impact on the organizations' business, results of operations, or financial condition, and require quantitative measurements and disclosure of their Scope 1, 2, and potentially 3 greenhouse gas (GHG) emissions. The ruling will also likely require organizations to disclose GHG reduction targets and transition plans, energy use, nature conservation, and/or revenues from low-carbon products.

Federal Sustainability Plan

In December 2021, President Biden signed Executive Order 14057 creating the Federal Sustainability Plan. The goal of the initiative is to reduce emissions across federal operations, invest in American clean energy industries and manufacturing, and create clean, healthy, and resilient communities. The Federal Sustainability Plan has influenced several provisions that will affect federal contractors:

- Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, which will require Federal agencies to use procurement to support a Carbon Pollution-Free Electricity (CFE) sector by 2035.
- General Services Administration (GSA) Ascend Blanket Purchase Award (BPA) has

proposed to require Contractors to power their data centers with 75% CFE no later than the end of 2028 and be 100% CFE by the end of 2030.

- Defense Logistics Agency (DLA) Single Award, which is requesting contractors to supply electricity to DLA locations that will meet certain CFE thresholds over the next three years. Supplied electricity will be evaluated by periodic meter read dates.

Federal Contractor Disclosures

In November 2022, the Federal Acquisition Regulatory Council (FAR Council) proposed the Federal Supplier Climate Risks and Resilience Rule, as part of the Federal Sustainability Plan, which sets a goal to achieve net-zero emissions procurement by 2050. As an outcome of this rule, the Federal Acquisition Regulation (FAR) will be amended to require certain federal contractors to publicly disclose their GHG emissions in alignment with the GHG Protocol Corporate Standard and climate-related financial risks assessed in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). It also increases the rigor of these organizations' emissions targets and transition plans, in that they must also incorporate Science Based Targets (SBTs) validated by the Science Based Targets Initiative (SBTi).

The rule proposes to separate "major Federal suppliers" into two categories: Major Contractors and Significant Contractors.

- **Major Contractors:** Defined as contractors who receive over $50 million in federal contract obligations in the prior Government fiscal year.
- **Significant Contractors:** Defined as contractors who receive between $7.5 million to $50 million in federal contract obligations the prior Government fiscal year.
- **Exempt:** Contractors who receive less than $7.5 million in federal contract obligations in the prior fiscal year will be exempt from disclosure requirements.

The proposed rule exempts certain categories of federal contractors from compliance, including:

- Alaska Native Corporations, Native Hawaiian Organizations, and Tribally Owned Concerns
- Higher Education Institutions
- Nonprofit Research Entities

- Entities that derive 80 percent or more of their annual revenue from Federal management and operating contracts subject to annual sustainability reporting requirements

Both Major Contractors and Significant Contractors must post their disclosure Scope 1 and 2 GHG emissions on www.SAM.gov. Major Contractors must also make their Scope 1, 2, and 3 GHG emissions, climate-related financial risks, and science-based emissions reduction targets available on a publicly accessible website. Climate related financial risks must be disclosed by completing those portions of the CDP Climate Change Questionnaire that align with the TCFD recommendations.

Publicly traded organizations who also serve as federal suppliers will be required to comply with the more stringent Federal Acquisition Regulation disclosure requirements in addition to those outlined by the SEC. Below is a comparison of the proposed disclosure requirements for SEC-registered companies and federal contractors.

Organization Type	Disclosure Compliance Date	
SEC Registrants		
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	**GHG emissions metrics: Scope 3 and associated intensity metric if material**
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)
Accelerated Filer and Non-Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)
Smaller Reporting Companies (SRC)	Fiscal year 2025 (filed in 2026)	Exempted

Federal Contactors			

	GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric	**GHG emissions metrics: Scope 3, and associated intensity metric**	**Climate-related financial risks and Science Based Targets**
Major Contractors	1 year after publication of a final rule	2 years after publication of a final rule	2 years after publication of a final rule
Significant Contractors and Small Businesses	1 year after publication of a final rule	Exempted	Exempted

Federal contractors should note that while disclosure requirements do not take effect until one to two years after the issuing of the final rule, procurements for multi-year contracts have already begun incorporating these disclosures as a condition of award to ensure contract compliance when the rule is finalized.

How BDO Can Help

Each company's path toward sustainability is unique. Navigating the intersection of ESG materiality with stakeholder priorities requires a disciplined, data-driven approach.

Developing an ESG strategy and program can help companies better adapt to stakeholder demands, address GHG emissions reporting requirements, mitigate reputational risk and increase resiliency. The proposed SEC and FAR Council Climate Disclosure Rules have also made ESG an imperative for public companies, federal contractors and many private companies within their value chains or which compete with public organizations.

BDO can assist organizations through GHG Impact Calculations, assessing and devising Science Based Targets and Net Zero Strategies, preparing data to be incorporated within annual disclosures, and providing assurance for organizations' sustainability and ESG reports.