Voice of the CSCO

CSCOs face a new SEC rule and a key regulatory change

Chief supply chain officers (CSCOs) were most interested in hearing about the new Securities and Exchange Commission (SEC) climate disclosure rules and a regulatory update on the European Union's (EU) Corporate Sustainability Due Diligence Directive (CSDDD). What are the new or updated requirements and how will they impact supply chains? Maura Hodge, ESG Audit leader at KPMG, was on hand to share her experience. Supply chain circularity was also discussed.

On the CSCO agenda

March 2024

- New SEC climate disclosure rules
- EU CSDDD update
- CSCO views on circularity

New regulatory requirements

Maura Hodge, ESG Audit leader for KPMG, gave CSCOs a five-minute overview of the regulatory landscape specific to the new SEC climate disclosure rules and updates to the status of the EU's CSDDD (also known as "CS Triple D").

"The bones of the SEC climate proposal remained intact in the final rule, but substantive changes were made to the details. Of primary note, disclosures on strategy and climate risks, as well as scope 1 and 2 greenhouse gas emissions, are required if material. Adding the consideration of materiality to these disclosure requirements means that companies must first collect any existing climate-related disclosures, whether performed for voluntary or other regulatory purposes (EU CSRD, California, or International Sustainability Standards Board for other jurisdictions) and then determine whether the information is material. If management concludes it is not, having a document argument for excluding from the 10-K is advisable."

In addition, the 1 percent threshold was retained but only applied to total stockholders' equity/deficit and pretax income/expense. And aggregation of expenses, capital expenditures and losses are only required if they relate to severe weather events and other natural conditions or carbon offsets and renewable energy credits when a material part of a company's strategy.

Hodge reminded CSCOs that filing an assurance report over greenhouse gas emissions would be voluntary for large, accelerated filers until 2029. Irrespective of this longer SEC timeline, the EU and California will still require reporting of scope 1, 2, and 3 greenhouse gas emissions with assurance and other climate-related disclosures beginning in 2025, so companies subject to these other reporting regimes will need to continue to move forward quickly, contemplating interoperability and how they can build a process to comply with all relevant ESG reporting regulations.

Hodge pivoted from the SEC to CSDDD. Formalization of the EU regulation is expected to occur by the end of April. Hodge's assessment is that CSCOs should anticipate some updated requirements related to the size of entities that are in scope and start collecting the needed information from suppliers. It's a better alternative than creating organizational risk by reporting information collected on the back end.

> "There is no silver bullet."

Data remains the greatest challenge

CSCOs manage global supply chains and comply with a great many regulations. In particular, they are responsible for monitoring, tracking, and reporting information for every raw material, product, and vendor. This is a massive undertaking and difficult to manage in spreadsheets.

The CSCO for a multinational food processor spoke for many in outlining her company's situation. "We have a chief sustainability officer and an office that helps us in understanding the requirements and how we need to report. Our challenge comes from the immaturity of our internal data systems and the inability to report accurate information."

Another CSCO with a worldwide distributor of medical and dental equipment sees the compliance challenge stemming from hurdles in centralizing data. "We're trying to bring all the data together to make sure we have a single approach. Our reporting today is fairly manual and captured in Smartsheet or Excel."

For CSCOs, these new regulations are part and parcel in managing a global supply chain. Many already have the governance and support of management to comply with laws for supplier diversity, labor rights, and modern slavery, not to mention all aspects of sustainability.

However, the struggle across the board is in gathering clean data for reporting. "I think the message is there is no silver bullet when it comes to data and reporting. Outsourcing the work to a third party will not fix data issues," said Mary Rollman, supply chain leader at KPMG.

Could AI allow an organization to turn messy data into an opportunity to meet requirements? One CSCO of a company headquartered in the Midwest is excited at the future possibility.

"We can wallow in our sorrows or see this as an opportunity to really address core data issues."

It's true what they say. Europe regulates, China replicates, America innovates.[1]

Update: SEC stays climate rule

On April 4, 2024, the SEC issued a stay of its climate disclosure rule, pending judicial review. This comes on the heels of our regulatory discussion on the topic. Our understanding/advice: no change in SEC's position regarding its authority, no effect on companies preparing for compliance.

The SEC climate disclosure rule is temporarily paused while legal challenges are resolved. The rule's effective date, January 1, 2025, is uncertain. It's worth noting that companies are continuing to prepare for the rule as challenges may fail. Some firms are considering the SEC rule alongside other reporting requirements, while others are still moving ahead with its implementation.

For more information, please refer to our article, "SEC stays its climate rule pending judicial review."

> "We can wallow in our sorrows or see this as an opportunity."

CSCOs weigh in on circularity

Circularity sounds like a no brainer. Create a closed-loop system where resources, materials, and products are continuously reused, recycled, or repurposed to minimize waste and maximize resource efficiency.

[1] Source: Greg Ip, "Europe Regulates Its Way to Last Place," *The Wall Street Journal*, January 31, 2024

CSCOs, knowing their suppliers and customers, had a different perspective on circularity, ranging from being all in to not for us. The CSCO for a medical device manufacturer is all in.

"We take every scrap of plastic, every bit of lead, every bit of acid, and convert it back into usable material for our next generation of batteries."

Other CSCOs were less enthused about circularity. "This is a topic that I've shared with many of my suppliers and the feedback that I continuously get is that it's cheaper for them to source or build new."

Most of the CSCOs fell in the camp of circularity needs to fit within the corporate strategy and customers must be willing to pay a little more for it. Circularity should make dollars and sense. The CSCO of a mobile communications company stated:

"At the end of the day, my job is to make sure that we're capitalizing on our expenditures and maximizing that investment."

No matter where CSCOs landed on circularity, the area where it made the most sense is within the four walls of the organization. It's about optimizing the cost structure. The CSCOs left Rollman with a more nuanced view of circularity. "It's different than when you initially think of circularity and the perceived value of recycling and reusing efforts."

New and updated regulations will continue to impact supply chains, as well as trends like circularity. CSCOs will need to navigate challenges like managing ESG data within supply chains to ensure compliance and mitigate risks.

Takeaways

- Assess how SEC climate disclosure rules fit with other ESG mandates
- Focus on data management for multiple compliance requirements
- Review circularity as a supply chain strategy and cost-saving measure

Connect with us

Mary J. Rollman
US Supply Chain Advisory Leader
KPMG LLP
T: 617-988-1000
E: maryrollman@kpmg.com

Maura Hodge
US Audit ESG Leader
KPMG LLP
T: 803-606-8370
E: mhodge@kpmg.com

Additional insights

- Impact of EU supply chain laws on US companies
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- The future of supply chain
- SEC mandates climate reporting and assurance
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